

# Issue Brief for Congress

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## **The Former Soviet Union and U.S. Foreign Assistance**

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### 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 \$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 version of the FY2003 Foreign Operations bill, that provides \$765 million 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.

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

*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 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 <sup>a</sup>	417	2,158 <sup>b</sup>	818 <sup>c</sup>	641	625	770	847	836 <sup>d</sup>	808 <sup>e</sup>	784 <sup>f</sup>

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% across-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 (PL107-38).

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, including the State Department and the Peace Corps, 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.

FSU Account Country Allocations (in \$ millions)			
Country	FY01	FY02 (est)	FY03 (req)
Russia	159.9	157.7	148.0
Ukraine	171.6	154.2	155.0
Belarus	11.4	10.1	9.5
Moldova	44.8	35.4	32.5
Armenia	89.8	90.0	70.0
Azerbaijan	36.0	43.3	46.0
Georgia	92.8	89.0	87.0
Kazakhstan	45.7	45.0	43.0
Kyrgyzstan	33.0	35.0	36.0
Tajikistan	16.7	19.2	22.5
Turkmenistan	6.3	7.1	7.0
Uzbekistan	24.8	28.9	31.5
Regional	75.5	69.1	67.0
<b>Total App.</b>	<b>808.2</b>	<b>784.0</b>	<b>755.0</b>

**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.

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 2002, Congress continues its oversight of the ongoing assistance program for the FSU while determining the size and shape of the FY2003 program. The section below discusses the FY2002 appropriations act that serves as a backdrop for the debate on the budget for FY2003. The section that follows looks at Administration and congressional actions as they unfold in 2002. For a review of earlier legislative and executive activities, 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 2001

**Bush Administration FY2002 Request.** For FY2002, the Administration requested \$808 million for the former Soviet Union account, nearly the same as was appropriated in FY2001 (\$810 million appropriated; \$808.2 million after rescission).

With two exceptions, the Administration's FY2002 individual country allocation requests were also nearly the same as allocated in FY2001. Although the requests for Armenia – a nearly \$20 million decrease to \$70 million – and Azerbaijan – a roughly \$16 million increase to \$50 million – might have attracted some attention in Congress, additional amounts for reconstruction in both countries were set aside from the regional pool of funds to be provided as part of an international donor effort once a settlement was reached in the Nagorno-Karabakh conflict.

In its congressional presentation documents, the new Administration promised to increase amounts allocated for grassroots level activities, such as exchanges, NGOs, and pro-reform and local governments.

Amid rumours of substantial cuts in funding, the Bush Administration launched a full-scale review of cooperative threat reduction and related nonproliferation programs in Russia. Although it had used the figure of \$451 million as a placeholder in the budget request, in the end it requested \$403 million. The chief cut was in funding for a plutonium storage facility (a \$57 million decrease), and the chief increase was for chemical weapons destruction (an increase of \$50 million).

**FY2002 Appropriations.** On June 27, the Foreign Operations subcommittee of the Appropriations Committee approved its version of the FY2002 Foreign Operations appropriations. It was reported by the full committee as H.R. 2506 on July 17 (H.Rept. 107-142), and approved by the House on July 24 by a vote of 381 to 46. No amendments were added on the floor that affected aid to the former Soviet Union. H.R. 2506 provided \$768 million, \$40 million less than the Administration request and 5% less than the FY2001 post-rescission appropriation figure of \$808.2 million.

On July 26, the Senate Appropriations Committee approved its version of H.R. 2506, the FY2002 Foreign Operations appropriations, including the provision of \$800 million for the former Soviet Union (S.Rept. 107-58). On October 24, the Senate approved H.R. 2506 by a vote of 96 to 2. On the floor, there were several key changes made to parts of the bill affecting the former Soviet Union. First, the bill was amended reducing the appropriation for the former Soviet Union to \$795.5 million, a reduction of \$4.5 million from the Committee bill meant to offset increases in other accounts, especially global health. Second, language was added (Brownback) allowing the President to waive section 907 of the FREEDOM Support Act prohibiting aid to Azerbaijan if he determined it was in the national interest to do so. This action was taken in part to allow unhampered U.S.-Azerbaijani military cooperation in the war on terrorism. A third amendment to H.R. 2506 earmarked for the first time specific military aid funds for a former Soviet Union country. Armenia was to receive at least \$600,000 in International Military Education and Training Program funds and \$4 million in military financing. Concerns regarding possible increased U.S. military aid and cooperation with Uzbekistan led to the adoption of an amendment (Wellstone) that would require a report every six months from the Administration on defense articles and



services provided to that country, their use, and the extent of any human rights violations by the Uzbek government during that period. Finally, the Senate restored a provision that had appeared in legislation in recent years but was not included in the FY2002 Committee bill prohibiting aid to the government of Russia if it implemented a law restricting religious minorities.

On December 19, 2001, House and Senate conferees submitted the conference report on H.R. 2506 (H.Rept. 107-345), and the House approved the report by a vote of 357-66. On December 20, the Senate approved the report by voice vote. The conference report provides \$784 million for the former Soviet Union account, 3% less than the FY2001 and Administration FY2002 request levels.

As has been the case in previous years, the final bill contains hard and soft earmarks for several countries. It recommends that Ukraine be provided not less than \$154 million, a \$16 million decrease from FY2001. Of Ukraine's total, at least \$30 million is recommended for use for nuclear reactor safety. The State Department is required to report on progress made by the Government of Ukraine in investigating and prosecuting the murders of Ukrainian journalists. H.R. 2506 also provides at least \$90 million for Armenia, but only recommends that \$90 million be made available for Georgia. The bill requires that at least \$17.5 million be used for the Russian Far East.

The conference report further recommends that \$1.5 million be used for health and other needs of victims of trafficking in persons, and recommends that \$49 million be used for child survival, environmental and reproductive health and family planning, and for combatting HIV/AIDS, tuberculosis, and other infectious diseases.

The conference report maintains language cutting 60% of funds allocated for the central government of Russia (excepting nonproliferation, disease, and child programs) if it continues to implement its sale of nuclear reactor technology to Iran and if it does not provide access for humanitarian relief NGOs to Chechnya. It maintains language prohibiting aid to the central government of Russia if it implements a law discriminating against religious minorities.

H.R. 2506 also continues to exclude nonproliferation, TDA, foreign commercial service, OPIC, Export-Import Bank, and humanitarian programs from the FREEDOM Support Act section 907 prohibition on aid to Azerbaijan. However, in a departure from previous years and a response to the war on terrorism, the bill provides specific waiver authority to the President for this provision running through end of 2002. In what might be seen as an effort to compensate Armenia for this leniency toward Azerbaijan, the bill provides Armenia with no less than \$4 million under the Foreign Military Financing account, and the conference managers direct that not less than \$300,000 be provided Armenia under the International Military Education and Training (IMET) program.

In the statement of managers, conferees further recommended that, of the \$49 million suggested for child survival, etc., \$15 million be used for reproductive health/family planning. They also endorsed the use of \$5 million for education assistance in Armenia and \$3 million for small business start-up assistance in Georgia, recommended \$2 million for the Primary Health Care initiative, and urged that the U.S.-Russia Investment Fund receive \$50 million in FY2002.

**Cooperative Threat Reduction (CTR).** For FY2002 CTR programs, the Bush Administration requested \$403 million. On December 20, the House and Senate approved the conference report on H.R. 3338, the Department of Defense appropriations for FY2002, providing \$403 million.

## Developments in 2002

**Bush 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 provides \$765 million for the FSU, \$19 million less than FY2002, but \$10 million above the Administration request.

The bill earmarks \$90 million for Armenia, recommends that \$87 million be used for Georgia, and allows up to \$155 million for Ukraine. It also earmarks \$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 continues 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 continues 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.

The Senate Committee report on the bill contains 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 provides \$755 million for the FSU, \$29 million less than the FY2002 level, but matching the President's request.

H.R. 5410 carries soft earmarks ("should"), providing \$82.5 million for Georgia and not less than \$83.4 million for Armenia. The bill recommends 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 continues 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 would terminate all aid to the Government if it implements laws discriminating against religious groups. It continues 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.

H.R. 5410 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. It also requires 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 recommends 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 is for Cooperative Threat Reduction. The request for Department of Energy nonproliferation for the FSU is \$419.7 million. Related State Department programs under the NADR (not yet allocated by region) and FSU accounts are expected to equal roughly \$109 million.

**FY2002 Emergency Supplemental.** On March 21, the President submitted a \$27 billion FY2002 emergency supplemental request which includes \$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 are intended to help these nations fight terrorism and, in some cases, are 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 leaves 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 does not appear to affect the former Soviet Union countries

## Issues for Congress in 2002

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 has 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.

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 40% of FY1995 funds, 21% of FY1996 funds, and 15% of FY1997 funds. It rose to 22% of the total account in FY2000 and represents 20% of FY2002 allocations. Roughly \$158 million has been allocated to Russia from FY2002 appropriations. 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 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 recent 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. New demands for assistance in the region, especially in Central Asia, and continuing hard and soft earmarks for Ukraine, Armenia, and Georgia, however, continue to limit amounts available for Russia programs. For FY2003, the Administration proposes a \$148 million allocation for Russia, a 6% cut from the estimated FY2002 level.

**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 is 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 recommends at least \$154 million for Ukraine – levels allocated to it in both years. The Administration has requested \$155 million for FY2003. S. 2779, the Senate Committee FY2003 bill, allows up to \$155 million for Ukraine. H.R. 5410, the House Committee FY2003 bill, however, contains no recommended amount for Ukraine.

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 remains questionable, and reports of corruption and the implication of President Kuchma in the murder of a journalist suggest that democratic reform is not assured as well.

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.

**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. 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 entirely if he determines it is in the national interest. The provision would be effective until the end of 2002. 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. The Senate and House Committee versions of the FY2003 foreign operations bill contain the usual exclusions, with no mention of a waiver.

## LEGISLATION

**S. 2779 (Leahy)**

Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 2003.  
Reported by Senate Appropriations Committee July 24 (S.Rept. 107-219).

**H.R. 5410 (Kolbe)**

Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 2003.  
Reported by House Appropriations Committee September 19 (H.Rept. 107-663).