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The Former Soviet Union and U.S. Foreign Assistance

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The Former Soviet Union and U.S. Foreign Assistance

SUMMARY

Seeking to encourage a transition to democracy and free market economics in the states of the former Soviet Union, the United States, since December 1991, has offered roughly $7.3 billion in grants for economic and technical assistance to the region. Most of the grant assistance has been provided through the Agency for International Development (USAID). In addition, $4.3 billion has been provided in food aid through the Department of Agriculture, and $2.3 billion by the Department of Defense for nonproliferation purposes. The United States has also subsidized guarantees for more than $12 billion in credits from the Export-Import Bank, Overseas Private Investment Corporation, and the Department of Agriculture.

In its FY2001 budget request, the Administration proposed funding the former Soviet Union account at $830 million, little change over the FY2000 level of $835.8 million. On May 9, the Senate Appropriations Committee reported S. 2522, the FY2001 Foreign Operations Appropriations, providing $775 million for the FSU.

Whether, how much, under what conditions, and to whom in the successor entities of the Soviet Union assistance might be given remain matters of ongoing debate in Congress.

For more information on this issue, see CRS Report RL30112, *Russia's Economic and Political Transition: U.S. Assistance and Issues for Congress*, CRS Issue Brief IB98038, *Nuclear Weapons in Russia*, and CRS Report 97-1027, *Nunn-Lugar Cooperative Threat Reduction Programs: Issues for Congress*.

MOST RECENT DEVELOPMENTS

On June 15, Senator Helms announced he would seek to block a May 26 agreement to reschedule $485 million in Russian debt. If the debt is not rescheduled, Russia would have to repay $155 million of its World War II-era debt by July 1 or face loss of most-favored-nation status. In addition, several new pieces of legislation have been introduced in both House and Senate that condition aid and debt relief to Russia. See Aid to Russia-Conditionality section below.

On May 9, 2000, the Senate Appropriations Committee reported S. 2522 (S.Rept. 106-291), the FY2001 Foreign Operations Appropriations, providing $775 million for the FSU, $55 million and 7% less than the Administration request. The full Senate is currently expected to take up the measure during the week of June 19. The House Foreign Operations Subcommittee is expected to mark-up its version of the bill on June 20.

BACKGROUND AND ANALYSIS

Seeking to facilitate the transition of the states of the former Soviet Union (FSU, also known as the NIS, New Independent States) to democracy and free market economies, the United States launched a program of economic assistance to the region in late 1991. The FREEDOM Support Act, approved by Congress in October 1992, authorized this program (P.L. 102-511) and provided the policy guidelines under which assistance would be allocated. A broader program of assistance has existed concurrently that encompasses many spigots — including export credit programs, food aid, and the Nunn-Lugar cooperative threat reduction effort in the four nuclear weapons states of the region. (For details on the latter issue, see CRS Issue Brief IB98038, *Nuclear Weapons in Russia*, and CRS Report 97-1027, *Nunn-Lugar Cooperative Threat Reduction Programs: Issues for Congress*.) While this issue brief describes trends and issues in the broad program of assistance, it concentrates on the bilateral economic aid program that has been both the main U.S. instrument for influencing the economic and political transition in the FSU and a chief focus of congressional attention. For more details on the economic assistance program see CRS Report RL30112, *Russia's Economic and Political Transition: U.S. Assistance and Issues for Congress (May 1999)*.

Snapshot of U.S. Assistance to the Former Soviet Union

Levels of Assistance

Grant Assistance. Since 1992, roughly $7.3 billion in grant economic assistance has been appropriated by Congress to run U.S. programs in the former Soviet Union. The vehicle for this assistance is the Assistance for the Independent States of the Former Soviet Union account (formerly known as the NIS, New Independent States, account; and also called FSU account in this issue brief), funded annually by the foreign operations appropriations bill. According to the State Department, as of the end of September 1999, $6.5 billion had been obligated by the Agency for International Development (USAID), the main implementor of the program, or transferred by it to other agencies for their programs in the region ($782 million in FY1999 alone). The FY2000 FSU account appropriation of $835.8 million represents about 5.5% of total U.S. worldwide foreign aid for that year.

Table 1. FSU Account Appropriations
(millions of $)

FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	Total
230[a]	417	2,158[b]	818[c]	641	625	770	847	836[d]	7,342

a. Economic Support Funds reprogrammed for FSU in early 1992.
b. Includes $1.6 billion FY1993 supplemental approved September 1993. P.L. 103-211 rescinded $55 million of the FY1994 and FY1993 supplemental appropriations for the FSU.
c. Original appropriation was $850 million. P.L. 104-6 rescinded $7.5 million. P.L. 104-19 rescinded $25 million.
d. Original appropriation was $839 million. P.L. 106-113 rescinded .38%.

In addition to the FSU account economic assistance, other spigots of grant aid have targeted the region. Under the Department of Defense annual appropriations, the Nunn-Lugar Cooperative Threat Reduction Program — totalling $2.1 billion in obligations to the end of FY1999 ($272 million in FY1999 alone) — is a defense program aimed chiefly at assisting the denuclearization of Russia, Kazakhstan, Belarus, and Ukraine, where nuclear weapons were located when the Soviet Union fell. With obligations totalling $793 million ($243 million in FY1999 alone), the Department of Energy conducts a range of programs to support the safety of nuclear reactors and the protection and control of fissile materials and stockpiles. Under the U.S. Department of Agriculture appropriations bill, grant or subsidized food aid, mostly for humanitarian purposes, is funded — equaling $4.3 billion in cumulative obligations ($1.3 billion in FY1999 alone). Additionally, a number of other U.S. government agencies, including the Commerce Department, USIA, and the Peace Corps, have their own disparate programs of exchanges and technical assistance conducted out of their agency budgets and not drawing on the FSU account. Obligations of all U.S. grant assistance from all spigots, including the FSU account, to the end of FY1999 equal $14.5 billion ($2.3 billion in FY1999 alone).

FSU Account Country Allocations
(in $ millions)

Country	FY99	FY00 (est)	FY01 (req)
Russia	161.2	178.5	161.9
Ukraine	203.6	160.0	171.3
Belarus	12.4	7.3	8.0
Moldova	45.4	64.3	50.0
Armenia	80.1	102.4	75.0
Azerbaijan	35.2	30.8	54.6
Georgia	84.6	108.4	85.8
Kazakhstan	50.5	43.7	48.3
Kyrgyzstan	32.0	29.5	37.5
Tajikistan	13.1	9.2	12.0
Turkmenistan	11.3	6.3	8.0
Uzbekistan	27.3	17.4	25.0
Regional	90.5	78.2	92.8
Total App.	**847.0**	**835.8**	**830.0**

Credit Assistance. In addition to grant assistance, the United States has made guarantees or loans to support the equivalent of $12.6 billion in U.S. exports of manufactured and agricultural products and business investments in the FSU since 1992. The actual budget outlays for these programs are as little as one-fifth of these amounts, since only the subsidy cost has to be appropriated to back up the loan or guarantee. In the event of a default, however, the U.S. taxpayer would be liable for the full face value of the loan.

Direction of Assistance. Although in recent years, Russia has accounted for only 15-20% of FSU account allocations, the bulk of cumulative U.S. assistance since the program began has gone to Russia. This is a reflection of its importance to U.S. national interests, its physical expanse and population size, and the relatively advanced state of its reformist policies compared to the other states of the region. Of cumulative FSU account obligations to the end of September 1999, Russia represents $2.4 billion, or 38%, followed by Ukraine with $1.4 billion (22%), and Armenia with $604 million (9%).

However, on a per capita basis, suggesting the size and, possibly, impact of the program in the recipient country, the order changes. Armenia is the chief recipient of cumulative FSU account obligations, receiving $159 per capita, followed by Georgia ($53), Moldova ($43), and the Kyrgyz Republic ($39). Russia is seventh, at $17 per person.

Programs and Projects

Most of the FSU account program is in the form of technical assistance and exchanges. Where there is “cash” involved, it is mostly in equity investments and loans to the private sector provided by the region’s three enterprise funds. As much as three fourths of the aid is going to the private sector — not the governments of the FSU. Nearly 98% of those funds used for programs run by USAID are spent on U.S. goods and services. Although the FSU account is appropriated directly to USAID, more than one-fourth of the funds has been funneled to other U.S. government agencies. But the proportion is growing – in FY2000, more than half will go through other agencies.

Responsibility for the overall strategic direction of the aid program lies in the hands of the Department of State’s Coordinator of U.S. Assistance to the NIS, currently Ambassador William B. Taylor, Jr. Generally speaking, in its first years, the aid program emphasized technical assistance, especially to central governments for policy reforms establishing basic laws and institutions that allow democracy and free market economy to flourish. By 1997, in the case of Russia and, to a lesser extent, in other countries, these reforms had begun to take hold and the Administration began to shift to what it called a more long-term view of FSU needs and U.S. relations with the region. Its Partnership for Freedom initiative emphasized assistance targeted more at the grassroots, at local government and the hinterlands, and at building more cooperative relationships between the FSU and American people. Hence, on the economic front, there has been a greater amount of funds put into trade and investment — including, at the national level, efforts to affect tax policy — and support for small and medium business and for establishing joint ventures with U.S. business. To further the development of a civil society, there has been greater support for partnerships between U.S. and FSU non-governmental organizations and U.S.-FSU exchanges.

The FSU account funds programs in a wide variety of sectors, most of which overlap. **Private sector development programs**, representing the largest proportion of funds, include efforts to assist the privatization of state-businesses and efforts to help draft new tax, securities, and commercial law. The enterprise funds are among several efforts to assist micro to medium-sized business lending aimed at stimulating the nascent private sector. Numerous person-to-person volunteer programs provide technical assistance to individual farmers and businessmen.

Trade and investment programs include a variety of activities run through OPIC, the Department of Commerce, the Trade and Development Agency, and the Export-Import Bank to encourage U.S. investment and exports. Among the **democratic initiatives** are the various educational exchanges and traineeships run by USAID and the U.S. Information Agency (USIA) and technical assistance provided to political parties, the judiciary, and law enforcement agencies. Efforts to encourage the development of indigenous non-governmental organizations, such as professional associations and charities, and the growth of independent media are also being emphasized.

Humanitarian assistance provided under the FREEDOM Support Act funds food and medical aid for highly vulnerable groups, especially in the Caucasus region. **Health care programs** include efforts to combat infectious disease, promote health care reform, assist family planning, and establish hospital partnerships. **Energy and environmental programs** are helping address nuclear reactor safety, seeking through demonstration projects to encourage energy efficiency, and providing small project grants for local environmental programs. Finally, **housing programs** include technical assistance for housing policy reform, such as establishment of a mortgage lending system.

The FSU account is increasingly being drawn upon for **nonproliferation activities**, usually more closely associated with the Nunn-Lugar Cooperative Threat Reduction Program. Under the so-called Expanded Threat Reduction Initiative, the State Department supports commercial alternative employment for nuclear and chemical weapons scientists, border security training, and other efforts to control the proliferation of weapons expertise and materials.

Status of U.S. Assistance to the Former Soviet Union

In 2000, Congress continues its oversight of the ongoing assistance program for the FSU while determining the size and shape of the FY2001 program. The section below discusses the FY2000 appropriations that serves as a backdrop for the debate on the budget for FY2001. The following section looks at Administration and congressional actions as they unfold in 2000. For a review of earlier legislative and executive activities, see CRS Report RL30148, *U.S. Assistance to the Soviet Union and its Successor States 1991-1999: A History of Administration and Congressional Action* (revised March 15, 2000).

Developments in 1999

Administration FY2000 Request. On February 1, 1999, the Administration presented its FY2000 budget request to Congress, proposing $1.032 billion for the FSU account, a 22% increase over the FY1999 level of $847 million. Of this amount, $241 million was expected to go for a new Expanded Threat Reduction (ETR) Initiative that would address proliferation issues arising out of the economic crisis facing Russia and other FSU countries. The ETR initiative was part of a larger $1.0 billion Administration FY2000 proposal for increasing amounts dedicated to proliferation issues in the FSU, the remaining funds coming from the

Department of Defense ($485.5 million) and Department of Energy ($264.7 million). Over five years, most of the $1.8 billion added by the initiative to amounts previously planned for non-proliferation activities would go to DOE and DOD. But in the first year, three fourths of the higher funding level requested would be in State Department programs, mostly funded under the FSU account.

State Department-managed programs — $49 million in FY1999 — include several efforts to forestall the proliferation of weapons expertise, i.e. nuclear, chemical, and biological weapons scientists, who are likely to sell their knowledge to rogue nations unless offered alternative employment and income opportunities. In addition, the United States works to strengthen FSU export controls and provides training and equipment to the border guards of Georgia and other FSU countries to prevent transfer of weapons of mass destruction. The ETR initiative proposed to lead a new effort to remove the Russian armed forces and equipment from bases outside Russia and to dispose of ammo dumps vulnerable to theft.

The FY2000 request did not mark a major increase in support for the traditional efforts to build democracy and free market economies in the FSU that have characterized the FREEDOM Support Act program. After subtracting the ETR request, traditional activities were funded at roughly $791 million.

Emergency Supplemental Appropriations. On May 21, the President signed H.R. 1141, the FY1999 Supplemental Appropriations, into law (P.L. 106-31). Although chiefly providing funds for the Central America hurricane and Kosovo, the legislation also directed up to $10 million from FY1999 appropriations for Senate operations be used for a Russian Leadership Program, to be implemented by the Librarian of Congress. It would bring emerging Russian political leaders to the United States to give them firsthand exposure to the U.S. free market economic system and democratic institutions.

FY2000 Appropriations. On June 17, 1999, the Senate Appropriations Committee reported its version of the FY2000 foreign operations bill. S. 1234 (S.Rept. 106-81) would fund the FSU account at $780 million, 24% less than the Administration request and 8% less than the FY1999 level. On June 30, the full Senate approved S. 1234 by a vote of 97-2, leaving the FSU account mark intact. On July 14, the House Foreign Operations subcommittee marked up its version of the FY2000 appropriations, and the full Appropriations Committee reported the bill on July 23 (H.Rept. 106-254). H.R. 2606 was approved by the House on August 3 by a vote of 385 to 35. It provided $725 million for the bill's renamed Independent States of the Former Soviet Union account, 30% less than the Administration request and 14% less than the FY1999 level.

On September 27, 1999, the House-Senate conference issued its report on H.R. 2606 (H.Rept. 106-339), providing $735 million for the Former Soviet Union account, 29% less than the Administration FY2000 request, and 13% less than the FY1999 level. On October 6, Congress approved the conference report — the House by a vote of 214 to 211, the Senate by a vote of 51-49. The President vetoed H.R. 2606 on October 18.

On November 5, 1999, the House approved H.R. 3196, a new version of the FY2000 foreign operations appropriations, that provided $839 million for the former Soviet Union, $104 million more than H.R. 2606. Following House passage of H.R. 3196, further negotiations between Congress and the White House led to a few additional changes and the introduction on November 17 of a third foreign operations appropriation bill, **H.R. 3422.** That bill was enacted into law by reference as part of H.R. 3194, the Consolidated Appropriations Act for FY2000 (P.L. 106-113, signed into law on November 29) that was approved by the House on November 18 (296-135) and by the Senate on November 19 (74-24).

After subtracting an across-the-board .38% rescission mandated by the Consolidated Appropriations Act, H.R. 3422 provides $835.8 million (originally $839 million) for the former Soviet Union, 19% less than the Administration FY2000 request but only 1% less than the FY1999 level. The act earmarks 12.9 % of the account for Georgia ($107.8 million) and 12.2% for Armenia ($102 million). Unlike previous years, it only recommends that $180 million "should" be made available for Ukraine, a soft earmark instead of a hard one. The act caps assistance to any one country at 25% of the total account ($209 million), with the exception of nonproliferation activities.

H.R. 3422 also requires that $20 million be for programs in the Russia Far East and that $14.7 million be made available for maternal and neo-natal health activities, of which 60% should be made available in Russia. The act provides $10 million for the Russian Leadership Program, which was originally funded from the Senate operations budget when it was established in the May 1999 supplemental. The program, administered by the Library of Congress, brings promising Russian leaders to the United States to expose them to American democracy.

Although H.R. 3422 leaves funding allocations for the Expanded Threat Reduction Program up to the Administration, the recommended account funding level and country earmarks effectively prevent aid from increasing to the levels proposed by the Administration to permit full implementation of the Expanded Threat Reduction Program. The Administration has since allocated $175 million of the appropriation to the Program, $66 million less than the Administration request.

As in FY1999, the FY2000 act withholds half of aid to the government of Russia until the President determines that the government of Russia has terminated any arrangements to provide Iran with technical and other assistance to develop a nuclear reactor or ballistic missile capability. Unlike previous years, however, the provision only affects the government of the Russian Federation, not aid to local and regional governments. Further, it exempts nonproliferation and child survival activities, and efforts to combat infectious diseases. The act contains a new condition, requiring that no aid to the central government of Russia be provided until the Secretary of State certifies that Russian armed forces have not established a separate sector in Kosovo and are operating under NATO command. As in previous years, aid is also prohibited to the government of the Russian Federation if it implements a law discriminating against religious minorities.

H.R. 3422 also recommends that, of funds allocated to the Caucasus, 15% should be used for measures to further a peaceful resolution of the regional conflicts there. Section 907 restrictions on aid to Azerbaijan are lifted for democracy, humanitarian, nonproliferation, TDA, Foreign Commercial Service, OPIC, and Export-Import Bank assistance. H.R. 3422 also contains the Silk Road Strategy Act that, adding a new chapter to the Foreign Assistance Act of 1961, authorizes assistance and lays out congressional priorities with specific regard to the countries of Central Asia and the Caucasus.

Cooperative Threat Reduction. For FY2000 CTR programs, the Administration requested $475.5 million. Congress authorized that amount in the National Defense Authorization Act for FY2000 (S. 1059, P.L. 106-65) and appropriated $460.5 million in the Department of Defense appropriations (H.R. 2561, P.L. 106-79).

Developments in 2000

Administration FY2001 Request. On February 7, 2000, the Administration proposed its budget for FY2001, including $830 million for the "Assistance for the Independent States of the former Soviet Union" account, less than 1% below the FY2000 appropriation. Of the total, $87 million is expected to go for Expanded Threat Reduction activities. An additional $45 million in ETR-related science center funding, previously provided in the FSU account, is requested under the nonproliferation account.

FSU Aid Debate in the Senate. On May 9, 2000, the Senate Appropriations Committee reported S. 2522, the FY2001 Foreign Operations Appropriations. It would provide $775 million for the FSU, $55 million, or 7%, less than the Administration request.

As has been the case for many years, the Senate bill contains numerous country and project earmarks. It would provide at least $175 million for Ukraine, of which $25 million is for nuclear reactor safety, $1 million for the University of Southern Alabama to study environmental causes of birth defects, and $5 million for the Ukrainian Land and Resources Management Center. It provides $94 million for Georgia, of which $25 million is for the Border Security Guard, and $5 million is for development and training of municipal officials in water resource management, transportation, and agri-business. The bill also would provide $89 million for Armenia and require that at least $6 million of $12 million earmarked for Mongolia must come from the FSU account. In all, mandatory earmarks for these four countries total $364 million, 47% of the account, leaving little more than half for Russia and eight other FSU countries.

The bill does not earmark a total for Russia, but it does require that $20 million be spent for programs in the Russia Far East, $400,000 be used for the Cochran Fellowship Program that provides agricultural exchanges, $250,000 be used to support the Moscow School of Political Studies, and $10 million for non-governmental organization humanitarian relief programs in Chechnya and Ingushetia.

S. 2522 places several conditions on aid to Russia. As in the FY2000 bill, it withholds half of funds planned for programs assisting the central government of Russia until the President determines that the transfer to Iran of nuclear reactor or ballistic missile expertise and equipment has been terminated. Nonproliferation and infectious disease aid are exempted from this restriction. The bill also repeats language that prohibits aid to the central government of Russia if it implements a law discriminating against religious minorities. S. 2522 contains a new condition, prohibiting aid to the central government of Russia until the Secretary of State determines that Russia is cooperating with international investigations of war crime allegations in Chechnya and that Russia is providing full access to NGOs providing humanitarian aid to refugees in Chechnya.

S. 2522 repeats FY2000 language exempting democracy, humanitarian, nonproliferation, Foreign Commercial Service, Trade and Development Agency, Overseas Private Investment

Corporation, and Export-Import Bank assistance from the Section 907 (of the FREEDOM Support Act) prohibition on aid to Azerbaijan.

Issues for Congress in 1999

Foreign aid is an instrument of U.S. foreign policy, and U.S. relations and interests in the former Soviet Union determine levels, direction, and types of aid funding. While there has been opposition, support for the FSU account economic aid program has generally been bipartisan and strongly supported by congressional leaders. A decline in program funding from FY1994 to FY1997 reflected a downward trend in the foreign aid program overall, criticisms of program implementation and of Russian behavior, and, some would say, the Administration's failure to make a case for higher levels of funding. In 1997, the Administration attempted to reinvigorate the program and its funding with its Partnership for Freedom initiative. As a result, the appropriation was 23% higher in FY1998 than the previous year, and has stabilized at a level roughly 10% higher than that in the two years since. The FY2001 request marks little change from the FY1999 level.

Since its inception, the economic aid program — united by the coherent and singular purpose of democratization and free market reform — has always treated Russia as a case distinct from the other NIS countries. Increasingly, through earmarks and their differentiated development, the program is treating the region as four distinct entities — Russia, Ukraine, the Caucasus, and Central Asia — which all compete for the same pool of funds.

Aid to Russia

Funding Levels. Even after the demise of the Soviet Union, Russia has remained a significant interest of U.S. foreign policy and a major focus of the foreign aid program. Reflecting the highs and lows of U.S. interest and goodwill, Russia was the main beneficiary of the assistance program in its first years, but has borne the brunt of FSU account cuts more recently. Funding for Russia declined from roughly 60% of the FSU total during the first two years to about 40% of FY1995 funds, 21% of FY1996 funds, and 15% of FY1997 funds. It has remained under 20% of the total account since then. The Administration has allocated $178.5 million to Russia from FY2000 appropriations, $61 million of which for the non-traditional ETR program, and it has requested a level of $162 million for Russia programs in FY2001. This funding decrease has led many to question whether available funding for Russia is adequate to meet both short- and long-term U.S. foreign policy objectives in that country.

There are a number of reasons for the long-term decline in Russia aid. Some argued that U.S. foreign policy had become too dependent on Russian President Yeltsin and that more funds should be funneled to other countries in the region. Others have criticized Russian domestic and international behavior and either sought cuts in aid or sought to use the aid program as leverage to change Russian behavior. These conditions are discussed below.

Supporters of a larger aid program for Russia have argued the importance to U.S. foreign policy and defense interests of a democratic and free market Russia. They have contended that it is less expensive to assist a more cooperative Russia than it was to defend the United States from threatened Soviet aggression during the Cold War and any future threat the country might pose if it reverts to totalitarian rule. Finally, they have pointed out that aid is intended to be used to change Russia to a form of government and economy we would prefer, and that most aid goes to grassroots businesses and NGOs — not the central government — for the purpose of building long term cooperation and friendship with a people long isolated from the West.

Conditionality. As noted above, linked to the criticisms of Russia is the issue of conditionality. Both the FREEDOM Support Act and annual foreign operations appropriations bills contain general and specific conditions that *all* the states of the FSU are expected to meet in order to receive assistance. Conditions left to the broad discretion of the President include whether these countries are undertaking economic and political reform, whether they are following international standards of human rights, whether they are adhering to international treaties, and whether they are denying support to terrorists.

Other conditions established by Congress are more firm and specific, and the majority of these to date have been aimed at the Russian government. The FY1995 foreign operations bill would have prohibited assistance to Russia if agreement on a timetable for Russian troop withdrawal from the Baltics had not been achieved or was not being carried out. Under prodding by the Administration, Russia withdrew its troops in August 1994. In 1995, Russia increasingly became the focus of efforts to impose specific conditionality. Early in that year, Russia's behavior in Chechnya was mentioned by congressional critics as a potential condition and was one reason given for acceptance of rescissions directed specifically at Russia.

Later in the year, the issue of the sale of nuclear power plants to Iran was first raised. In both the FY1996 and FY1997 appropriations, aid was prohibited unless the President assured that Moscow had terminated its plans for the sale. In both years, however, the President was allowed to waive this restriction if he deemed it in the interest of U.S. national security. The FY1998 bill subjected half of aid allocated specifically for the government of Russia to the requirement of a presidential determination, but allowed a waiver. It did not affect aid to the private sector. In FY1998, the President did not make the necessary determination and half of aid allocated to the government of Russia — local and regional as well as central government — was cut.

As increasing amounts of assistance have been targeted in recent years on the local level and the expansion of trade and investment, the condition, as then worded, threatened to frustrate the U.S. aid strategy, because local and regional governments play a significant role in facilitating the growth of business through legislation and other support. It also affected such programs as the hospital partnerships, family planning, and exchanges because most hospitals, clinics, and universities are government-operated. Although the final version of the FY1999 appropriations repeated the same Iran language as in the FY1998 bill, the conferees statement exempted aid to partnerships with universities, hospitals and environmental institutions. Aid to local and regional governments was still affected. The FY2000 appropriation bill, however, prohibits half of aid, specifically to the **central** government of Russia alone if the Iran transfers continue. S. 2522, the FY2001 foreign operations bill, would continue that restriction.

The Administration and others state that the reactors could be used by Iran to help develop nuclear weapons. The economically strapped Russians argue that they would be hard pressed to give up what might well become more than a $3 billion deal and point out that the reactor is the same type as the United States is supporting in North Korea. See CRS Report RL30551, *Iran: Arms and Technology Acquisition* for further details.

Another major restriction on aid to Russia has been approved in the FY1998, FY1999, and, again, in the FY2000 appropriations. This prohibits any aid to the government of the Russian Federation (i.e. central government; it does not affect local and regional governments) if the President does not certify that Russia has not implemented a law discriminating against religious minorities. The President has made such a determination each year, most recently on May 26, 2000. S. 2522 would continue this restriction.

With the renewed war in Chechnya in 1999, commentators and members of Congress, including Senator John McCain, argued that a cut-off of aid would be an appropriate expression of U.S. disapproval. Many of these critics targeted aid provided by the IMF or the Export-Import Bank, and specifically exempted U.S. nonproliferation or democracy assistance. S. 2522 would prohibit aid to the central government of Russia if it is not cooperating with international investigations of war crime allegations in Chechnya or providing access to NGOs doing humanitarian work in Chechnya.

In response to previous congressional efforts to impose conditions on Russian aid, the Administration has repeatedly argued that it is inappropriate to condition aid to Russia on a particular desired behavior such as regarding Iran or Chechnya inasmuch as the program is intended to benefit reformist elements in Russia and ultimately facilitate a transformation that might ensure a more cooperative relationship in future. For example, according to the Administration, less than a quarter of U.S. funds in 1998 were going to assist the Russian central government directly, and that aid was for efforts to reform taxation, banking, financial markets, and other economic laws. The level of aid to the central government has likely diminished since then.

However, the second Chechnya war has caused the Administration to take a harder line, at least with respect to aid provided by international financial institutions. The IMF's continuing delay of a $640 million loan installment suspended since September 1999 has been attributed by many observers, not to Russia's failure to enact economic reforms as cited by the IMF, but to pressure from Europe and the United States in reaction to Chechnya. Secretary Albright's December 1999 veto of a $500 million Export-Import Bank loan, due to accusations of unfair business practices of the oil company loan recipient, may also have been influenced by the Chechnya situation. On March 31, 2000, she lifted her objection to the loan.

In the spring of 2000, Members of Congress have proposed a number of other conditions, which may be debated on the House or Senate floor in the near future. These would:

- require a reduction in assistance to Russia by an amount equal to any loan or other financial assistance or energy sales provided to Serbia. Authored in response to Russia's hosting of the Yugoslav Defense Minister, an indicted war criminal, and its provision of a loan to Serbia, Senator Helms plans to offer the condition as an amendment to S. 2522.

- prohibit the rescheduling or forgiveness of any bilateral debt owed to the United States by Russia until the President certifies that Russia has ceased operations and closed its intelligence facility at Lourdes, Cuba. H.R. 4118 (Ros-Lehtinen) was approved by the House International Relations Committee on May 4. The Committee added presidential waiver authority.

- prohibit rescheduling or forgiveness of bilateral debt until Russia has terminated all sales and transfers of Moskit anti-ship missiles. H.R. 4022 (Rohrabacher) was approved by the House International Relations Committee on April 13 with a presidential waiver authority provision. On June 7, the non-waiver version was introduced in the Senate by Senator Smith (S. 2687).

In addition to the above, another step has recently been taken to thwart rescheduling of Russian debt. On May 26, as required by law thirty days prior to its taking effect, the Administration submitted to Congress a report on a bilateral agreement with Russia to reschedule its 1999 and 2000 repayments of Soviet-era debt. While Paris Club creditors have been adverse to total forgiveness, they have favored rescheduling due to the burden the debt places on Russian efforts to reform its economy. This agreement, however, was challenged by Senator Helms on June 15, and its standing is uncertain at this time. What makes this move particularly significant is that, of the roughly $485 million of U.S. debt that would be rescheduled, $155 million is part of its Lend Lease debt, held from World War II. A provision of the Trade Act of 1974 requires that arrears in this debt be punished by loss of MFN (most favored nation/normal trade relations) status. Therefore, if the debt cannot be rescheduled, on July 1, when payment would otherwise be due, Russia would either be forced to make the payment or stand to lose its MFN status.

Bank of New York Scandal. In August 1999, newspaper reports of a possible transfer of as much as $10 billion in Russian money through the Bank of New York inspired a number of political commentators to link the occurrence of widespread corruption and capital flight in Russia (neither new nor startling revelations) with an indictment of the Administration's foreign policy toward Russia and especially the role of Vice President Gore who is identified with U.S.-Russia policy by virtue of his co-chairmanship of the Joint Commission on Economic and Technological Cooperation. The Joint Commission acted as a conduit for discussion on key aspects of U.S.-Russia relations, including trade, investment, space, and the environment, and often made recommendations on use of assistance to facilitate these matters.

Some of the news reports implied that international aid funds may have been directed through the Bank of New York. If any donor funds were diverted, it is not likely to include U.S. bilateral economic assistance. The U.S. aid program is not delivered in the form of a large monetary grant. Most aid is in the form of U.S. technical expertise and equipment to the public and private sectors, credit assistance to small business, and project grants to NGOs. Some serious abuse questions were raised with regard to the U.S. food aid program in 1993, but the Department of Agriculture insists that its current aid program is closely monitored. Although balance of payments loans provided by the International Monetary Fund are liquid and provided on a large scale, there is no evidence as yet that any IMF funds are among those involved in the Bank of New York investigation. The possibility of a diversion, however, prompted Representative Jim Leach to suggest that IMF loans be suspended until steps are taken to insure money is not diverted. The Administration has pointed out that IMF loans under the existing loan agreement do not leave the IMF — they cover repayments of previous loans — an approach initiated largely because of concerns regarding possible misuse.

The Bank of New York issue has been used by some political commentators to suggest that the Administration and Gore mishandled U.S.-Russia policy, partly by continuing to provide aid to Russia despite its descent into corruption, and by using aid to support the privatization process that some believe allowed the so-called oligarchs in Russia to achieve the vast wealth many in Russia associate with corruption. Other commentators variously point out that corruption long predated the current system and that U.S. support for privatization was an effort to rapidly ensure that communism could not return. Besides its support for privatization, U.S. assistance, they note, has helped strengthen an incipient democratic system and free market economy through support for new businesses, non-governmental organizations, a free press, a stock exchange, and local government.

Some observers believe that critics of U.S. policy overestimate the power of U.S. assistance to meet U.S. foreign policy objectives. While it is argued that both the Bush and Clinton Administrations might have exercised more influence to prevent corrupt practices and insure the adoption of economic reforms using the leverage of IMF and other international financial institution resources, others argue the bilateral aid program, often due to congressional constraints, has been too small to have a decisive influence over events in Russia. In any event, some note, not only is Russia not yet "lost", it was never ours to "lose".

Aid to the Other Republics

Ukraine. By virtue of its size and location, Ukraine is one of the more important of the FSU countries to the United States. With the support of a strong U.S. ethnic lobby, $225 million in aid has been earmarked for Ukraine each year since the FY1996 appropriations, making it the largest FSU account recipient in those years. For FY1999, $195 million was earmarked for Ukraine. In a departure from previous practice, the FY2000 appropriations recommends, but does not require, that $180 million be provided to Ukraine. The Administration has allocated $160 million but could add additional funds if Ukraine adopts economic reforms. For FY2001, the Administration has requested $171million for Ukraine. S. 2522 would provide $175 million.

To the degree that FSU aid is predicated on a country's adoption of economic and political reform, Ukraine, has not lived up to expectations, delaying or rejecting privatization efforts and other reforms. Several years ago, this led some in Congress to question the level of funding provided to Ukraine, especially in view of news reports of the ill-treatment of U.S. businessmen. As a result, almost half of earmarked appropriations were withheld pending determinations – in FY1998, that issues affecting U.S. investors were resolved, and, in FY1999, that progress on economic reform was being made. The FY2000 appropriation bill dropped such conditions. Reports in March 2000 that Ukraine had abused its IMF loan program may have consequences for the U.S. bilateral aid program.

Central Asia. One rationale presented by the Administration for the Partnership for Freedom initiative in 1997 was that it would mean a substantial (in some cases threefold) increase in funding for Central Asia and Russia. The Central Asian states had been relatively neglected by the aid program in previous years but are of increasing interest to the United

States for their oil production and strategic location. While Congress did increase overall aid levels to the FSU, earmarks for other countries fenced off much of the funds and Central Asia benefitted little. The increase in funding for the FSU under the FY1999 appropriations, however, permitted a 26% increase for Central Asia to $136.9 million, but in FY2000, the account funding level, country earmarks, and ETR priority led to an allocation of $109.5 million. For FY2001, the Administration has requested $185.4 million.

Public discussion regarding Central Asia has highlighted two issues in which aid plays a role in furthering U.S. interests in the region. In congressional hearings, Administration officials have argued that increased assistance will help to build goodwill and cement a U.S. role in exploiting energy reserves in the region and that aid can be used to facilitate a positive business environment for U.S. investors, including assistance to help reform of the energy sector. Some, however, have pointed out the potential conflict between U.S. support for commercial interests in authoritarian governments, such as Uzbekistan, and U.S. support for democracy and human rights. The Administration has argued that the aid program seeks to "leverage as much democratic reform as possible" in these countries.

The Caucasus. Of the three Caucasus countries, Armenia and Georgia have been given a high priority in U.S. aid funding, with money earmarked for both in amounts that make them the highest recipients of FSU aid on a per capita basis. Azerbaijan, on the other hand, has received relatively little assistance, most types of assistance, until recently, being prohibited under Section 907 of the FREEDOM Support Act. In FY2000, the region is expected to receive $242 million, representing 29% of the FSU account. For FY2001, the Administration has requested $215 million for the region, including a sharp increase for Azerbaijan to $54.6 million, up from $31 million in FY2000.

Section 907 prohibits all aid to the government of Azerbaijan except for disarmament related assistance until the President determines that the Azerbaijani government is taking demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh, the enclave of Armenian ethnic people which has sought independence from Azerbaijan (see CRS Issue Brief IB92109, *Armenia-Azerbaijan Conflict*). The Clinton Administration has opposed Section 907 and has asked Congress to repeal it. In the past, some Members of Congress have suggested that the Administration waive the provision if it does not approve of it. However, domestic political considerations appear to have discouraged such a move to date.

Congress has taken some steps to change the restriction. Beginning in 1994, there was a concern that the restriction would impede the delivery of humanitarian aid, which may be provided through private voluntary organizations (PVOs). A key problem was the need to utilize Azerbaijani government facilities, doctors, and transport to move and administer humanitarian supplies. In 1996, the FY1997 foreign operations conference report allowed PVOs to deal with the government to meet humanitarian objectives.

Although the status of Nagorno-Karabakh has yet to be resolved and despite pressure from the Armenian-American community, the erosion of Section 907 prohibitions has been more serious since 1997, partly because many do not want the United States to appear to be biased in favor of Armenia while playing a role in the Minsk Group that oversees the peace talks, and, perhaps more important, because U.S. economic interests in Azerbaijan have grown with the exploitation of oil resources by U.S. firms. The FY1998 foreign operations bill allowed both the U.S. Foreign Commercial Service and the Trade and Development Agency to function in Azerbaijan. Although the House Appropriations Committee version of the FY1999 appropriations, H.R. 4569, would have repealed Section 907 entirely, a Porter amendment was adopted (231-182) on the House floor that struck the repeal language. The final version of the FY1999 appropriations adopted Senate exclusions that allow OPIC, TDA, Export-Import Bank, the Foreign Commercial Service, and democracy and humanitarian activities. Under this FY1999 language, perhaps the only programs affected by Section 907 were economic and other policy reform type activities. The FY2000 appropriation bill contains the same exclusions as in FY1999.

LEGISLATION

S. 2522 (McConnell)

Foreign Operations, Export Financing, and Related Programs Appropriations, FY2001. Reported by the Senate Committee on Appropriations, May 9, 2000.