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The Former Soviet Union and U.S. Foreign Assistance

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The Former Soviet Union and U.S. Foreign Assistance

SUMMARY

Seeking to encourage a transition to democracy and free market economics in the states of the former Soviet Union (FSU) — Russia, Ukraine, Moldova, Belarus, Georgia, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan, and Tajikistan — the United States, since December 1991, has offered roughly \$8.2 billion in grants for economic and technical assistance to the region. Most of the grant assistance has been provided through the Agency for International Development (USAID).

In addition, \$4.8 billion has been provided in food aid through the Department of Agriculture, and \$2.9 billion by the Department of Defense for nonproliferation purposes. The United States has also subsidized guarantees for more than \$12 billion in credits from the Export-Import Bank, Overseas Private Investment Corporation, and the Depart-

ment of Agriculture.

On February 3, 2003, the President submitted his FY2004 budget request, including \$576 million for the FSU, a cut of roughly 24% from the FY2003 post-rescission level of \$755 million.

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

For more information on this issue, see CRS Report RL31699, *U.S. Bilateral Assistance to Russia: 1992-2002*, CRS Issue Brief IB98038, *Nuclear Weapons in Russia*, and CRS Report 97-1027, *Nunn-Lugar Cooperative Threat Reduction Programs: Issues for Congress*.

MOST RECENT DEVELOPMENTS

On May 29, the Senate Foreign Relations Committee reported S. 1161, an act authorizing foreign assistance for FY2004, including \$646 million for the former Soviet Union, a 12% increase over the Administration request.

On February 3, 2003, the President submitted his FY2004 budget request, including \$576 million for the FSU account, a cut of roughly 24% from the post rescission FY2003 level of \$755.06 million. Proposed FSU account allocations for Russia and Ukraine would be cut substantially, by 48% and 32% respectively. A decision to appropriate educational exchanges through the Department of State budget rather than FSU account is responsible for part, but not all, of the decrease.

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 cooperative threat reduction efforts in the four nuclear weapons states of the region. (For details on the latter issue, see CRS Issue Brief IB98038, *Nuclear Weapons in Russia*, and CRS Report 97-1027, *Nunn-Lugar Cooperative Threat Reduction Programs: Issues for Congress*.) While this issue brief describes trends and issues in the broad program of assistance, it concentrates on the bilateral economic aid program that has been both the main U.S. instrument for influencing the economic and political transition in the FSU and a chief focus of congressional attention. For more details on the economic assistance program see CRS Report RL31699, *U.S. Bilateral Assistance to Russia: 1992-2002* (January 2003), and CRS Report RL30112, *Russia's Economic and Political Transition: U.S. Assistance and Issues for Congress* (May 1999).

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

Levels of Assistance

Grant Assistance. Since 1992, roughly \$9.7 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 FY2002, \$958 million was allocated to 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 FY2003 FSU account appropriation of \$755 million (after rescission) 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	FY03
230 ^a	417	2,158 ^b	818 ^c	641	625	770	847	836 ^d	808 ^e	784 ^f	755 ^g

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 (P.L. 107-38).

g. Original appropriation was \$760 million. H.J.Res.2 contained a 0.65% across-the-board rescission.

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 — \$359 million budgeted in FY2002 — 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 \$507 million in FY2002 allocated, 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 \$128 million in FY2002 allocations. Additionally, a number of other U.S. government agencies, most notably the State Department, have their own disparate programs of exchanges and technical assistance conducted out of their agency budgets and also not drawing on the FSU account. Amounts budgeted in FY2002 of U.S. grant assistance from all spigots, including the FSU account, equaled \$2.3 billion.

Credit Assistance. In addition to grant assistance, the United States has provided guarantees or loans to support the equivalent of \$12.1 billion in U.S. exports of manufactured and agricultural products and business investments in the FSU since 1992. The actual budget outlays for these programs, administered by the Export-Import Bank, Overseas Private Investment Corporation, and the Department of Agriculture, are as little as one-fifth of these amounts, since only the subsidy cost has to be appropriated to back up the loan or guarantee. In the event of a default, however, the U.S. taxpayer would be liable for the full face value of the loan.

Direction of Assistance. Although in recent years, Russia has accounted for only 15-22% of FSU account allocations, the bulk of U.S. assistance since the program began in 1992 has gone to Russia — 35% of cumulative obligations. This is a reflection of its importance to U.S. national interests, its physical expanse and population size, and the relatively advanced state of its reformist efforts compared to the other states of the region. In FY2003, Ukraine and Russia each were expected to receive about 18% of allocated appropriations, followed by 12% for Armenia and 11% for Georgia.

However, on a per capita basis, suggesting the size and, possibly, impact of the program in the recipient country, the order changes. Armenia is expected to be the chief recipient of FSU account allocations in FY2003, receiving \$24 per capita, followed by Georgia (\$15), Kyrgyz Republic (\$9). Russia is 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 FY2003, roughly 40% 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 Thomas C. Adams (acting). 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

FSU Account Country Allocations (in \$ millions)			
Country	FY2002 (supps)*	FY2003 (est)	FY2004 (req)
Russia	159.1	141.0	73.0
Ukraine	154.9	138.4	94.0
Belarus	10.6	8.9	8.0
Moldova	35.9	29.8	23.0
Armenia	90.2	89.4	49.5
Azerbaijan	43.5	45.7	41.5
Georgia	89.8	83.5	75.0
Kazakhstan	45.8 (1.5)	42.7	32.0
Kyrgyzstan	35.5 (36.5)	37.9	40.0
Tajikistan	19.4 (37.0)	25.8	35.0
Turkmenistan	7.4 (4.0)	7.8	8.0
Uzbekistan	29.2 (89.0)	38.8	42.0
Regional	62.7 (6.0)	65.5	55.0
Total App.	784.0 (174.0)	755.1	576.0

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

relationships between the FSU and American people. Hence, on the economic front, there has been a greater amount of funds put into trade and investment — including, at the national level, efforts to affect tax policy — and support for small and medium business and for establishing joint ventures with U.S. business. To further the development of a civil society, there has been greater support for partnerships between U.S. and FSU non-governmental organizations and U.S.-FSU exchanges. The Bush Administration has indicated that the trend toward funding exchanges and grassroots activities will continue and possibly expand.

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

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

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

In recent years, the FSU account has been drawn upon for **nonproliferation activities**, usually more closely associated with the Nunn-Lugar Cooperative Threat Reduction Program funded under the Department of Defense appropriations. Under the so-called Expanded Threat Reduction Initiative, the State Department supports commercial alternative employment for nuclear and chemical weapons scientists, border security training, and other efforts to control the proliferation of weapons expertise and materials. In FY2002, roughly 8% of the FSU account was used for these purposes. The FY2003 FSU account request shifts many nonproliferation programs, including border security, to the NADR (nonproliferation, anti-terrorism, and demining) account of the foreign operations bill.

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

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

Developments in 2002

FY2003 Appropriations. 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 was a decrease of \$29 million, or 4%, from the FY2002 appropriated level of \$784 million.

On July 24, the Senate Appropriations Committee reported S. 2779 (S.Rept. 107-219), its version of the FY2003 Foreign Operations bill. It provided \$765 million for the FSU, \$19 million less than FY2002, but \$10 million above the Administration request. On September 19, the House Appropriations Committee reported H.R. 5410 (H.Rept. 107-663), its version of the FY2003 Foreign Operations bill. It provided \$755 million for the FSU, \$29 million less than the FY2002 level, but matching the President's request.

On February 13, both houses of Congress approved a conference report on H.J.Res.2 (H.Rept. 108-10), an omnibus FY2003 appropriations bill that provides \$760 million, \$755.06 million after a 0.65% across-the-board rescission that is included in the legislation. The final amount, therefore, matches the President's FY2003 request level.

The conference report earmarks \$90 million for Armenia, but includes no specific amount for Georgia or Ukraine, two countries that have often received earmarked funds in the past. Of amounts provided to Ukraine, \$20 million is recommended for nuclear safety and \$1.5 million is required for coal mine safety. Programs assisting victims of trafficking in persons are provided \$1.5 million and \$17.5 million is provided for programs in the Russian Far East. Of total funds under the NIS account, at least \$60 million must be provided for child survival, basic education, environment and reproductive health, and infectious diseases.

The conference report retains some previous conditions on assistance. Aid to the central government of Russia is cut by 60% (with the exception of nonproliferation, disease, child survival, and trafficking in persons programs) unless the President certifies that it has terminated transfer of nuclear or ballistic missile technology to Iran and is providing access of international NGOs to refugees in Chechnya. Section 907 restrictions on aid to the government of Azerbaijan are exempted for democracy, nonproliferation, TDA, Foreign Commercial Service, OPIC, Export-Import Bank, and humanitarian assistance.

The report includes two new conditions and eliminates one old one. Language terminating all aid to the Government of Russia if it implemented laws discriminating against

religious groups is absent. A provision prohibiting aid to the government of Ukraine unless the Administration determines that it is not engaged in arms transfers to Iraq has been added. It exempts disease, nuclear safety, victims in trafficking in persons, and nonproliferation programs. Another new provision prohibits aid to Uzbekistan unless the Secretary of State determines that the government of Uzbekistan is making progress in meeting commitments under its March 12, 2002 framework agreement with the United States. That agreement contains language supporting progress in democratization, among other issues. Another provision prohibiting aid to Uzbekistan if it is not making progress in human rights is waivable by the Secretary of State.

The statement of managers recommends that \$15 million be used for reproductive health and family planning and that \$2.5 million go to the Primary Healthcare Initiative. It also supports the Administration request for Georgia (\$87 million). Of funds provided for Ukraine nuclear reactor safety, it recommends that \$12 million be for simulator-related projects. Significantly, the statement notes that request levels for some countries are declining rapidly and requests that the NIS Coordinator works with the Committees in developing country strategies leading toward graduation from the aid program.

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

FY2002 Emergency Supplemental. On March 21, 2002, the President submitted a \$27 billion FY2002 emergency supplemental request which included \$155 million for six of the nations of the FSU — Georgia and the five “stans” of Central Asia, \$110 million of which is for the FSU account and the rest for foreign military financing. The funds were intended to help these nations fight terrorism and, in some cases, were rewards for cooperation in the war. A conference report on H.R. 4775, the FY2002 emergency supplemental, was approved by House and Senate on July 23 and 24, respectively. It left unchanged the amounts requested for the region by the President. H.R. 4775 was signed into law as P.L. 107-206 on August 2. The President’s subsequent decision not to spend some of the bill’s funds did not appear to affect the former Soviet Union countries.

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

Developments in 2003

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

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

Administration FY2004 Request. On February 3, 2003, the President submitted his FY2004 budget request, including \$576 million for the FSU account, a cut of roughly 24% from FY2003 levels. Proposed FSU account allocations for Russia and Ukraine would be cut substantially from FY2003 allocations, by 48% and 32% respectively. According to the Administration, part of the decrease is compensated by a shift in funding of all educational exchanges from the FSU account to the State Department budget. Although \$100 million of exchange programs previously funded by the FSU and SEED accounts is included in the FY2004 State Department budget, in FY2002, roughly \$110 million was transferred to State under the FSU account alone (another \$10 million in SEED funds) and more was provided by State’s own budget. It is not clear whether FY2004 State exchange spending will actually match previous years, as implied in congressional presentation documents.

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

FY2004 Authorization. On May 29, the Senate Foreign Relations Committee reported S. 1161, an act authorizing foreign assistance for FY2004, including \$646 million for the former Soviet Union, a 12% increase over the Administration request. In its report (S.Rept. 108-56) the Committee noted that the proposed cut was “too steep” and would “harm U.S. interests in stability, democracy and market reform” in the FSU. The Committee also urged the Administration to insure that educational exchanges previously funded under the FSU account would be maintained at FY2003 levels in the State Department appropriations.

Issues for Congress in 2003

Foreign aid is an instrument of U.S. foreign policy, and U.S. relations and interests in the former Soviet Union determine levels, direction, and types of aid funding. While there has been opposition, support for the FSU account economic aid program has generally been bipartisan and strongly supported by congressional leaders. A decline in program funding from FY1994 to FY1997 reflected a downward trend in the foreign aid program overall, criticisms of program implementation and of Russian behavior, and, some would say, the Clinton Administration’s failure to make a case for higher levels of funding. In 1997, the

Clinton Administration attempted to reinvigorate the program and its funding with its Partnership for Freedom initiative, resulting in a 23% increase in funding in FY1998 and a further 10% increase in FY1999. From its FY1999 level of \$847 million, however, funding has gradually declined to the FY2003 level of \$755 million. The FY2004 request is \$576 million, a decrease of 24% from the FY2003 level. The decrease might be closer to 10% if the full amount normally provided for exchanges is appropriated under the Department of State budget.

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

Aid to Russia

Funding Levels. Even after the demise of the Soviet Union, Russia has remained a significant interest of U.S. foreign policy and a major focus of the foreign aid program. Reflecting the highs and lows of U.S. interest and goodwill, Russia was the main beneficiary of the assistance program in its first few years, but has borne the brunt of FSU account cuts since. Funding for Russia declined from roughly 60% of the FSU total during the first two years to about 15% of FY1997 funds and represents 20% of FY2002 allocations. The Administration request for FY2004 is \$73 million, 13% of the total FSU account. The long-term funding decrease, especially for democracy and economic reform activities, has led many to question whether available funding for Russia is adequate to meet both short- and long-term U.S. foreign policy objectives in that country.

There are a number of reasons for the historic decline in Russia aid. In the past, some argued that more of the FSU account 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.

These same arguments are made today as the FY2004 Administration request — a 48% cut — indicates a plan to “graduate” Russia from the aid program over the next few years. In response, it is argued that democracy is by no means assured and economic reforms remain incomplete (see for example, “Potemkin Democracy,” *Washington Post*, May 30, 2003).

Conditionality. As noted above, linked to the past 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.

Since the FY1996 appropriations, Congress has conditioned all or a portion of aid unless the President assured it that Moscow had terminated its plans for the sale of a nuclear power plant to Iran. The FY2003 appropriations withholds 60% of aid that would go specifically to the **central** government of Russia if the Iran transfers continue. Since the issue was raised, both Clinton and Bush Administrations have stated that the reactors could be used by Iran to help develop nuclear weapons. The economically strapped Russians argued that they would be hard pressed to give up what might well become more than a \$3 billion deal and pointed out that the reactor is the same type as the United States was supporting in North Korea. Only recently, in the wake of the war on terror and diplomatic dispute on Iraq, has Russia taken steps to seek assurances from Iranian officials regarding the uses to which the reactor will be put ("Russians Pressure Iran on Weapons, *Washington Post*, June 5, 3002). See CRS Report RL30551, *Iran: Arms and Weapons of Mass Destruction Suppliers* for further details.

The war in Chechnya has been a frequent object of congressional conditions on Russian behavior. 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. The FY2003 bill continues this practice.

Until the FY2003 act, a major restriction on aid to Russia had been approved each year since FY1998. This prohibited any aid to the government of the Russian Federation (i.e. central government; it did not affect local and regional governments) if it implemented a law discriminating against religious minorities. Each year, the President determined that Russia had not implemented the law, most recently on May 4, 2001. The FY2003 act drops this provision.

In response to congressional efforts to impose conditions on Russian aid, some have argued that it is inappropriate to condition aid to Russia on a particular desired behavior such as regarding Iran or Chechnya inasmuch as the program is intended to benefit reformist elements in Russia and ultimately facilitate a transformation that might ensure a more

cooperative relationship in future. For example, 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. From FY2000 through FY2002, Congress recommended, but did not earmark, declining levels of aid. The FY2003 bill contains no recommendation. For FY2004, the Administration has requested \$94 million, a 32% drop in assistance from the previous year.

Until recently, Ukraine's failure to adopt economic and political reform led some in Congress to question the level of funding provided to Ukraine, especially in view of news reports of the ill-treatment of U.S. businessmen. As a result, almost half of earmarked appropriations were withheld pending determinations — in FY1998, that issues affecting U.S. investors were resolved, and, in FY1999, that progress on economic reform was being made. The determinations were eventually made. Succeeding appropriation bills dropped such conditions. Ukraine's progress in economic reform efforts has improved markedly, but reports of corruption and the implication of President Kuchma in the murder of a journalist suggest that democratic reform is not assured.

In late 2002, reports of the possible sale of an early warning radar system to Iraq, in violation of U.N. sanctions, 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. The FY2003 appropriations prohibits 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, of increasing U.S. interest for its 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 relatively little. For FY2002, the five Central Asian states were expected to receive \$145 million in regular FREEDOM Support Act funds. As a direct result of the war on terrorism, an additional \$175 million was provided out of the Emergency Response Fund and FY2002 supplemental. The FY2003 allocation is \$149 million and the FY2004 Administration request for the region is \$163 million.

Prior to September 2001, public discussion regarding Central Asia highlighted two competing issues in which aid plays a role in furthering U.S. interests in the region. Some 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. On the other hand, some 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.

While democracy and human rights continue to have proponents in the post-September 11, 2001 view of Central Asia, other considerations have become important. As the United States deals with regional terrorist threats, it requires the cooperation of countries in the region for military bases and supply centers. The FY2003 appropriations act requires that the Secretary of State determine that the Government of Uzbekistan is making progress in human rights and 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. For FY2003, the Administration plans to allocate \$221 million for the region, 29% of the total FSU request. The FY2003 appropriations earmarks \$90 million for Armenia, but requires no specific amount for Georgia.

The war on terrorism appears to have provoked a significant change in U.S. policy toward Azerbaijan — allowing the President to waive Section 907. Section 907 of the FREEDOM Support Act prohibits all aid to the government of Azerbaijan except for disarmament related assistance until the President determines that the Azerbaijani government is taking demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh, the enclave of Armenian ethnic people which has sought independence from Azerbaijan (see CRS Issue Brief IB92109, *Armenia-Azerbaijan Conflict*). The Clinton Administration opposed Section 907 and asked Congress to repeal it. In the past, some Members of Congress suggested that the Clinton Administration waive the provision, using its broad authority under the Foreign Assistance Act, if it did not approve of it. However, domestic political considerations appeared to have discouraged such a move.

Congress took 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. The FY1997 appropriations 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 appropriations allowed both the U.S. Foreign Commercial Service and the Trade and Development Agency to function in Azerbaijan. Although the House Appropriations Committee version of the FY1999 appropriations, H.R. 4569, would have repealed Section 907 entirely, a Porter amendment was adopted (231-182) on the House floor that struck the repeal language. The final version of the FY1999 appropriations adopted Senate exclusions that allow OPIC, TDA, Export-Import Bank, the Foreign Commercial Service, and democracy and humanitarian activities. Under this FY1999 language, perhaps the only programs affected by Section 907 were economic and other policy reform type activities. The FY2000 and FY2001 appropriation bills contained the same exclusions as in FY1999.

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

LEGISLATION

S. 1161 (Lugar)

Authorizing appropriations for foreign assistance programs for the fiscal year 2004. Reported by Senate Foreign Relations Committee on May 29 (S.Rept. 108-56).