

Issue Brief for Congress

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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 (FSU) – Russia, Ukraine, Moldova, Belarus, Georgia, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan, and Tajikistan – the United States, since December 1991, has offered roughly \$8.2 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, \$4.8 billion has been provided in food aid through the Department of Agriculture, and \$2.9 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 FY2003 budget request, the Administration proposed funding the former Soviet Union account at \$755 million, a decrease of \$29 million, or 4%, from the FY2002 appropriated level of \$784. On July 24, the Senate Appropriations Committee reported S. 2779 (S.Rept. 107-219), its ver-

sion of the FY2003 Foreign Operations bill, that provides \$765 million in aid for the FSU. The House Appropriations Committee reported its bill, H.R. 5410 (H.Rept. 107-663), on September 19. It provides \$755 million for the FSU. In the absence of an enacted appropriation, FY2003 aid is currently provided under a continuing resolution (H.J.Res. 1, P.L. 108-2). On January 23, the Senate approved its version of H.J.Res. 2, providing \$765 million for the FSU. A House-Senate conference is expected to meet the week of January 27.

On February 3, 2003, the President submitted his FY2004 budget request, including \$576 million for the FSU, a cut of roughly 25% from the anticipated FY2003 level.

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 RL31699, *U.S. Bilateral Assistance to Russia: 1992-2002*, 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 February 3, 2003, the President submitted his FY2004 budget request, including \$576 million for the FSU account, a cut of roughly 25% from anticipated FY2003 levels. Proposed FSU account allocations for Russia and Ukraine would be cut substantially, by 51% and 39% respectively. A decision to appropriate educational exchanges through the Department of State budget rather than FSU account is responsible for part, but not all, of the decrease.

In the absence of an enacted appropriation, aid programs for the former Soviet Union are operating under a continuing resolution, H.J.Res. 13 (P.L. 108-4, January 31). On January 23, the Senate approved H.J.Res. 2 in an amended version that includes foreign operations appropriations. It would provide \$765 million for the FSU account.

In mid-September, the Administration “initiated a temporary pause” in new FREEDOM Support Act aid to the central government of Ukraine, in response to information that Ukraine may have sold an early warning radar system to Iraq in violation of U.N. sanctions.

On September 19, the House Appropriations Committee reported H.R. 5410 (H.Rept. 107-663), its version of the FY2003 Foreign Operations bill. It provides \$755 million for the FSU, \$29 million less than the FY2002 level, but matching the President’s request.

On July 24, the Senate Appropriations Committee reported S. 2779 (S.Rept. 107-219), its version of the FY2003 Foreign Operations bill. It provides \$765 million for the FSU, \$19 million less than FY2002, but \$10 million above the Administration request.

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 RL31699, *U.S. Bilateral Assistance to Russia: 1992-2002* (January 2003), and 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 \$8.9 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 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, in FY2001, \$846 million was 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. The FY2002 FSU account appropriation of \$784 million represents roughly 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	FY01	FY02
230 ^a	417	2,158 ^b	818 ^c	641	625	770	847	836 ^d	808 ^e	784 ^f

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%.

e. Original appropriation was \$810 million. P.L. 106-554 contained .22% cross-the-board rescission.

f. In addition to this amount, \$46.5 million was transferred to the FSA account from the emergency supplemental approved September 2001 (P.L. 107-38).

In addition to the FSU account economic assistance, other types of grant aid have been provided to the region. Under the Department of Defense annual appropriations, the Nunn-Lugar Cooperative Threat Reduction Program — \$329 million obligated in FY2001 — 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 \$279 million in FY2001 obligations, 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 \$158 million in FY2001 obligations. Additionally, a number of other U.S. government agencies, most notably the State Department, have their own disparate programs of exchanges and technical assistance conducted out of their agency budgets and also not drawing on the FSU account. Obligations in FY2001 of U.S. grant assistance from all spigots, including the FSU account, equal \$1.8 billion.

Credit Assistance. In addition to grant assistance, the United States has provided guarantees or loans to support the equivalent of \$12.1 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, administered by the Export-Import Bank, Overseas Private

Investment Corporation, and the Department of Agriculture, 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 15-22% of FSU account allocations, the bulk of U.S. assistance since the program began in 1992 has gone to Russia – 35% of cumulative obligations. 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 efforts compared to the other states of the region. In FY2002, Ukraine and Russia each were expected to receive about 20% of allocated appropriations, followed by 11% each for Georgia and Armenia.

However, on a per capita basis, suggesting the size and, possibly, impact of the program in the recipient country, the order changes. Armenia was the chief recipient of FSU account allocations in FY2002, receiving \$26 per capita, followed by Georgia (\$16), Moldova (\$8), and the Kyrgyz Republic (\$7.50). Russia was eleventh, at roughly \$1 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. Roughly 78% 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 has grown in recent years – in FY2002, roughly 41% will go through other agencies.

FSU Account Country Allocations (in \$ millions)			
Country	FY02 (supps)*	FY03 (req)	FY04 (req)
Russia	159.1	148.0	73.0
Ukraine	154.9	155.0	94.0
Belarus	10.6	9.5	8.0
Moldova	35.9	32.5	23.0
Armenia	90.2	70.0	49.5
Azerbaijan	43.5	46.0	41.5
Georgia	89.8	87.0	75.0
Kazakhstan	45.8 (1.5)	43.0	32.0
Kyrgyzstan	35.5 (36.5)	36.0	40.0
Tajikistan	19.4 (37.0)	22.5	35.0
Turkmenistan	7.4 (4.0)	7.0	8.0
Uzbekistan	29.2 (89.0)	31.5	42.0
Regional	62.7 (6.0)	67.0	55.0
Total App.	784.0 (174.0)	755.0	576.0

* Amount in parentheses is sum of two FY2002 supplementals, not included in figure above.

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 intended to allow democracy and free market economy to flourish. By 1997, in the case of Russia and, to a lesser extent, in other countries, the Clinton 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 Bush Administration has indicated that the trend toward funding exchanges and grassroots activities will continue and possibly expand.

The FSU account funds programs in a wide variety of sectors, many of which overlap. **Private sector development programs**, representing the largest proportion of funds, have included efforts to assist the privatization of state-businesses and efforts to help draft new tax, securities, and commercial law. The on-going 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 (NGOs), 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.

In recent years, the FSU account has been drawn upon for **nonproliferation activities**, usually more closely associated with the Nunn-Lugar Cooperative Threat Reduction Program funded under the Department of Defense appropriations. 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. In FY2002, roughly 8% of the FSU account was used for these purposes. The FY2003 FSU account request

shifts many nonproliferation programs, including border security, to the NADR (nonproliferation, anti-terrorism, and demining) account of the foreign operations bill.

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

In 2003, Congress will continue its oversight of the ongoing assistance program for the FSU while determining the size and shape of the FY2004 program. The section below discusses the FY2003 appropriations process that serves as a backdrop for the debate on the FY2004 budget. The following section looks at Administration and congressional actions as they unfold in 2003. For a review of earlier actions, see CRS Report RL30148, *U.S. Assistance to the Former Soviet Union 1991-2001: A History of Administration and Congressional Action* (revised January 15, 2002).

Developments in 2002

Administration FY2003 Request. On February 4, 2002, the Bush Administration proposed its regular FY2003 budget, including \$755 million for the former Soviet Union account under the foreign operations appropriations. This is a decrease of \$29 million, or 4%, from the FY2002 appropriated level of \$784 million.

FSU Aid Debate in the Senate. On July 24, the Senate Appropriations Committee reported S. 2779 (S.Rept. 107-219), its version of the FY2003 Foreign Operations bill. It provided \$765 million for the FSU, \$19 million less than FY2002, but \$10 million above the Administration request.

The bill earmarked \$90 million for Armenia, recommended that \$87 million be used for Georgia, and allowed up to \$155 million for Ukraine. It also earmarked \$17.5 million for the Russian Far East, not less than \$30 million for nuclear reactor safety initiatives in Ukraine, and not less than \$3 million for coal mine safety programs in Ukraine.

S. 2779 continued some conditions on aid to Russia. It would withhold 60% of aid to the Government of Russia, with some exceptions, if it provides Iran with nuclear reactor and other technology or if it impedes access by international humanitarian NGOs to Chechnya. It continued exemptions to section 907 restrictions on aid to Azerbaijan, allowing democracy, nonproliferation, TDA, Foreign Commercial Service, OPIC, Export-Import Bank, and humanitarian assistance to the government of that country, and did not alter or terminate the waiver authority provided in the FY2002 bill.

The Senate Committee report on the bill contained additional language recommending support for various programs, including \$2 million for the Primary Health Care Initiative of the World Council of Hellenes, \$4 million for Russia orphanage programs, up to \$3 million for the Russian, Eurasian, and East European Research and Training Program, funding at the current level for the violence against women programs in Russia, and \$3 million for a small business development project in Georgia.

FSU Aid Debate in the House. On September 19, the House Appropriations Committee reported H.R. 5410 (H.Rept. 107-663), its version of the FY2003 Foreign

Operations bill. It provided \$755 million for the FSU, \$29 million less than the FY2002 level, but matching the President's request.

H.R. 5410 carried soft earmarks ("should"), providing \$82.5 million for Georgia and not less than \$83.4 million for Armenia. The bill recommended that not less than \$1.5 million be used for the health and other needs of victims of trafficking in persons and that at least \$60 million be used for child survival, basic education, health/family planning, and infectious diseases.

Like the Senate bill, H.R. 5410 continued some conditions on aid to Russia. It would withhold 60% of aid to the Government of Russia, with some exceptions, if it provided Iran with nuclear reactor and other technology or if it impeded access by international humanitarian NGOs to Chechnya. It would terminate all aid to the Government if it implemented laws discriminating against religious groups. It continued exemptions to section 907 restrictions on aid to Azerbaijan, allowing democracy, nonproliferation, TDA, Foreign Commercial Service, OPIC, Export-Import Bank, and humanitarian assistance to the government of that country, and did not alter or terminate the waiver authority provided in the FY2002 bill.

H.R. 5410 added a condition that would prohibit most funds for the Government of Ukraine unless the Secretary of State certifies that it has not facilitated or engaged in arms transfers to Iraq. It also required that the Secretary determine that the Government of Uzbekistan is making progress in meeting commitments under its March 12, 2002, framework agreement with the United States before funds may be made available to it. That agreement contains language supporting progress in democratization, among other issues.

In report language, the Committee noted its support for a variety of FSU aid programs. Among other things, it recommended provision of \$3 million for the Primary Health Care Initiative of the World Council of Hellenes, continued support for the Eurasian Medical Education program of the American College of Physicians, provision of \$164,000 in core funding to the Sister Cities International program, \$15 million for the U.S. Civilian Research and Development Foundation, not less than \$15 million for the Georgia Border Security and Law Enforcement Program, and \$4 million for the National Endowment for Democracy to assist NGOs.

Cooperative Threat Reduction and Nonproliferation Aid. The FY2003 Administration request for Department of Defense nonproliferation activities is \$428.3, of which \$416.7 million was for Cooperative Threat Reduction. The request for Department of Energy nonproliferation for the FSU was \$419.7 million. Related State Department programs under the NADR (not yet allocated by region) and FSU accounts were expected to equal roughly \$109 million. The Defense Appropriations bill, H.R. 5010, signed into law on October 23 as P.L. 107-248, provided \$416.7 million for CTR activities.

FY2002 Emergency Supplemental. On March 21, 2002, the President submitted a \$27 billion FY2002 emergency supplemental request which included \$155 million for six of the nations of the FSU – Georgia and the five "stans" of Central Asia, \$110 million of which is for the FSU account and the rest for foreign military financing. The funds were intended to help these nations fight terrorism and, in some cases, were rewards for cooperation in the war. A conference report on H.R. 4775, the FY2002 emergency

supplemental, was approved by House and Senate on July 23 and 24, respectively. It left unchanged the amounts requested for the region by the President. H.R. 4775 was signed into law as P.L. 107-206 on August 2. The President's subsequent decision not to spend some of the bill's funds did not appear to affect the former Soviet Union countries.

Russian Democracy Act. On October 23, 2002, the President signed the Russian Democracy Act of 2002 into law (P.L. 107-246/H.R. 2121). It reemphasizes U.S. support for democratic forces in Russia, and amends the FREEDOM Support Act to elaborate in greater detail the range of democratic and rule of law activities the U.S. should support there. It authorizes \$50 million for democracy and independent media programs in Russia, and another \$1.5 million for the Sakharov Archives and Human Rights Center at Brandeis University.

FY2003 Appropriations. In the absence of an enacted appropriations bill, foreign economic aid for the FSU is being provided under a continuing resolution, H.J.Res. 13 (P.L. 108-4, January 31, 2003).

On January 23, the Senate approved an amended version of H.J.Res. 2, the continuing appropriations resolution, making it an omnibus appropriations bill that includes foreign operations. It replicates most of the language in S. 779, the foreign operations bill approved by the Appropriations Committee on July 24, 2002. Like S. 779, it would provide \$765 million for the FSU account. However, a provision requiring across-the-board cuts, reportedly of 2.9%, would affect amounts ultimately provided to the account.

With regard to the FSU, the only significant difference between S. 779 and the proposed legislation is that language permitting "up to \$155 million" for Ukraine has been dropped. The change has been made in response to the reported covert transfer by Ukraine of the Kolchuga radar system to Iraq. Although the new language makes no recommendation, it does not forbid aid to Ukraine but leaves the amount to the discretion of the Administration.

Developments in 2003

Developments that have occurred in early 2003 with regard to formulation and passage of the FY2003 appropriations are discussed in the 2002 section above.

In January 2003, the Russian government announced its withdrawal from participation in the Peace Corps program. Since 1992, more than 700 volunteers had served in Russia. Recently, some Russian officials had suggested that volunteers were involved in intelligence gathering operations for the United States government, but, for many years, some officials had indicated their belief that the Peace Corps was for "developing countries" and not an appropriate form of assistance for the more "advanced" Russia. On January 14, President Bush made a national interest determination waiving restrictions in the FREEDOM Support Act and the Cooperative Threat Reduction Act of 1993, thereby allowing \$450 million in CTR assistance to be released. The restrictions prohibited aid if Russia was not found to be in compliance with existing arms control agreements.

Administration FY2004 Request. On February 3, 2003, the President submitted his FY2004 budget request, including \$576 million for the FSU account, a cut of roughly 25% from anticipated FY2003 levels. Proposed FSU account allocations for Russia and

Ukraine would be cut substantially from probable FY2003 allocations, by as much as 51% and 39% respectively. According to the Administration, part of the decrease is compensated by a shift in funding of all educational exchanges from the FSU account to the State Department budget. Although \$100 million of exchange programs previously funded by the FSU and SEED accounts is included in the FY2004 State Department budget, in FY2002, roughly \$110 million was transferred to State under the FSU account alone (another \$10 million in SEED funds) and more was provided by State's own budget. It is not clear whether FY2004 State exchange spending will actually match previous years, as implied in congressional presentation documents.

The sharp decline in funding for Russia and Ukraine is also partly explained by an Administration decision to put both on a track to "graduation" from the aid program. In the view of some Administration officials, both countries' progress in economic growth and policy reform has diminished the need for U.S. assistance. Many observers outside the U.S. government are likely to dispute this assertion.

Issues for Congress in 2003

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 Clinton Administration's failure to make a case for higher levels of funding. In 1997, the Clinton Administration attempted to reinvigorate the program and its funding with its Partnership for Freedom initiative, resulting in a 23% increase in funding in FY1998 and a further 10% increase in FY1999. From its FY1999 level of \$847 million, however, support gradually declined to the FY2002 level of \$784 million. The Administration requested \$755 million for FY2003, the Senate Committee version of the foreign aid bill, S. 2779, provides \$765 million, and the House Committee bill, H.R. 5410, matched the President's request. The FY2004 request is \$576 million, a decrease of 25% from anticipated FY2003 levels. The decrease might be closer to 10% if the full amount normally provided for exchanges is appropriated under the Department of State budget.

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, their differentiated development, and roles in the war on terrorism, 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 15% of FY1997 funds and represents 20% of FY2002 allocations. The Administration request for FY2004 is \$73 million, 13% of the total FSU account. The long-term funding decrease, especially for democracy and economic reform activities, 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 historic 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 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 argued the importance to U.S. foreign policy and defense interests of a democratic and free market Russia. They contended that it was 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 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.

Several developments in the U.S.-Russia relationship might affect amounts and type of aid provided. While legislative conditions on aid suggest continued congressional concerns regarding Russian behavior, strong movement to adopt economic reforms long-stalled during the Yeltsin era, Russian cooperation and support for the U.S. war on terrorism, and the October 17, 2001 decision to withdraw from the intelligence listening post at Lourdes, Cuba, would be arguments favoring an improved aid relationship. On the other hand, the January 2003 announcement by Russia of its intention to terminate the Peace Corps program and closure of the OSCE mission in Chechnya may affect aid negatively. New demands for assistance in the region, especially in Central Asia, and continuing hard and soft earmarks for Armenia and Georgia, have continued to limit amounts available for Russia programs. For FY2003, the Administration proposed a \$148 million allocation for Russia, a 6% cut from the estimated FY2002 level. For FY2004, it has proposed \$73 million, a 51% cut.

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. Although a variety of conditions have been proposed and some adopted by one body of Congress or the other, three conditions in particular have become a regular focus of debate in the annual foreign

operations legislation since 1995. These concern the sale of nuclear reactors to Iran, Russian behavior in Chechnya, and implementation of a law regulating religious minorities.

In both the FY1996 and FY1997 appropriations, Congress prohibited aid unless the President assured it that Moscow had terminated its plans for the sale of a nuclear power plant to Iran. 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, President Clinton 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 U.S. assistance have been targeted in recent years on the local level and on 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, prohibited half of aid, specifically to the **central** government of Russia alone if the Iran transfers continued. The FY2001 appropriation continued that restriction, but raised the withholding level to 60%. The FY2002 act maintained this condition and it appears in both Senate and House FY2003 committee bills.

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

Early in 1995, 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. 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. Although the Clinton Administration consistently argued against imposition of conditions on the aid program, the second Chechnya war also caused it 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 was 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. The FY2001 foreign aid bill prohibited 60% of aid to the central government of Russia if it was not cooperating with international investigations of war crime allegations in Chechnya or providing access to NGOs doing humanitarian work in Chechnya. The FY2002 bill withholds 60% of aid to the central government only if it does not provide access to NGOs.

Possibly as a result of Russian cooperation with the United States in its war on terrorism, the war crime provision has been dropped. House and Senate FY2003 bills continue this practice.

Another major restriction on aid to Russia has been approved each year since FY1998. This prohibits any aid to the government of the Russian Federation (i.e. central government; it does not affect local and regional governments) if it has implemented a law discriminating against religious minorities. Each year, the President has determined that Russia has not implemented the law, most recently on May 4, 2001. The FY2002 appropriations bill continues this restriction. H.R. 5410, the House Committee FY2003 bill continues this provision, while S. 2779, the Senate Committee bill, drops it.

In response to congressional efforts to impose conditions on Russian aid, the Clinton Administration repeatedly argued that it was inappropriate to condition aid to Russia on a particular desired behavior such as regarding Iran or Chechnya inasmuch as the program was 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 Clinton 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 diminished significantly since then.

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 was earmarked for Ukraine each year from FY1996 to FY1998, 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 recommended, but did not require, that \$180 million be provided to Ukraine. For FY2001, Congress recommended not less than \$170 million, and for FY2002 it recommended at least \$154 million for Ukraine – levels allocated to it in both years. The Administration requested \$155 million for FY2003. Although S. 2779, the Senate Committee FY2003 bill, would allow up to \$155 million for Ukraine, H.R. 5410, the House Committee FY2003 bill, contains no recommended amount for Ukraine. The Administration has requested \$94 million for FY2004.

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 determinations were eventually made. Succeeding appropriation bills dropped such conditions. Ukraine's progress in economic reform efforts has improved, but reports of corruption and the implication of President Kuchma in the murder of a journalist suggest that democratic reform is not assured.

Reports of the possible sale of an early warning radar system to Iraq, in violation of U.N. sanctions, has now emerged as a significant factor in U.S. aid to Ukraine. In mid-September, the Administration “initiated a temporary pause” in new FREEDOM Support Act aid to the central government of Ukraine. Roughly a third of U.S. aid – that part which directly assists the central government, about \$54 million – was put on hold. Previously, the Senate Committee report on S. 2779 had recommended that severe restrictions be put on Ukraine aid if reports of the sale of weapons technology to Iraq prove credible. H.R. 5410, the House FY2003 bill, adds a condition that would prohibit most funds for the Government of Ukraine unless the Secretary of State certifies that it has not facilitated or engaged in arms transfers to Iraq. H.J.Res. 2, as approved by the Senate, provides no recommended or earmarked amount of aid, in response to these concerns. However, it imposes no legislative conditions on Ukraine relating to this issue.

Central Asia. Until the launching of the U.S. war on terrorism, Central Asia was the neglected child of the U.S. assistance program in the former Soviet Union. One rationale presented by the Clinton 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 were of increasing interest to the United States for their oil production and strategic location. While Congress did increase overall aid levels to the FSU in FY1998, 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 FY2002, the five Central Asian states are expected to receive \$143 million in regular FREEDOM Support Act funds. This does not count an additional \$46.5 million provided out of the Emergency Response Fund as a direct result of the war on terrorism, most of which is for economic and law enforcement aid in Uzbekistan and some for border security for the region. Nor does it count the \$110 million in aid to all the Central Asian countries requested by the Administration and contained in the FY2002 supplemental (H.R. 4775/P.L. 107-206) that was signed into law on August 2, 2002. Given the importance of the region to the U.S. war effort, some observers had been surprised at the modest size of the Administration’s FY2003 request at \$149 million. However, the presumption that Central Asia, all the countries of which are likely considered “front-line states” by the Administration, would be included in any supplemental that addresses the war on terrorism has proven correct.

Prior to September 2001, public discussion regarding Central Asia highlighted two issues in which aid plays a role in furthering U.S. interests in the region. In congressional hearings, officials argued that increased assistance would help to build goodwill and cement a U.S. role in exploiting energy reserves in the region and that aid could be used to facilitate a positive business environment for U.S. investors, including assistance to help reform of the energy sector. Some, however, 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 Clinton Administration argued that the aid program sought to “leverage as much democratic reform as possible” in these countries.

The post-September 11, 2001 view of Central Asia may be much different. As the United States confronted the Taliban in Afghanistan and continues to deal with regional terrorist threats, it requires the cooperation of countries in the region for military bases and supply centers. Concerns regarding their human rights records are likely to be given low priority in these circumstances. A Senate amendment (Wellstone) to H.R. 2506 reflected this situation by requiring a report every six months on defense assistance provided to Uzbekistan and the extent of any human rights violations. Although the language was omitted from the conference report, the statement of conferees directed the Secretary of State to report on defense assistance and its use by Uzbekistan. No special report was required on human rights violations. However, H.R. 5410, the House Committee FY2003 appropriations bill, requires that the Secretary of State determine that the Government of Uzbekistan is making progress in meeting commitments under its March 12, 2002 framework agreement with the United States before funds may be made available to it. That agreement contains language supporting progress in democratization, among other issues.

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, many types of assistance, until recently, being prohibited under Section 907 of the FREEDOM Support Act. In FY2002, the region was expected to receive \$224 million in regular FSU appropriations, representing 29% of the FSU account. This figure includes a congressional earmark of \$90 million for Armenia and a recommendation of \$90 million for Georgia. For FY2003, the Bush Administration requested \$205 million for the region, 27% of the total FSU request. The Senate Committee version of the FY2003 foreign operations bill, S. 2779, earmarks \$90 million for Armenia and recommends \$87 million for Georgia. The House bill, H.R. 5410, recommends \$83.4 million and \$82.5 million for Armenia and Georgia, respectively.

Possible infiltration of Georgia's Pankisi Gorge by members of Al Qaeda have brought Georgia into the American war on terrorism. The Administration's FY2002 emergency supplemental request, approved by Congress as H.R. 4775, includes \$20 million in additional military financing assistance for Georgia.

The war on terrorism appears to have provoked a significant change in U.S. policy toward Azerbaijan – allowing the President to waive Section 907. Section 907 of the FREEDOM Support Act 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 opposed Section 907 and asked Congress to repeal it. In the past, some Members of Congress suggested that the Clinton Administration waive the provision, using its broad authority under the Foreign Assistance Act, if it did not approve of it. However, domestic political considerations appeared to have discouraged such a move.

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 and FY2001 appropriation bills contained the same exclusions as in FY1999.

While maintaining this language, the FY2002 appropriations bill allows the President to waive the section 907 provision as it affects all aid to Azerbaijan if he determines that to do so would support the U.S. war on terrorism and other factors. The provision is renewable annually. This step was taken to permit the possibility of greater military cooperation between the United States and Azerbaijan in view of the war on terrorism. On January 25, 2002, the President exercised his waiver authority. Although the Senate and House Committee versions of the FY2003 foreign operations bill contain the usual exclusions to Section 907, they do not mention the waiver which is, unless specifically amended, permanent law.

LEGISLATION

H.J.Res. 2 (Young)

Making further continuing appropriations for the fiscal year 2003. Approved in House by voice vote as continuing resolution. Amended in Senate with text of Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 2003. Approved by Senate on January 23.