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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), 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 June 22, the Senate approved S. 2522, the FY2001 Foreign Operations Appropriations, providing $775 million for the FSU. On July 13, the House approved a companion bill, H.R. 4811, providing $740 million. On October 25, Congress approved the conference report on H.R. 4811, providing $810 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 October 25, the 106th Congress approved the conference report on H.R. 4811, the FY2001 Foreign Operations Appropriations. It provides $810 million for the former Soviet Union, only 3% less than the FY2000 level and 2% less than the Clinton Administration request. H.R. 4811 was signed into law as P.L. 106-429 on November 6.*

*On September 22, the 106th Congress sent the Security Assistance Act of 2000 (H.R. 4919) to the White House for signature (P.L. 106-280). Among other things, the legislation authorizes nonproliferation activities, including science and technology centers and border control assistance provided to the former Soviet Union.*

## 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 $8.2 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 FY2001 FSU account appropriation of $810 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 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 230[a] | 417 | 2,158[b] | 818[c] | 641 | 625 | 770 | 847 | 836[d] | 810 | 8,152 |

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 — totaling $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 totaling $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).

**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.

**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** |

**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, the 106th Congress continued its oversight of the ongoing assistance program for the FSU while determining the size and shape of the FY2001 program. The section below looks at Clinton Administration and congressional actions as they unfolded in 2000. Discussion of 2001 activities will be added as the Bush Administration and 107th Congress take action. 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 2000

**Clinton Administration FY2001 Request.** On February 7, 2000, the Clinton 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 was expected to go for Expanded Threat Reduction activities. An additional $45 million in ETR-related science center funding, previously provided in the FSU account, was 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 (S.Rept. 106-291). On June 22, the full Senate approved the measure by a vote of 95-4, and set it aside, pending completion of the House companion bill. On July 18, the Senate substituted the text of S. 2522 into H.R. 4811 and passed H.R. 4811. The Senate bill would have provided $775 million for the FSU, $55 million (7%) less than the Administration request.

As has been the case for many years, the Senate bill contained numerous country and project earmarks. It would have provided 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 provided $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 have provided $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 totaled $364 million, 47% of the account, leaving little more than half for Russia and eight other FSU countries.

The bill did not earmark a total for Russia, but it did 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 placed several conditions on aid to Russia. As in the FY2000 bill, it withheld half of funds planned for programs assisting the central government of Russia until the President determined that the transfer to Iran of nuclear reactor or ballistic missile expertise and equipment has been terminated. Nonproliferation and infectious disease aid were exempted from this restriction. The bill also repeated language that prohibited aid to the central government of Russia if it implemented a law discriminating against religious minorities. S. 2522 contained a few new conditions. One prohibited aid to the central government of Russia until the Secretary of State determined that Russia was cooperating with international investigations of war crime allegations in Chechnya and that Russia was providing full access to NGOs providing humanitarian aid to refugees in Chechnya. Another (Helms), added during floor debate, would reduce assistance to Russia by the amount of assistance it provided to Serbia, require that the United States oppose any loans from the international financial institutions, and suspend Export-Import and OPIC loans or guarantees. The President could waive this condition on national interest grounds. An amendment by Smith (NH) expressed the sense of the Senate that the United States should oppose international financial institution loans to Russia if it delivered additional SS-N-22 missiles to China.

S. 2522 repeated 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.

**FSU Aid Debate in the House.** H.R. 4811, the FY2001 Foreign Operations Appropriations bill, was marked up by the House Foreign Operations subcommittee on June 20 and ordered reported by the full Appropriations Committee on June 27 (H.Rept. 106-720). The House approved H.R. 4811 on July 13 (239-185). It provided $740 million for the FSU, $90 million (11%) less than the Clinton Administration request.

Armenia and Georgia each received an earmark of 12.5% of the total account – $92.5 million each – and no more than 25% of the account ($185 million) could go to any one country. Of total funds allocated for the southern Caucasus, 15% had to be used for efforts to further the peaceful resolution of regional conflicts. Of the total FSU account, $45 million had to be used for child survival, environmental health, and infectious disease programs.

Conditions on aid to Russia included the withholding of half of funds allocated for the central government of Russia pending certification of the termination of the sale of nuclear reactor-related technology to Iran (infectious disease, child survival, and nonproliferation assistance are exempted). No funds could go to the central government of Russia until it was certified that Russia was in compliance in the Chechnya region with article V of the Treaty on Conventional Armed Forces in Europe which mandates a specific ceiling on certain forces.

H.R. 4811 continued the waiver of the section 907 restriction on aid to Azerbaijan for humanitarian, democracy, TDA, Eximbank, OPIC, and U.S. foreign commercial service activities.

Committee report language supported provision of $1 million to the Birth Defects Monitoring Program in Ukraine, recommended $3 million for the Primary Health Care Initiative of the World Council of Hellenes, recommended $500,000 for the Volgograd State Medical Academy and University of Arkansas for Medical Sciences partnership, supported the use of $78 million for the Expanded Threat Reduction Initiative, and encouraged provision of not less than $50 million in FY2001 and FY2002 for the U.S. Russia Investment Fund.

**Conference Report on FY2001 Foreign Operations Appropriations.** On October 24, House and Senate conferees submitted the conference report on H.R. 4811 (H.Rept. 106-997). On October 25, the House approved the report by a vote of 307-101and the Senate by a vote of 65-27. It was signed into law on November 6 (P.L. 106-429). The conference report provides $810 million for the FSU, only 3% less than the FY2000 level and 2% less than the Administration request.

The bill earmarks $170 million for Ukraine, of which $25 million is for nuclear safety initiatives, and $5 million for the Ukrainian Land and Resources Management Center. Georgia receives $92 million under the legislation, including $25 million designated for border guard security and other export control initiatives. Another $90 million is earmarked for Armenia. In their explanatory report, the conferees directed that $5 million of Georgian funds be used for training of water, transportation, and other sector management at the municipal and regional level. They also directed that $15 million of Armenia's funds be used for the Particle Accelerator project should it be selected as the host site. Conferees expected $1 million to be used to increase the analytical capacity of Ukraine in health areas, and that $3.3 million be used for industrial sector study tours and community telecommunications activities.

There is no country earmark for Russia, but aid to the Russian Far East is earmarked at $20 million. At least $10 million must be drawn from the FSU and refugee assistance accounts together for NGO humanitarian relief in Chechnya. Conditionality for Russia aid has changed slightly from the previous year. Major conditions are the requirement of presidential certification that Russia has terminated sales of nuclear reactor and other nuclear-related or missile technology to Iran, that it is cooperating with international efforts to investigate war crimes in Chechnya, that it is providing access by NGOs providing humanitarian relief to refugees in Chechnya, and that it is in compliance with article V of the Treaty on Conventional Armed Forces in Europe regarding its forces in the Chechnya region. In H.R. 4811, 60% of the funds allocated for the central government of Russia would be withheld if these certifications cannot be made – in previous years half was withheld. Also, unlike recent years, this penalty is applied to all the conditions listed here, whereas in the past it applied only to the Iran language. In addition, the legislation prohibits all funding to the government of Russia after 6 months if it is found to have discriminated against minority religious faiths. The conferees on H.R. 4811 noted in their report language that the restrictions on aid to the government of Russia do not include infectious disease activities, and partnerships with U.S. hospitals, universities, judicial training institutions, and environmental organizations. The conferees also directed that $3 million be used for University of Alaska activities in Chukotka.

The conferees also praised three Russia programs. They recommended that funding be increased for the Replication of Lessons Learned program, which helps indigenous volunteer organizations improve their management capacity. Conferees directed that $250,000 be provided to the Moscow School of Political Studies, which teaches democracy and free market economy, and $400,000 to the Cochran Fellowship program, which brings farmers to the United States.

H.R. 4811 contains the exemptions to section 907 restrictions on aid to the government of Azerbaijan that were included in the FY2000 appropriations – democracy, humanitarian, TDA, foreign commercial service, OPIC, and the Export-Import Bank. The bill permits 15% of the funds allocated to the Caucasus region to be used for confidence building measures to resolve regional conflicts such as the one in Nagorno-Karabagh. Added to the latter language in the 2001 bill is the phrase "notwithstanding any other provision of law" – probably referring to section 907. In their explanatory report, the conferees direct that $900,000 be made available for confidence-building measures such as the International Peace Forum to be held in spring, 2001.

H.R. 4811 also earmarks $1.5 million for health and other needs of victims of trafficking in persons, and $45 million for child survival, environmental health, infectious diseases and related activities. In their explanatory report, the conferees directed that equal amounts for these health-related purposes should come from the Child Survival Fund.

**Security Assistance Act of 2000.** On September 22, the 106th Congress sent the Security Assistance Act of 2000 (H.R. 4919) to the White House for signature. Among other things, the legislation authorizes nonproliferation activities, including science and technology centers and border control assistance provided to the former Soviet Union. While these were authorized originally under the FREEDOM Support Act, the authority was never integrated into the Foreign Assistance Act of 1961, the broad legislation that governs most foreign assistance. The legislation also provides the basis for separately funding nonproliferation activities managed by the State Department (as opposed to cooperative threat reduction managed by the Department of Defense) rather than under the Independent States of the Former Soviet Union account in the annual appropriations bill.

**Cooperative Threat Reduction (CTR).** For FY2001 CTR programs, the Clinton Administration requested $458.4 million. On July 27, the House and Senate approved the conference report on H.R. 4576, the Department of Defense appropriations for FY2001, providing $443.4 million.

## Issues for Congress in 2001

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. 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 – between $810 million and $847 million – in the three years since.

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 Clinton Administration allocated $179 million to Russia from FY2000 appropriations, $61 million of which for the non-traditional ETR program, and it 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 argue 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 Clinton 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, 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 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, prohibits half of aid, specifically to the **central** government of Russia alone if the Iran transfers continue. The FY2001 appropriation continues that restriction, but raises the withholding level to 60%.

The Clinton Administration and others stated 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 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 the President does not certify that Russia has not implemented a law discriminating against religious minorities. President Clinton has made such a determination each year, most recently on May 26, 2000. The FY2001 appropriations bill continues 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. The FY2001 Act prohibits 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 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 likely diminished since then.

However, the second Chechnya war caused the Clinton 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 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. 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 proposed a number of other conditions. 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, require U.S. opposition to international financial institution loans, and suspend Export-Import and OPIC loans or guarantees. Authored by Senator Helms in response to Russia's hosting of the Yugoslav Defense Minister, an indicted war criminal, and its provision of a loan to Serbia, it was adopted as an amendment to S. 2522 (section 599D), after being modified with a presidential waiver authority. The provision was not included in the conference report agreement on H.R. 4811.

- expresses the sense of the Senate that the United States should oppose international financial institution loans to Russia if it delivers additional SS-N-22 Moskit anti-ship missiles to China. This amendment by Smith (NH) was added to S. 2522 during floor debate. It was not included in the conference report agreement on H.R. 4811, but, in their statement, the conferees expected the Secretary of the Treasury to urge U.S. executive directors to oppose loans if the sale continues. H.R. 4022 (Rohrabacher), prohibiting rescheduling or forgiveness of bilateral debt until Russia has terminated sales of the missiles was approved by the House International Relations Committee on April 13 with a presidential waiver authority provision.

- 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 (275-146) on July 19. The International Relations Committee added presidential waiver authority that would permit the rescheduling of debt, but the bill does not provide a waiver for debt forgiveness. Further, the bill still would require U.S. opposition to rescheduling and forgiveness at the Paris Club, possibly making the rescheduling waiver meaningless. In the Senate, a similar piece of legislation was introduced (S. 2748, Mack) on June 16. See CRS Issue Brief IB94005, *Cuba: Issues for Congress* for further discussion.

In addition to the above, the chairmen of the two congressional foreign policy committees sought to thwart rescheduling of Russian debt. On May 26, 2000, 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. However, Chairmen Helms and Gilman in mid-June announced they would put the agreement on "hold" due to Russian actions in Chechnya and support for Serbia. What made this move particularly significant is that, of the roughly $485 million of U.S. debt that would be rescheduled, $155 million was 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 could not 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.

On June 30, the Clinton Administration announced that it would proceed with the rescheduling, regardless of the congressional leaders' views. The Administration argued that a refusal to reschedule would have no affect on Russian policy, would make it more difficult for Russia to repay its debts, and would create problems with the Paris Club donors. In response, a Gilman spokesman suggested that a "legislative remedy" would be sought.

Although Senator Helms threatened to put all ambassadorial nominations on hold, in late July, he reportedly lifted holds on 13 ambassadorial nominees.

**Critiques of the Aid Program.** 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 Clinton Administration's foreign policy toward Russia and especially the role of Vice President Gore who was 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 was not likely to include U.S. bilateral economic assistance. The U.S. aid program was not delivered in the form of a large monetary grant. Most aid was 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 insisted that its current aid program was 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 that any IMF funds were among those involved in the Bank of New York investigation.

The Bank of New York issue was used by some political commentators to suggest that the Clinton 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. A year later, in September 2000, these and other charges resurfaced in "Russia's Road to Corruption," a report issued by the congressional Republican Speaker's Advisory Group on Russia. Although focusing more broadly on the range of U.S.-Russia relations during the Clinton Administration, the report suggested that the aid program, especially aid from the IMF, abetted the failure of Russian reform.

When the charges first appeared in 1999, commentators variously pointed 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 and central government policy reform, U.S. assistance, they noted, had 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 believed that critics of U.S. policy overestimated the power of U.S. assistance to meet U.S. foreign policy objectives. While it was argued that both the previous 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 argued the bilateral aid program, often due to congressional constraints, had been too small to have a decisive influence over events in Russia. In any event, some note, not only was 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 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. The Clinton Administration had allocated $160 million. For FY2001, the Administration requested $171 million for Ukraine, and the FY2001 appropriations earmarked $170 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, and the FY2001 bill and report language make no mention of such concerns. Recent reports suggest that Ukraine is beginning to make progress in economic reform efforts.

**Central Asia.** 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 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 Clinton Administration 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 Clinton 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, many types of assistance, until recently, being prohibited under Section 907 of the FREEDOM Support Act. In FY2000, the region was expected to receive $242 million, representing 29% of the FSU account. For FY2001, the Clinton Administration requested $215 million for the region, including a sharp increase for Azerbaijan to $54.6 million, up from $31 million in FY2000. The FY2001 appropriations earmarked $92 million for Georgia and $90 million for Armenia.

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 opposed Section 907 and asked Congress to repeal it. In the past, some Members of Congress suggested that the Clinton Administration waive the provision 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 appropriation bill contains the same exclusions as in FY1999, as does the FY2001 bill.

## LEGISLATION

**P.L. 106-429 (H.R. 4811)**

Foreign Operations, Export Financing, and Related Programs Appropriations, FY2001. Marked up by the Foreign Operations subcommittee on June 20. Reported by the full Appropriations Committee on June 27 (H.Rept. 106-720). Approved by the House on July

13 (239-185). S. 2522 (McConnell) reported by the Senate Committee on Appropriations, May 9, 2000 (S.Rept. 106-291). Approved by the Senate on June 22 (95-4). On July 18, Senate substituted text of S. 2522 into H.R. 4811 and passed H.R. 4811. Conferees reported H.R. 4811 on October 24 (H.Rept. 106-997). On October 25, House (307-101) and Senate (65-27) approved the conference report. Signed by the President on November 6.