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Summary

This report, written in 1996, provides historical background that may be useful to Congress as it considers funding levels, types of programs, and problems in implementation of U.S. assistance to other countries.

As defined by Congress in the FREEDOM Support Act and the pronouncements of two Administrations, among key objectives of U.S. foreign policy toward Russia are the promotion of a democratic system and a free market economy. Foreign assistance has been a prominent tool of that policy.

Many factors in the United States and Russia have affected the course of the U.S. program of assistance to Russia. In the United States, there has been some expectation that the program would succeed quickly. When that did not happen and Russian government behavior did not meet expectations, some sought to cut the program. U.S. budget pressures also have affected the Russia program. Although Russia has experienced much economic and political progress in a relatively short time, this has been accompanied by an uncertain political situation exacerbated by growing economic inequality. Nevertheless, supporters of reform are reportedly emerging in all corners of Russia and these appear very pro-United States.

Criticisms raised regarding the assistance program during its first years are being addressed by the Administration. Interagency coordination has improved, problem programs cut or eliminated, reformers targeted, and assistance funds leveraged to bring in other donors. Large contractors and grantees have improved their operations, but some observers still feel that while small U.S. organizations can best implement the program, they are the most threatened by cuts.

The assistance program is seeking to engage all levels of private sector and democratic system development — at the top to promote policy reform, at the institutional level helping to strengthen government and private sector organizations, and at the grassroots to help individual businesses and NGOs (non-governmental organizations). In order to expedite the reform process and help them avoid mistakes, a major focus of assistance activity is the transfer of information to reformist Russians who want to know how things are done elsewhere.

The budget for Russia has gone from $1.3 billion in FY1994 to $341 million in FY1995 and an estimated $168 million in FY1996. Many programs are ending earlier than originally anticipated and new ones not starting up. The consequences of such an abrupt decrease in funding are not clear with regard to Russian development in general but some fear that U.S. objectives in the country will be retarded.

In 1994, the Administration informed Congress that technical assistance requests would largely end after the FY1998 appropriation. Realizing that U.S. interests regarding Russia would also not end at that point, individuals in the State Department have begun to ponder the shape of U.S.-Russian relations in the future and a “baseline” program of assistance that might be considered in the long term.

Introduction

Four years have passed since the Soviet Union dissolved into 12 separate nations. During this time, the Russian Federation, the largest of these states geographically and demographically, has figured most prominently in the minds of U.S. decisionmakers for its continuing arsenal of nuclear weapons, and its current and, perhaps more important — potential — political, economic, and commercial role in the world.

Determining that it was in the U.S. interest to see a democratic, free market, more nuclear-secure Russia, the United States initiated a program of assistance to promote these objectives. The 1992 FREEDOM Support Act program, funded annually out of the Foreign Operations appropriations, concentrated resources on the first two objectives.1

Much has changed since the program began and the issues of congressional concern have also changed. At first, Congress debated the level of assistance appropriate for the region in general and Russia in particular. By 1994, with large sums having been appropriated specifically for Russia, the tone of the debate shifted to two issues: implementation of the program — the pace of implementation, effectiveness of activities, and adequacy of coordination among U.S. agencies; and Russian behavior both internationally and domestically.

Now, in 1996, a new set of issues is beginning to define itself for congressional consideration. These issues result largely from the strong downward trend in funds for Russia programs and from other international and domestic events taking place in Russia and the United States. In the past three years, allocations for Russia from the NIS (New Independent States) account of the Foreign Operations appropriations

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have gone from $1.3 billion in FY1994, to $341 million in FY1995, and an estimated $168 million in FY1996. Administration officials and some Russia observers believe this declining funding may directly affect the achievement of U.S. foreign policy goals in Russia.

This report, based in part on an extensive series of interviews and site visits conducted in Russia from September 12 to October 2, 1995, discusses the political and economic climate in which the assistance program is currently operating, how earlier concerns regarding the implementation of the program have been dealt with, the impact the program has had to date, the effect of proposed budget cuts and earmarks, and, finally, the long-term future of the program.

The United States and Russia: the Domestic and Foreign Policy Context of the Assistance Program

Although all foreign aid is an instrument of foreign policy intended to meet U.S. interests both short and long term, the program of assistance in Russia, in the view of many, is more strongly rooted in U.S. policy priorities than similar programs undertaken in other countries. Since 1992, the United States has sought to be actively engaged in encouraging the transition of Russia from a one party socialist economy to a democratic political and free market economic system. In the FREEDOM Support Act, Congress suggested that the outcome of this transition was a “vital interest” of both the United States and the international community.2

In the debate leading to the FREEDOM Support Act and in the language of the Act itself, Congress stressed the threat to U.S. national security interests that the assistance program would seek to overcome. Congress intended that the program be as much a direct tool of foreign policy as possible. It gave decisionmaking power over the program to an NIS Coordinator in the Department of State, not to the chief implementor of the program and traditional foreign aid arm of government, the Agency for International Development (USAID). It provided waiver authority to allow the Administration to ignore other constraints on traditional foreign aid programs in implementing the program for the NIS. And, due to its pivotal foreign policy purpose, the program has been more closely watched by Congress than most other assistance programs.

The executive branch has shared this view. In his early testimony on the program, Secretary of State Baker noted that the FREEDOM Support Act supported U.S. efforts to build a democratic peace. “In this regard,” he said, “it is every bit as much a policy...as a legislative package.” Stressing the policy objectives that the program sought to achieve, he hoped that “people would not look at this as a foreign policy instrument in the traditional sense.”

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2 Russia’s continuing importance to the United States has been asserted by numerous analysts and decisionmakers. Recently this was professed in a series of speeches by Vice-President Gore on October 13, 17, and 19, 1995 and by Assistant Secretary of Defense for International Security Policy, Ashton Carter, on June 20, 1995. See also CRS Report 95-1126, Russia’s Future: Issues and Options for U.S. Policy, by Jim Nichol, November 15, 1995.
aid bill, because it is not a foreign aid bill.”3 It was instead a “once in a century opportunity to advance our national interests.” The Clinton Administration has continued to stress the specific foreign policy objectives of the Russia program, but greatly increased the amount of resources devoted to that effort and upgraded its foreign policy importance an additional notch by associating it with the Gore-Chernomyrdin Commission process of expanded cooperation and, more recently, strengthening the role of the State Department.

While its distinctive and immediate foreign policy goals set it apart from other foreign aid programs, there are aspects of the Russia program that have served more traditional foreign policy purposes. From the beginning, the program was seen as an expression of support for broad events taking place in the region, and in 1993, the Administration’s request for a $1.8 billion Russian assistance package was described as a specific demonstration of support for Yeltsin. The program, like assistance programs elsewhere, has also served short-term objectives. A program offering apartments to former Russian officers, for example, reportedly encouraged the withdrawal of Russian troops from the Baltic states by August 1994.

But, in the main, the program has sought to facilitate the move toward democracy and a free market economy. The success of that effort depends in part on the way in which the program is implemented in the field. But it also depends on political and economic developments emanating from both Russia and the United States.

**U.S. Context**

Although it is tied closely to U.S. foreign policy objectives, the assistance program has come under periodic challenge and now appears headed toward an early end without any close reconsideration of those objectives. A number of factors have contributed to this turn of events.

One has been the perhaps unrealistic expectation that the transformation of Russia to free markets and democracy would be relatively smooth and short-term. While Administration figures repeatedly noted the difficulties the program faced, they raised expectations by suggesting that the program might achieve its objectives by the turn of the century. Some doubt, however, that feasible aid programs can have more than marginal effects on a nation of Russia’s size and complexity. Further, although there has been strong bipartisan support for the broad objectives of the program in the foreign policy community and among Members of Congress, details of program implementation and the behavior of the Russian government have drawn heavy criticism since the program was launched.

Concerns regarding how the program was being carried out on the ground in its first three years — its speed, coordination, impact, and the like — have seriously

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3 Testimony before the House Foreign Affairs Committee, April 30, 1992, Reuters Transcript.
affected current attitudes. Some of the criticisms now appear unfounded and some derived from misunderstood accountability and legislative requirements. Some concerns were clearly legitimate and needed attention. Since a great many people had a personal or professional interest in this program — among them, potential contractors, non-governmental organizations, and Russia “experts” — there were diverse and contradictory expectations of what sectors and projects it should emphasize and what it should ignore. The unique level of attention paid to the Russia program heightened the sound of critical voices and created the impression, still difficult to mend, that it was a failure and a mess.

Disappointment of early expectations by some observers that its economic and political transformation might mean a compliant Russia has probably helped undermine support for the assistance program. While U.S.-Russian relations are a significant improvement on the Soviet era, certain Russian government domestic and international policies have caused some Members of Congress to question the program’s emphasis on Russia to the exclusion, in their view, of other NIS countries. In addition, many Members of Congress continued to associate it negatively with other foreign aid efforts as a “giveaway” program, suggesting to many that cash was being transferred directly to the Russian government.

The perception that the Russian government was the chief beneficiary was exacerbated in late 1994 by growing disgruntlement over the Chechnya situation and the potential sale of nuclear energy facilities to Iran. In the 1995 debate on both the FY1996 foreign aid authorization and appropriations bills, some Members sought to cut off aid unless Russia changed its policies in these and other areas. Defenders of the program, including the Administration, pointed out that U.S. aid levels were hardly enough to compensate for profits lost from the Iran sale. They further argued that little of the assistance actually went to the Russian government, but instead to reformist elements whom it remained in the U.S. interest to support.

The deficit reduction priorities of the 104th Congress, combined with the above perceptions, contributed to the cuts in the Russia program in the FY1996 foreign aid appropriations bill. As Congress takes up a FY1997 appropriation debate, it faces new concerns. The December 1995 parliamentary election saw a resurgence in communist support that suggests the possibility of a communist victory in the June 1996 presidential election. Subsequent anti-reformist moves by President Yeltsin have further exacerbated concerns. Some suggest it is not now clear that it is in the U.S. interest to help Russia become economically strong. This argument seems to caution that Russia’s anti-reformist course is the most likely outcome, with or

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5 Russia activities have received a major portion of FREEDOM Support Act funding in absolute terms — accounting for 54% of FY1992-93, 61% of FY1994, 42% of FY1995 funds, and expected to receive about 25% of FY1996 funding. Russia is behind Armenia, Kyrgyzstan, Georgia, Moldova, and Kazakhstan in ranking of assistance on a per capita basis.

6 For example, see Charles Krauthammer, “It’s Their Economy, Stupid,” Washington Post, February 9, 1996.
without aid. Others believe this may ignore the complexity of the change going on at every level of government and society.

**Russian Context**

A number of features of modern Russia might be seen to bear on the shape and conduct of the U.S. assistance program. There is both good news and bad news: what seems certain is that the country is in flux: it is a mass of contrasts and contradictions; and no clear pattern has emerged from which U.S. policymakers and analysts of any stripe can take comfort.

On the positive side, the pace of Russia’s transformation is stunning. Tens of thousands of businesses have been privatized and new ones established. Inflation has fallen from 2,600% in 1992 to 131% in 1995. Following years of negative growth, the IMF predicts GDP growth of between 2.2 and 4% in 1996 and perhaps more than 6% in 1997. Certainly, visual impressions of Moscow support the predictions. During the past two years, Moscow has remade itself. There are now supermarkets, restaurants, attractive shop display windows, and construction everywhere. A middle class is being established. Russia has adopted a constitution that provides protections for individual rights and has held several free and fair elections. Whatever the changing composition of executive or legislative branches, adoption of reforms has continued to advance, although in a somewhat wobbly course. These are remarkable developments given the distance the country has had to come since 1991.

Growth, however, has not occurred evenly, either in a geographic sense or for all income levels. To an American observer, Ekaterinburg in the Urals appears perhaps two years behind Moscow, and Novosibirsk in Western Siberia appears stuck in the Soviet era. Some of the contrast is attributable to the presence or absence of reformist elements in different legislatures and city governments throughout the country. An underfunded and mismanaged social safety net has contributed to an ever widening gap between rich and poor, but new opportunities for innovative and creative capitalists, as well as for self-aggrandizing politicians, are also responsible. Further, economic progress is hostage to the uncertain outcome of national elections. While past experience indicates that even nationalist or communist political figures may support a limited reformist agenda, the unpredictability of the political situation works against broad economic progress. Economic success might suggest a more positive political outcome, but perhaps the chief beneficiaries of the transition to free markets are the new generation of entrepreneurs, a great many under 35 years of age. However, this group is notoriously cynical about politics and many are thought not to have voted in the December 1995 election that saw great advances for communist and nationalist forces.

Russian views regarding the United States have been as varied and contradictory as the twists and turns of their economic and political affairs these past few years. One encounters business and government figures at all levels who voice the desire for U.S. investment (“the Germans are here, the Dutch are here — why don’t the Americans come?”). Parliamentary staff at the national level as well as local city government officials express a strong desire to see the assistance program evolve into a higher level of mutual cooperation between the two countries in a wide range of sectors. Respect for the United States is embodied in their strongly expressed interest
in learning from American experience in all areas where reform is being initiated. On the other hand, one encounters considerable cynicism about the Western effort to help Russia during its difficult time of transition. Some individuals suggest that the aim of all U.S. activities in Russia is to undermine the Russian economy and make it dependent on U.S. business. Businessmen and other private sector leaders, however, seem consistently favorable to reform and the United States.

A major challenge for the U.S. assistance program has been to work within this uncertain, ever-changing, landscape. Implementors of the program have had to identify the reformers in each sector, and determine where assistance might most effectively be used. Although Americans and even Russians ask whether the aid effort is invisible, nationalist sensitivities prevent the United States from advertising its presence too broadly. Despite the difficulties inherent in the Russian scene, however, the U.S. assistance program, as discussed in part three of this report, has managed to craft numerous points of cooperation with Russians at all levels of the public and private sector and in all parts of the country.

**Assistance Program Implementation Issues**

As noted above, a number of concerns and criticisms of the assistance program have been raised since its inception. A January 1995 CRS Report, *The Former Soviet Union and U.S. Foreign Aid: Implementing the Assistance Program* (CRS Report 95-170F), reviewed these issues and concluded that, while many of the criticisms no longer held true for the program, there remained issues that Congress might wish to track carefully in order to insure a well implemented and successful program. These issues included the extent to which programs were implemented rapidly, reached the grassroots, advanced privatization, fostered agency and project coordination, produced visible results, were subjected to regular evaluations, terminated bad projects, targeted reformers, and leveraged private sector funds. Many of these concerns are updated and discussed in this and the following section.

**Speed of Implementation**

Perhaps the most important criticism of the program in its first years was that it was slow in getting activities on the ground. Visitors in 1993 found a dearth of projects in Russia, and, as late as April 1994, House leaders Richard Gephardt and Robert Michel found the program slow in delivery and lacking intensity. But the September 1994 bipartisan delegation led by Senator Patrick Leahy returned with quite a different picture. It found the program “in full operation.” And a visit one year later supports that judgment. There is now a wealth of activities underway and hundreds of organizations — contractors, grantees, NGOs (non-governmental organizations), and Russian indigenous groups — funded in some way by the NIS account. With funding on the decline, the program has apparently hit its peak, and the number of project activities can be expected to decrease noticeably during 1996.7
Coordination and Strategy

There are two key players under the FREEDOM Support Act program: USAID and the State Department. Foreign operations funds are appropriated to USAID, which transfers some of the money to other agencies, but has maintained responsibility for 85% of the program. The State Department, through its NIS Coordinator, has been responsible for overall design, direction, and oversight of the program. But more than 20 U.S. agencies are in some way involved in program implementation, some using their own budget funds in addition to those supplied under the foreign operations NIS account.

Most of the early coordination concerns for a program implemented by numerous agencies are largely resolved. In sum, the few apparent activities and the quite apparent bureaucratic infighting had led to criticisms regarding a lack of leadership and direction in the program. A proliferation of activities and the more regularized drawing of agency responsibilities over time suggest that the NIS Coordinator in the Department of State, Ambassador Thomas Simons, had the problem in hand by mid-1994. However, the original expression of congressional concern ultimately led, after a prolonged talent search, to his replacement in March 1995.

Richard Morningstar, a former Vice President of the Overseas Private Investment Corporation and businessman, arrived with a different perspective and with expanded authority as an Adviser to the President and a mandate that includes the Department of Defense’s Nunn-Lugar program. He initiated a top-down review that included putting holds on all obligations he considered questionable until they could be justified. Coming late in the fiscal year, the holds created added pressure and paperwork for USAID staff and slowed its obligation rate.

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8 For more on this issue, see GAO, Former Soviet Union: An Update on Coordination of U.S. Assistance and Economic Cooperation Programs, December 1995, GAO/NSIAD-96-16.

9 Much of the infighting was between USAID and other agencies to which it transferred funds as directed by the Coordinator’s office without necessarily transferring responsibility for accounting for use of those funds. As a USAID source noted, “Early on, there were questions as to the level of USAID’s accountability for the use of these funds. This still remains a problem in a few cases where the other agency and USAID actually participate jointly in activities and where other USAID contractors are also involved (e.g., EPA work on environmental problems, Treasury work in the tax reform area). However, in other cases, it has been determined that USAID is not accountable (DOE work in nuclear safety, TDA feasibility studies, DOC’s American Business Center program, performance of the Enterprise Funds). This has led to a satisfactory (from USAID’s point of view) delineation of relative responsibilities, but may not be contributing to the most effective Russia program overall.”
With different leadership styles, both Coordinators have shaped the program through their authority over the pursestrings. As such, the Coordinator is the final arbiter of interagency disputes. These disputes may well increase as funding levels decline and difficult decisions regarding priorities are made. The top-down review was a beginning of such a process.

In the field, an early response to coordination concerns was the appointment in September 1994 of an assistant to the Ambassador, Susan Johnson, to head a newly set-up Ambassador’s Assistance Unit (AAU). Her primary role is to track, monitor, and assess U.S. programs on behalf of U.S. Ambassador to Russia Pickering. In the summer of 1995, she began to provide assistance to the Coordinator as well, starting informally with the top-down review. During her tenure, she has attempted to facilitate “bottom-up” coordination. There is a heads-of-agency meeting in Moscow twice a month. She has also developed relationships with the three consulates general in Russia — St. Petersburg, Ekaterinburg, and Vladivostok — and uses them to facilitate coordination in the field. Each of these has monthly meetings to brief and debrief contractors and grantees.

An ever shifting series of issues captures the attention of both the AAU in Moscow and the NIS Coordinator in Washington, for which specific disagreements between players must be sorted out. For example, USIA and the Embassy Economics section raised the political sensitivity of a USAID proposed public education project on economic reform that would be run by First Deputy Prime Minister Chubais’ press representative. The AAU arranged a meeting of all concerned that, reportedly, led to a reworking of the project.

Both the AAU and the Coordinator’s Office have recently been examining the division of labor between USAID and USIA in their respective conduct of training and exchange programs. Both types of programs are, sometimes subtly, different, but their targeted recipients at times overlap. The goal is to avoid redundancy and use more efficiently the greatly reduced funds available for these activities. USIA exchanges already complement USAID project activities to some extent. They can be used to support economic and democratic reform by bringing appropriate officials and private sector individuals to the United States for focused tours and educational programs. Targeting of USIA exchanges to support USAID project objectives could likely be increased.

The role of the Support Implementation Group (SIG) has also been an interest of State and the Embassy. The SIG was established by the G-7 to help them coordinate bilateral assistance programs for Russia. While it has served as a forum for exchange of information, some question whether there have been any concrete results. Increasingly, both the Embassy and the State Department are turning their attention to the future of U.S.-Russian relations in the long term and what kind of programs and the financial resources to support them will be needed. This issue is discussed in the last section of this report.

10 The G-7 are the seven most powerful industrial countries which meet annually to discuss economic and political issues.
The purpose of State Department coordination is to better accomplish the objectives of U.S. foreign policy in Russia. To that end, the Coordinator’s Office developed a written strategy which was approved in May 1994. It has evolved as circumstances change, but the assistance program continues to reflect a focus on the two key objectives first enunciated in the FREEDOM Support Act — the establishment of democratic institutions and a free market economy. There is ample evidence that individual projects are not approved unless they fit within the overall strategy and most projects can be said to contribute to the two main objectives. Even programs in the health, environment, energy, and housing sectors — some the result of congressional or other political pressures — are molded so that they feed into the two strategic goals.

As the largest agency implementor, USAID continues to play a major role in shaping the strategy and the program. The State Department, the Embassy, USAID/Washington (the Bureau for Europe and the NIS) and the USAID mission in Moscow are all attuned to different features of the assistance landscape. USAID/Moscow, in particular, is dealing with the nitty gritty of developing projects and working perhaps most closely with the Russian beneficiaries. All four appear to have significant input in most programmatic decisions. Some observers find their disagreements messy, but, if properly coordinated, their diverse range of views can strengthen the quality of implementation and results. Current evidence suggests that this is what is happening.

**Effectiveness**

There are numerous elements, explicit and implicit, in the U.S. assistance strategy that seek to make the program more effective. Chief among these are getting implementors to work together, targeting reformers, terminating bad programs, and leveraging private sector funds.

**Working Together.** While State coordinates and shapes the program at the level of U.S. government agencies and programs, USAID coordinates the activities of hundreds of project contractors and grantees under its broad program. Each month, heads of democracy projects meet at the USAID mission in Moscow to exchange information. Implementors report that they are being encouraged by USAID to find ways to work together. For example, every month all of the Rule of Law implementing organizations in Moscow meet without USAID and try to coordinate activities. From observations made in 1995, it appears that implementors outside Moscow are substantially better informed regarding other assistance activities that might facilitate their own than had been the case in 1993. Entrepreneurial centers, established in a number of cities, draw on the expertise and programs offered by other U.S. organizations working to help the indigenous and U.S. private sectors. Russian businessmen are informed about relevant opportunities at these centers.

**Targeting Reformers.** Seeking to promote profound economic and political change in Russia, the program has been highly responsive to reformist tendencies in both central and local government. One reason that the program was slow to get under-way was a dearth of identifiable reformers in many sectors. Early on, therefore, when then Minister for Privatization Chubais and the Privatization Agency, GKI, requested assistance, USAID heavily supported its activities to privatize
business, and it continues to devote resources there. The United States now underwrites the development of legal, financial market, tax, and other reforms. These efforts are discussed in the following section.

In the hinterlands, the assistance program has ferreted out reformist oblast and city governments. Pilot demonstration projects, such as an effort to test new health care systems and financing arrangements, and housing reform, are being conducted in select towns receptive to new approaches in the expectation that success at one level will be translated more broadly. To some extent, however, there has been a disconnect between the emergence of reformers and the availability of funding. Now, as more institutions are coming to understand the need to reform, it appears that the funding to help them do so has begun to disappear.

Program Quality Control. One sign of a well monitored and evaluated program is the extent to which inadequate programs are revised and bad ones terminated. Despite an apparent insufficiency of USAID staff for tracking projects in the field, there is substantially more evidence of this process now than one or two years ago.11

Among projects found wanting was the health care financing project. USAID was unhappy with the speed of implementation, was dissatisfied with the workplan, and did not respect the project manager. Consequently, USAID forced his replacement, trimmed back the project — cutting funding from $26 million to $19.3 million — and focused the program on one region, Siberia.

In the spring of 1995, the NIS Coordinator combined the Russian-American Enterprise Fund with the Fund for Large Enterprises in Russia. The Russian-American Fund had once been called an “unde monstrated success” by the U.S. Ambassador, because it had only one loan to show in its first one-and-a-half years of existence. The Fund for Large Enterprises was likewise unimpressive — it had only three investments (one of which was a joint venture with Caterpillar and another with Pepsi Cola). The new entity — The U.S.-Russia Investment Fund (TUSRIF) — has reduced overhead and appears to be making a greater effort to locate appropriate investments by sending staff into the field to seek out new businesses and by working with the Business Service Centers. Nevertheless, to some it remains an example of poor quality control because of its status independent of normal U.S. government accountability requirements.12

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11 In numerous interviews, contractors and grantees generally praised their relationships with AID mission staff, but expressed dismay that their projects were rarely, if ever, visited. A GAO report, Assessment of Selected USAID Projects in Russia (GAO/NSIAD-95-156, August 1995), also suggested inadequate USAID monitoring. However, in spite of existing and growing constraints on administrative funding and personnel levels in Russia, there is evidence that the mission is at least closely following priority issues and problem areas, as noted in this section.

12 There are other, more generic, potential problems with enterprise funds, especially the conflict between their developmental purpose and “profit-making” mandate. Also, many argue that if a business is economically viable, particularly the medium-sized businesses
There is ample evidence of a continuous reworking of the assistance program, a reassessment of priorities, and efforts to mold the program to meet core objectives. For instance, in its first incarnation, a USAID program to help emerging NGOs — the nuts and bolts of democratic societies — focused on essentials, getting some up and running through partnerships with U.S. NGOs. A follow-on project now focuses on helping NGOs advocate their views to government as well as raise funds from the private sector to make them sustainable. It concentrates on NGOs with potential to have an impact on economic and democratic reform.

Congressionally mandated rescissions (cancellation of previously appropriated funds) for the Russia program in FY1995 have been taken in part from slow-moving programs, such as the Commodity Import Program (CIP) and the Pharmaceutical Production Program. Some questionable activities have been terminated entirely, such as the Russian Social Conversion Project (ROSCON), an effort at social marketing of the economic reform program.

Certainly there remain questionable or problematic activities. As with all projects, some will have defenders, some critics. For instance, some think the Morozov project, which franchises business education to institutes of education throughout Russia, may be stretched too thin; that there are insufficient funds to pay for study materials and equipment, and, as a result, quality suffers. Some suggest that the Commerce Department’s American Business Centers, set up to assist U.S. businesses seeking to invest or trade in Russia, are not likely to succeed as self-financing entities in some of the less frequented locations. But a more important issue is that their presence and name seem to confuse Russians who are often turned away when they go for help. This contributes to the Russian notion that the United States is only out to help itself.

After taking an extremely long time to get under-way, the ARD/Checchi Rule of Law project may not be well focused or perhaps suffers because the indigenous desire to reform the judicial sector has arrived too late for U.S. funding availability to have an impact. Some projects still suffer from delays in the provision of equipment: the Commodity Import Program, the EPA program in Nizhny Tagil, the Business Support Centers, and the Morozov project to name a few. And some question priorities: should business assistance, for instance, rely on seminars geared to tens or hundreds of attendees or should funds be used more for direct and pertinent business advice to a dozen entrepreneurs or even single businesses?

**Leveraging Funds.** From the start, policymakers believed that funding from the U.S. government program alone would be inadequate to achieve the objectives they sought. Private sector and other donor organizations, particularly the International Monetary Fund and World Bank, were thought to be a necessary source

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12 (...continued) targeted by these funds, private investment would occur. They argue that TUSRIF diverts assistance money that would be better employed creating the environment for private sector investment — supporting policy reforms and small business development and training. See CRS Report 96-27F, *Enterprise Funds: Overview and Issues of Concern* by Mary Reintsma and Curt Tarnoff, January 3, 1996, for further discussion.
of funds. The United States, therefore, has sought to help Russia establish an environment attractive to foreign investment and has also sought to leverage its funds to draw in private sector and other donor contributions.

Much of the USAID assistance program (see below) is devoted to the kinds of policy reforms that provide a business-friendly environment. Further, the NIS account funds Department of Commerce and Overseas Private Investment Corporation (OPIC) activities that would attract U.S. business to Russia. Although the United States is currently the number one investor in Russia (representing $2.5 billion of a total $4.5 billion in foreign investment), it is not clear whether U.S. government program incentives are responsible.13

U.S. efforts to draw in U.S. business by offering financial support in certain developmental sectors have not worked well. One, the Agribusiness Partnership Project, sought the establishment of joint ventures between U.S. agribusinesses and Russian agricultural enterprises, with the former’s contribution surpassing USAID funding by at least 2.5 times. As a GAO report pointed out, U.S. firms would likely have invested without any government incentive and there was little systemic reform as a result of these ventures. The program has been discontinued.14 The Pharmaceutical Production Project, designed to encourage U.S. investment in that sector, also fell below expectations. One firm dropped out completely and two of the three firms maintaining their interest in the project had not met the requirement to submit viable business plans more than one year after receiving USAID grant funding for development of their feasibility studies.15

USAID also funds non-commercial, cooperative undertakings that leverage U.S. private sector participation. Under the Hospital Partnerships project, the U.S. government funds travel of personnel and pays for transport of medical equipment and drugs donated by participating U.S. hospitals. The USAID Media Project is trying to create partnerships between Russian and U.S. wire services and television networks. As this is a non-commercial endeavor, U.S. media enterprises have little incentive to join, apart from goodwill.

USAID has had significant success in laying the groundwork for World Bank funded programs. The World Bank usually does a broad feasibility study of proposed loan activities but is not able to conduct the kind of pilot projects that might strengthen the content of its loan programs. In a number of instances, the Bank has come into a sector that follows-up what USAID began, sometimes employing the same contractors used by USAID. One result has been that U.S. priorities are bolstered by the Bank program. For example, World Bank interest in the coal town of Kemerovo was purely related to energy concerns, but USAID work in a broader

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15 Two or three U.S. firms will likely eventually establish facilities. However, in the extended interim between project start-up and the actual functioning of U.S. production facilities, improvements in Russia’s own pharmaceutical industry have greatly reduced the once-pressing need for pharmaceutical supplies, the original rationale for the program.
range of connected social and labor issues attracted the Bank into those areas as well. USAID is currently helping the Bank to design a $500 million coal sector restructuring loan. In July 1993, USAID began providing technical assistance that led to the design of a $400 million Bank housing sector loan, approved in March 1995. The Bank is also providing appropriate medical equipment in support of a USAID program to help shift Russia to a family practice emphasis in health care. While the Bank has the financial resources to have a major impact on Russia’s economic and social system, some wonder if its activities can fully compensate for programs geared toward meeting U.S. policy objectives and providing a U.S. point of view.

Implementors

Some controversy has existed over which entities could better implement the assistance program on behalf of the U.S. government. Some argued for small organizations versus large ones, and PVOs (private voluntary organizations) or NGOs versus for-profits. The distinctions between these categories are too blurry to track precisely. All have their share of successes as well as incidents of delay and poor leadership. However, some of the larger organizations, including both non- and for-profits, have drawn attention because they won sizable contracts to undertake significant portions of the assistance program, yet they had a particularly hard time getting their programs under-way, and therefore may have wasted funds in the process. Critics suggest one reason for the problems these programs encountered was their lack of previous Russia experience and failure to utilize Russian nationals.

Since these charges were originally made, it would appear that USAID has moved more funding to smaller organizations. Although designation as PVO or NGO is not a precise reflection of size, USAID statistics do indicate that, in FY1994, 6% of obligations went to such organizations, while they accounted for 16% of FY1995 obligations. Supporters of small organizations, however, remain concerned that future budget cuts will affect the small organizations disproportionately and are further concerned that only limited mechanisms exist to fund small projects at the under $1 million mark for either for- or non-profit U.S. organizations. They argue that funds should be found, perhaps shifted from large programs, to support the proposals of small U.S. organizations, including support for U.S. partnerships with indigenous Russian groups.

With the advantage of hindsight, small organizations should probably have been used more extensively in the first years of the program. They have often done an outstanding job at relatively low cost, and stories about their activities carry an almost visceral public relations appeal. Given the risks inherent in the assistance

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17 Though comparable, these proportions undercount small organization activity. USAID statistics lump international organizations into the same category as NGOs and a number of small organizations, such as universities and nonprofits were not counted in FY1994. In FY1995, they represented 11% and 12%, respectively.
program, one could take more chances with small amounts of money without fear of wasting alot.

However, earlier concerns raised about large entities appear increasingly moot. Those with problems getting underway are now up and running. There is much less of the “fly-in fly-out” mentality that disturbed Russian recipients; generally, large programs have come to rely on long-term resident U.S. citizens to manage their programs and act as liaisons with the Russian government. Short-term technical assistance personnel supplement their work and respond to specific needs. Moreover, long-term staff have now been in-country long enough to develop considerably more knowledge about the country and sensitivity to Russian recipients than before. The vast majority of staff — at all levels — are Russian nationals. Portions of their budgets are also subcontracted out to smaller organizations, including NGOs. Further, the downsizing that has occurred as a result of budget cuts and program revisions has cut into some of the most criticized large-implementor programs.

It could be argued that the size of the implementing organization has been of less importance to the quality of the product than has been a failure of project conception at the outset. Large implementors initially were working with very broad and changing terms of reference. Where the project objectives have been fairly clear-cut, such as in privatization and economic reform projects, the large contractors appear to have done well, drawing on their strength of being able to provide top expertise quickly and saving USAID management problems that might come from working with multiple small organizations. Where projects are not well thought-out and agreed in advance between all parties, or are dispersed over numerous activities — the rule of law, health reform, and business assistance projects — there are more instances of questionable activity which may have led to more USAID micromanagement rather than less.

**Impact of Assistance Program**

While critics were assailing the program during its first three years, it was still too early to know whether the vast majority of programs were having any impact on U.S. policy objectives. Now, however, with hundreds of projects on the ground, many of them about two years old, one can begin to assess their worth.

No single project or group of projects can be said to decisively bring about democracy and free market economies in Russia or anywhere else. There are just too many variables, exclusive of the projects themselves, that can work to bring about these objectives or to thwart their achievement. But one can discern, albeit

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18 Rather than direct funds through large organizations with excessive overhead costs and no experience in these matters, critics argued that it would have been more effective and efficient to funnel grants through umbrella organizations like Eurasia Foundation, World Learning (no longer funded), and ISAR that were already dedicated to the function of providing grants to NGOs in Russia.
somewhat subjectively, how projects may or may not be contributing to the ultimate objectives.

Several things can be said about the U.S. assistance program at this time. One is that, however disparate the program may appear, most activities, even many of those in the health, environment, and other sectors, are mainly geared toward affecting adoption of democratic institutions and free markets. Second, the substantial influx of funds that came out of the FY1993 supplemental/FY1994 appropriations has been used to move towards these objectives from all angles. Some activities will have more impact than others. But, for the short period of time that the surge in funds lasts, the U.S. assistance program has become a dynamic program. Third, many of these projects are contributing in small and large ways towards the two key U.S. foreign policy objectives. It can be argued that the program might be strengthened, that projects might be made more effective, but, overall, measurable progress is being made.

Top-Down/Bottom-Up Strategy

The methodology employed by the United States to encourage the desired ends in Russia of democratic institutions and free market economy is essentially a two-pronged approach. Some projects seek to strengthen the institutions that make policy and help them to reform that policy. Meanwhile, other projects target organizations and institutions at the grassroots level of society whose voices might impact the higher level institutions. This approach is occurring in most of the sectors targeted by U.S. assistance, but it is most pronounced in the two areas of greatest resource concentration.

Influencing the top has largely meant offering U.S. technical expertise to lawmakers in the Duma, policymakers in the President’s administration, and, to a lesser extent, regional and local government officials. Both of the national bodies have been seeking to rewrite the laws of the old order and establish a rule of law to reflect the new system of government. U.S. officials and contractors have found reform-minded Russians to be interested primarily in learning from U.S. and other country experiences, both bad and good, as they attempt to reform tax, commercial, criminal, civil, election, and other laws.

At the grassroots level, U.S. programs respond to the Russian desire for knowledge of “how it is done elsewhere.” But there is also a great deal of training activity and small-scale funding of charity, business, and public interest organizations, most of which did not exist under the Soviet regime and which want to learn how to become sustainable and more effective. At this level, too, individual businessmen and farmers are learning the ropes and seeking credit and market contacts.

Promotion of a Free Market System in Russia

The United States has been particularly effective in working on free market issues. Unlike the more problematic democracy sector, where various sensitivities
force the U.S. program to work on the margins, in the economic sector, it has, at least until now, been able to participate fully.

**Policy Reform.** The majority of policy reform projects bear on the future of the free market economic system — by establishing predictability for the business community and creating efficiencies in the housing, health, and energy sectors. Up to now, U.S. advice has been or is being provided on tax law, bankruptcy law, health care systems, commercial law, energy restructuring, financial markets, securities law, land and real estate law, and other areas.

For example, the Department of Treasury is providing experts to the Ministry of Finance to assist with development of tax legislation. Thirty U.S. experts commented on aspects of the draft tax code. The Harvard Institute for International Development (HIID) and others support the government coordinating committee responsible for drafting the commercial law. By September 1995, the HIID team — which includes a score of young Russian lawyers who are learning by doing — drafted more than forty pieces of legislation, including securities law and joint stock companies law.

In early 1993, USAID responded to a Russian government request for assistance in drafting the civil code which will govern all market relations. IRIS (University of Maryland Institute for Reform of the Informal Sector) has provided two of the world’s leading experts on civil codes to comment on a translated version of the Russian government draft and the University of Leyden, Netherlands, provided experts who had drafted a relatively new Dutch code. They did this in the context of workshops attended by those who drafted the Russian code and at which parliamentarians were invited to observe the process and add their own views on what might be problem areas. They also translated the U.S. Code into Russian. Part I of the new Civil Code went into effect in January 1995 and Part II on March 1, 1996.19

With all the attention that health care receives in the media, most Americans would understand the potential impact that health care reform might have on the economy of Russia where every aspect of care was government supported. It remains one of the largest sectors of the Russian budget, but the health care system provides increasingly antiquated and inadequate care that has contributed to a dramatic decline in life expectancy and aggravated social discontent.20 Because of its own numerous ongoing experiments in alternative financing of health care, the United States is particularly well-equipped to assist the Russians on this issue. In several parts of Russia, U.S. contractors (Abt Associates) have established demonstration health care facilities to test HMO-type systems from which Russian health experts are expected to draw models for their own programs. At the same time U.S. experts are promoting

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19 David Hoffman of *The Washington Post* called Part II, “perhaps the most important Russian document of the last decade, even more significant than the 1993 constitution” (March 1, 1996, page 1). Like much U.S. reporting of events in Russia, however, the article makes no mention of the U.S. assistance program role.

a family practice preventative medicine approach previously unknown to Russia that might improve quality of care. At the national level, USAID provides experts to advise the Russian Health and Social Development Foundation, a think tank that has acted as a resource on the issue of health care reform for the Duma, local level officials, and GKI, the Government Privatization Agency and “owner” of health care facilities in the country.

Housing is another sector that has powerful ramifications for the national and local economy. Between 1992 and 1994, according to USAID, there was a fourfold increase in private ownership of housing. USAID provided technical advice that facilitated this outcome and the subsequent development of a land and real estate market. USAID has been particularly successful in introducing models of condominium ownership, private apartment housing maintenance, and real estate information systems. At this stage, it is assisting the development of mortgage lending programs in Russian banks (Urban Institute).

**Institution-Building.** U.S. assistance provides training as well as policy advice to those Russian government institutions responsible for creating policies affecting private sector development. The Commission on Securities and Stock Markets, the Ministry of Finance, and the Central Bank are among institutions being strengthened.

A range of private institutions that facilitate growth of the private sector are also receiving assistance. Complementing development of securities legislation, a number of efforts have encouraged the growth of a stock exchange. Apart from the original U.S.-supported voucher privatization program that introduced the concept of shares and public ownership, U.S. experts have advised the roughly 89-member Moscow Brokers Association which is establishing trading rules and standards. They also introduced a NASDAQ-like computerized trading system. One of the beneficiaries of this system and perhaps a window into the new Russia, the brokerage firm Troika Dialogue, grew from four employees to over 100 in two years; almost all its employees are in their twenties.

Eight Business Service Centers (BSCs, Deloitte Touche) that provide targeted assistance to individual businessmen also emphasize assistance to budding business associations springing up around the country (77 assisted thus far). The BSC in Novosibirsk provides computers for the use of members, seminars, and U.S. tours geared to their interests. For example, it held a training course for 45 firms from six cities in Siberia so that members could obtain a certificate allowing them to work legally in the real estate profession. The certificate was previously available only through training by a Moscow specialist who charged high prices. The BSCs also helped set up the first national women’s business association; forty regional chapters were subsequently established.

In addition to the BSCs, Virginia Polytech, the State University of New York (SUNY), and Opportunity International, among others, have established “incubators” that provide new businesses with space and equipment as well as consulting services. It is hoped that both BSCs and incubators will become sustainable institutions in the future.
The accounting consultant firm, KPMG, has set up two bank training centers in Russia (Novosibirsk and Vladivostok) to educate mid-to-upper level managers in credit analysis, small business credit, customer service and other topics not generally associated with Russian banking. Local banks contribute to operations, and it is hoped that eventually they will take them over entirely. In Novosibirsk, more than 500 bank staff have been trained. USAID housing efforts include assistance to the Association of Mortgage Banks and the Association of Commercial Banks aimed at increasing acceptance of mortgage lending practices.

In order to have a multiplier effect, the training of trainers or business consultants is a common element of a number of projects. For example, the Morozov project (SUNY) is a Russian-initiated effort to establish business schools throughout the country to meet the growing demand for business-educated staff. Part of the U.S. assistance effort is the training of teachers who will work at the more than 35 centers around the country — more than 1,600 have been trained to date. An effort to set up a business counselor certification program (Washington State University) in Siberia has spread to other regions of the country.

**Business Support.** An array of grassroots activities provides individualized support to emerging small and medium businesses. While it can be argued that systemic and institutional support affects larger numbers of firms, the individual support has a more immediate payback both for the firm and as visible models of success and progress for others in the community. As such, the projects make for better public relations.

Individual firms cite credit as the assistance they most want, but USAID officials argue, first, that most small Russian businesses have little sense of accounting practices or marketing skills that would make credit work for them. U.S. technical assistance and training are designed to respond to this need. Second, the U.S. program has insufficient financial resources to provide a significant credit program. The United States does, however, contribute to an EBRD-run microenterprise loan program that leverages funds to encourage banks to set up a small business loan window.

Although many discrete support activities were active in the first years of the assistance program, the Business Service Centers and incubators noted above were set up more recently as an instrument that would give some coherence to this effort, often acting as a referral service to the other assistance programs available to Russian businessmen. Large and medium firms, most recently privatized, are similarly supported through the Regional Privatization Centers.

Among those providing support to business are volunteer organizations such as the Citizens’ Democracy Corps (CDC) and the International Executive Service Corps (IESC). Both offer individual businesses the services of highly experienced volunteer U.S. experts for periods of usually less than six weeks. The CDC, for example, was able to assist a dairy company in Western Siberia by bringing in the founder of Dannon Yogurt and a new dental clinic by bringing in two American dentists. These individual experts are often able to have a vital impact on the host firm’s success and create positive connections between U.S. and Russian business. Similar programs include those run by Volunteers in Overseas Cooperative
Assistance (VOCA) and Agricultural Cooperative Development International (ACDI), which conduct volunteer programs directed at the food production and marketing sector under the “farmer-to-farmer” program; the Center for Citizens Initiatives which brings Russians to the United States for internships; and the Financial Services Volunteer Corps, currently assisting the Russian Central Bank.

Promotion of a Democratic System in Russia

In the past year, some prominent observers have criticized the assistance program for allocating insufficient funds to democratic reform activities. They suggested that the objective of economic reform was being favored at its expense. It is true that, very broadly defined, about 18% of Russia obligations through FY1995 have been dedicated to “democratic” initiatives and 73% went to facilitate “economic” ones. But distinctions between the two categories are imprecise. It can be argued that many of the activities that directly target business, housing, and health, for instance, are also building democracy by empowering individuals and associations. Further, efforts to promote economic policy reform are conducted in a manner that fosters democratic cooperation between the Russian executive and legislature. Helping to formulate commercial law contributes as much to the “rule of law” (a so-called democratic initiative) as does efforts on behalf of criminal law. Although not a reliable gauge at leadership levels, at the grassroots level, supporters of economic reform probably overlap with those who support democratic institutions.

While there are also distinct limitations on the ability of the United States to openly promote democracy in Russia without rubbing up against Russian nationalist sensitivities and creating a backlash, a great many programs are currently being implemented that might be called democracy-strengthening. Despite concerns regarding the ability of Russian grassroots public interest organizations to absorb large-scale assistance, many observers believe there is still room to increase many of the activities described below, were funds available.

21 For example, Michael McFaul, Why Russia’s Politics Matter, Foreign Affairs, January/February 1995; Bill Bradley, Eurasia Letter: A Misguided Russia Policy, Foreign Policy, Winter 1995-96. Several congressional staff and other speakers at the April 1995, Woodrow Wilson Center conference on Western Aid to Eastern and Central Europe made the point with direct reference to the former Soviet Union as well.

22 The broad definition of democratic activities includes exchanges, the Eurasia Foundation, and the democratic initiatives program. Taken alone, the latter program would count for 5% of obligations. Economic activities include the programs noted in the above section. Core economic programs: the private sector and economic restructuring programs, and the Enterprise Fund account for 38% of total assistance.

23 On at least two occasions, the Embassy and USAID insisted that the Russian executive branch and parliament agree to formulate legislation together prior to receiving U.S. legislative drafting and related assistance.

24 For instance, if assistance programs were demand-driven by recipients, one could easily expand programs that provide small grants to NGOs. Each time ISAR holds a grant competition, they get roughly 300 proposals (30-40 are selected); in FY1995, the Eurasia Foundation received 1,390 proposals, of which 212 (15.3%) were funded.
Policy Reform. The rule of law is one of the basic tenets of democratic systems. In addition to the drafting assistance for economic and commercial law, USAID supports grantees and contractors facilitating development of non-economic law. The American Bar Association (ABA) utilizes in-house experts and U.S.-based volunteers to review and comment on draft laws, including a reformed criminal code that was also facilitated by the U.S. Department of Justice. The International Foundation for Electoral Systems (IFES) has assisted the analysis and legal drafting of the electoral code adopted into law by the Russian parliament and also assists with development of regional election laws.

Top and Bottom Institution-Building. While the executive branch of the Russian government is strong, the counterweight institutions of democracy are not strong. Efforts to help the Parliament draft legislation have the effect of strengthening the role of Parliament vis-a-vis the President. Some projects attempt to deal with reforming the institution itself. The Congressional Research Service (CRS) has provided equipment and training to Parliamentary staff in the use of information systems that might allow development of a more independent branch of government.

KPMG leads an effort on fiscal reform to strengthen the ability of legislative bodies — at the federal and oblast levels — to do budget analysis and revenue estimation. This of course feeds back into economic reform. Understanding how other countries finance highways, what kind of tax system to have, how to reform the pension system, etc., helps oblasts to have more independence in dealing with their own budgets.

Several U.S. organizations focus on improving the party and electoral systems. The National Democratic Institute (NDI) and the International Republican Institute (IRI) both work with national party officials, local government elected officials (associations of mayors, etc.) and political activists in how to organize, how to work with media, and how to do constituent services. While they take somewhat different approaches and have worked in different parts of the country, they often work cooperatively as well. IFES works closely with the Central Electoral Commission, and helps develop training programs for poll watchers, elections officials, and others involved with the electoral system.

Strengthening the judicial branch of government is another focus of U.S. assistance. One of the earliest assistance projects, run largely by the ABA, was designed to introduce the concept of jury trial into Russia. Previously, judges determined a verdict and the role of the defense was limited. The pilot program suggests that a more robust defense practice will be one added consequence. USAID programs are also training judges and working to improve teaching materials in law schools. One effort provided copies of the new civil code to every judge in the country within days of its adoption.

Grassroots Democracy. Public civic education is a major thrust of IFES, IRI, NDI, and other U.S. organizations. Political activism and civic advocacy are encouraged through seminars, mock parliaments in the schools, production of voter education manuals, and the like. USIA runs an extensive array of exchange programs to introduce Russians of all ages and walks of life to the American democratic system.
and people. Roughly 13,000 Russians were brought to the United States through USIA-implemented programs in the period from FY1994 to FY1995.

One of the foundations of the American democratic system is the wealth of grassroots charities, associations, public interest groups, and related non-governmental organizations that provide services, exchange information, and work to influence public policy. Such organizations were mostly unheard of during Soviet rule, and one sign of the vast changes that began to occur with perestroika in the mid-1980s was the emergence of citizens groups, most notably environmental ones. The U.S. assistance program has sought to encourage the growth of these organizations — now estimated at 30,000 — through training and small grants programs.

There are three major grassroots democracy projects at this time. Some training is provided by all of them, usually through intermediary organizations, to help NGOs learn the basics of grant proposal-writing, marketing, accounting, and the like, so that they can make the best use of the small grants component of the projects and become sustainable organizations.²⁵ The Civic Initiatives program run by a consortium of organizations headed by Save the Children emphasizes giving NGOs a voice in public affairs. In addition to providing one-on-one advice and training to NGOs, it works to increase the distribution of NGO information to the mass media and has produced a television program explaining NGO roles in issues of concern to the Russian public.

Since 1993, the Eurasia Foundation has provided more than 476 grants totalling $14.3 million, mostly aimed at strengthening grassroots organizations (most grants to Russian organizations are less than $20,000; the average joint grant through a U.S. organization is $70,000). Two-thirds of the grants now are made directly to indigenous groups. Grants might be used, for example, to train the organizations’ staff and volunteers, to facilitate networking between NGOs through conferences and newsletters, or to build interactions with government, business, and the public. A grant provided to a St. Petersburg publishing company (not an NGO, but the project was non-profit) paid for the writing and production (10,000 copies) of a textbook on democracy for high school students. A conference held in Ekaterinburg brought together 120 NGOs with the city administration, oblast legislature, and business community. Grants have also been made in different parts of the country to support introduction of the “Junior Achievement” economics training program to young Russians.

ISAR (formerly the Institute for Soviet-American Relations), highlighted in the January 1995 CRS report for its computer networking of indigenous NIS environmental NGOs, also provides small grants to such organizations. One example is ECOJURIS, which provides pro bono environmental legal assistance to Russian organizations and communities that seek to have environmental laws enforced. They have helped, for instance, to represent some of those who participated in mitigating the Chernobyl disaster and consequently suffered health problems. ECOJURIS has

²⁵ In addition, a project run by World Learning that has created ties between Russian NGOs and U.S. counterparts is winding down toward completion in 1996.
also run seminars to educate NGOs, government officials, and environmental lawyers.

The development of an independent media in Russia, where formerly the state controlled all news and information, is another important democratic initiative. A number of Eurasia Foundation grants go to develop journalistic skills, USIA runs exchanges aimed at Russian journalists, and the Russia-America Media Partnership Program links U.S. and Russian print and television entities to meet specific needs of the independent news media. The most consequential U.S. media program to date has been the effort of Internews to train independent TV producers and managers throughout Russia. One of these, Channel 4 in Ekaterinburg, benefitted extensively from Internews assistance, having gone from five employees transmitting for ten to fifteen minutes each day in 1991 to about 200 employees broadcasting on two channels nearly 24 hours each day. It was Channel 4 that broke through the government’s information blockade on the war in Chechnya and disseminated information on war dead to public groups in Russia.

### Issues for Congress

The assistance program in Russia has been working in high gear for almost two years now. All of the serious implementation concerns raised by Congress during the first few years of the program are being addressed. While the program may never satisfy critics, it appears to be effectively contributing to key U.S. foreign policy objectives as set forth by Congress in the FREEDOM Support Act.

In the past year, Congress has focused considerable criticism on policy decisions of the Russian government, especially the military effort to put down the Chechnya secession movement and the plan to sell nuclear power plant technology to Iran. The negative mood regarding Russian behavior during consideration of the FY1996 bill contributed to adoption of language in the House that would have placed a $195 million cap on assistance to Russia, a significant decrease from previous years. Although the final bill eliminated this cap, it contains earmarks for countries other than Russia that leave fewer funds available to Russia than the House cap.

Congress, of course, often expresses its views and priorities through its power over the appropriations process. Concerns regarding what was perceived by some influential Members as a too-strong emphasis on Russia relative to other NIS countries — especially arising from the FY1993/FY1994 $2.2 billion appropriation, much of which was intended for Russia — had earlier led Congress to introduce country earmarks to the NIS account. Earmarking by sector and project is not unusual, and both practices grew markedly in the FY1996 bill.

It is likely that issues will continue to arise that will lead Members of Congress to seek to limit funds to Russia. While such cuts may seek to punish the Russian

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26 The Cuban Liberty and Democratic Solidarity (Libertad) Act of 1996 (H.R. 927), signed into law on March 12, 1996, reduces assistance to any country by the amount of aid it (continued...)
government or register U.S. dissatisfaction with events in Russia, they will also have consequences for the beneficiaries of U.S. assistance and the foreign policy objectives that the assistance program has been trying to meet. Further, the Administration has contended since 1994 that the technical assistance program for Russia would end with the FY1998 appropriations. But this raises the question of what kind of relationship the United States may seek with Russia after the year 2000 when these funds will be exhausted. These issues are discussed below.

**Impact of Budget Cuts**

The level of funding available for Russia has fallen substantially during the past two years. The amount the Administration sought for FY1995 was $385.5 million; in the end $340.7 million was allocated. For FY1996, the Administration requested $260 million; the Russia program is now expected to receive roughly $168 million. This means that most of the current programs are living off of the singular surge in funding that occurred in FY1994 when $1.3 billion was made available to fund Russia activities. It is expected that most of that money will be exhausted by mid-1996.

The consequences of these cuts are manifold. It appears that new activities are not being initiated, many existing programs will soon be terminated and the rest will be reduced. For example, USAID already has ended new involvements in agriculture. It expects to end its pharmaceutical security and health information programs when current funding lapses. It will terminate post-privatization assistance to individual firms, and reduce support for land and capital markets, new business development, and policy, legal, and regulatory reform. USAID also anticipates that rule of law activities, including support for the judicial system, will be cut. Support for new NGOs and exchanges and training are likely to be reduced. The housing reform program will also be cut substantially from the original FY1996 proposed level. The only proposed increase for FY1996 appears to be in the area of financial sector reform, although at lower levels than anticipated by USAID.

There is some logic to the USAID choice of targets for reductions. Some USAID and State officials have indicated that, as much as possible, they believe that

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26 (...continued)

provides in support of intelligence facilities in Cuba or in support of the Cuban nuclear facility at Juaragua. However, the President may waive the former provision and neither applies to certain categories of assistance, including democratization, the development of a free market economy, the grassroots private sector, and secondary school exchanges.

27 Although the Administration request for the NIS account was $788 million for FY1996, its request for the whole NIS was, in actuality, more than $936 million, as it sought to curtail the practice of funding the activities of many U.S. government agencies out of the Foreign Operations account by having the agencies request funds for their NIS programs out of their own budgets. As all these other agencies, especially USIA and Commerce, were ultimately cut in FY1996, it is doubtful that their funds will be used for the NIS. In the case of the Energy Department, however, the Administration’s $23.1 million request for nuclear reactor safety was cut to $7.7 million. The shortfall will be made up by the NIS account. House and Senate reports both supported continued funding of Peace Corps activities through the NIS account.
projects which do not directly support democratic and economic reform should be eliminated first. Not everyone, including those at State, would agree with USAID’s priorities however. Congressional sector and project earmarks and support for such programs as hospital partnerships and exchanges and the Vice-President’s personal support for environmental programs, for instance, might protect those programs. This would force USAID and State to cut other programs which one or both might consider more essential to meeting key U.S. objectives.28

In one case an earlier funding commitment could severely constrain flexibility of the Russia program. The two predecessors to the U.S.-Russia Investment Fund, established when there were plenty of funds available, were both slow to get investments off the ground. Of the total $440 million capitalization for the combined funds, only $90 million had been committed by January 1996. The so-called mortgage — capitalization amount still “owed” the Fund — is $280 million. Although there is an understanding that the Administration will supply the needed amounts as the Fund makes investments, if promised monies were to be paid out between now and FY1998, there would be little left for other Russia activities. USAID has suggested that the Fund change its practices and become a guarantor as well as a supplier of equity, allowing the U.S. government to appropriate less for the Fund — the subsidy amount — and still meet the earlier commitment.

But there are other, broader, consequences resulting from greatly reduced funding. Progress in some U.S. projects has been stymied by a lack of identifiable reformers, some of whom are still emerging. Now, as Russians in the energy sector, for example, have become interested in undertaking restructuring and privatization, cuts prevent large-scale help. USAID will stop its oil and gas activities and focus on electrical generation. It will work in two regions rather than the four planned, and will get companies in the electric sector to pay for some assistance themselves.

Cuts also have an impact on the relationship between Russians and the United States. For many Russians, the program is viewed as a statement of U.S.-Russian cooperation and goodwill. They may see the contraction of the program as somewhat threatening to that new relationship that began with the end of the Cold War. Reformers — be they federal or local government officials or fledgling businessmen — likely will see it as a loss of support for their actions. The transition is far from over. Important reformist legislation is still being formulated, critical decisions regarding major sectors such as health, housing, land, and energy are still being

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28 There are many examples of programs disparaged by USAID and State officers as “not useful” to key U.S. policy objectives. One is the Title VIII program which funds U.S. academic research on the NIS, continued funding for which was recommended by both House and Senate Appropriations Committees in their FY1996 funding bill (the Senate suggested at least $7.5 million). Another is the new Transcaucasus Enterprise Fund, $15 million for which was provided in the FY1996 bill. As other enterprise funds have taken more than a year before the first investments are made, some observers have asked if most of this money could not be better utilized elsewhere. A third example is the $20 million intended for hospital partnerships and infectious diseases in the FY1996 bill, which, like the often-cited FY1995 $15 million for family planning, supports benign and useful activities. However, these are not viewed by many of those interviewed for this paper as the top priorities of a program no longer flush with funds.
formulated, the NGO community is still in its infancy. The assistance program at least opened Russians ears to American advice and counsel on these issues, and created linkages between American specialists and Russians that could lead to future cooperation. Though Russia’s transition will likely continue, there are those who argue that to disengage abruptly might have severe consequences, for Russia’s future, and U.S.-Russian relations.

The budget cuts in the Russia program have left the Administration with some choices regarding priorities. Within congressional project earmarks, it must decide what programs contribute most toward foreign policy objectives. Ultimately, the trend is to end the whole program sooner than expected, so USAID officials are seeking to phase the program out in the most efficient manner. This means finding ways to hand projects over to World Bank or other donor funding where possible, to end participation with the least alienation of Russian counterparts, and to finalize projects where goals might be near completion.29

The cuts force the Administration to choose its policy priorities, and they raise two issues for Congress as well regarding the immediate future. First, are funding levels for the Russia program sufficient to meet the objectives, set by Congress, of facilitating the economic and political transition of Russia? Whether the decline in funding is a consequence of budget priorities or an expression of discouragement with the Russian government, it seems clear that Congress is downsizing the program for reasons not directly related to whether the core objectives are being achieved.

Second, are the broad policy parameters established by Congress in the authorizing language of the FREEDOM Support Act being served or frustrated by the inclusion of earmarks in appropriations language? The FY1996 appropriations debate suggests some disparity of views here. While the House Foreign Operations Appropriations bill contained few earmarks (the only country earmark — a $195 million ceiling for Russia — was added on the floor), the Senate bill contained many funding directives, most of which were adopted by the conference report. In deliberating the FY1997 budget, Congress will again have to decide how much flexibility to give the Administration in determining how to meet priorities and how much to specify in country allocations and projects.

29 To stretch U.S. funds, USAID and the NIS Coordinator have considered seeking a share of project costs from the beneficiaries. The Russian government sometimes provides office space and other services to U.S. technical advisers. The Coordinator now requires that new projects contain an element of cost sharing. Some USAID projects are seeking to charge beneficiaries for services so that they may continue to exist after U.S. government funding disappears. However, these programs have not been in existence very long and, in Russia’s precarious economic environment, a paying clientele sufficient to make these programs independently viable may not yet have developed. USAID officials expect that the Business Support Centers in active commercial locales such as Petersburg, Ekaterinburg, and Vladivostok will be able to recover 40% of their local costs this year. The Bankers Training Program requires participating banks to contribute $20,000. Nevertheless, it may end up short of the number of shareholder banks it needs to sustain its operations when U.S. funding ends in mid-1996.
What Kind of Program after FY1998?

Although the Administration did not anticipate the dramatic cuts in funding levels that Congress imposed subsequent to the FY1994 appropriations surge, it has maintained since 1994 that FY1998 would be the last year it would seek “economic transition” funds, i.e., the technical assistance program would end by the year 2000.30 No one would suggest that this means U.S. objectives in Russia will be fully met by then or that there will no longer be a role for some of the activities currently being funded out of the NIS account. The United States will continue to have interests in Russia for decades to come as it has in decades past. The question asked now in State Department and other circles is — what will U.S. interests be after FY1998 and what kind of activities would support those interests that the United States will wish to fund? This discussion regarding the “baseline program” is just beginning, but is likely to be joined by Members of Congress in the near future.

The appeal of declaring an end date to U.S. assistance in Russia notwithstanding, some would argue that efforts to encourage democracy and free markets — even at greatly reduced funding levels — should be continued after FY1998. However, trying to define a baseline program for Russia highlights the fact that the program has not been solely about democracy and free markets. There is another, longer term foreign policy objective — cooperation.

Currently, the United States has a variety of cooperation programs that it conducts with other countries, including those in Western Europe. While many of these are funded from State Department and USIA appropriations, others — scientific and technical exchanges for instance — are conducted out of individual agency budgets. Few of these have been considered foreign aid. Several elements of the current NIS account, including the USIA exchange programs, are similarly aimed at goodwill and cooperation.

Many of the Russia assistance program efforts have had the effect of establishing cooperative ties that the United States might or might not wish to continue after the assistance program has effectively ended. Whereas the United States had somewhat restricted relations with non-central government entities in the Soviet Union, the assistance program for Russia has opened doors to local governments, citizens groups, scientific and business organizations and the like throughout the country. Some would argue that maintaining relations with these groups is in the long-term interest of the United States.

The importance of such relations to U.S. long-range interests may be heightened by the fact that the Russian road to democracy and a free market economy is not going to be smooth. Nor, even as these objectives are met, is it at all guaranteed that U.S.-Russian relations will be warm and friendly.

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30 This was more likely an effort to convince Congress that the program was limited in cost and would not go on forever rather than based on a rigorous analysis of what it would take to accomplish U.S. objectives.
The baseline program would ideally derive from a serious evaluation of the possibilities and permutations of future U.S.-Russian relations and a weighing of the uses of U.S. assistance funds for their value in shaping that future. Still in an early stage of formulation, baseline program proposals from officials at State, the Embassy in Moscow, and USAID currently share some common features. There is general agreement among these executive branch participants that total annual funding for Russia should be in the $50 million to $100 million range in the post FY1998 era. The thinking appears to be that this range may be acceptable to Congress in budget terms; it may not be a reflection of a critical estimate of U.S. objectives. There is some agreement that the baseline program should include exchanges, trade and investment activities (TDA, OPIC, and Eximbank), and a variety of grassroots volunteer activities. Some suggest that nuclear reactor safety and Nunn-Lugar non-proliferation activities are also both strongly in the U.S. national interest and should be maintained.

The Administration has not sought from Congress its thoughts and approval of a baseline program. With the FY1997 foreign aid request that will be presented in the near future and debated in the coming months, Congress will have the opportunity to address both the future of the U.S. foreign assistance program in Russia as well as the longer term character of U.S.-Russian relations.\textsuperscript{31}

\textsuperscript{31} As this report went to press, the Administration issued its FY1997 international affairs budget request. With the NIS request straightlined at the FY1996 level, the request for Russia is $173 million (versus an estimated $168 million in FY1996).