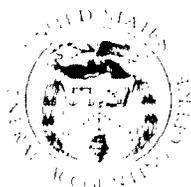


GAO

December 1992

FORMER SOVIET UNION

Assistance by the United States and Other Donors



148169

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**United States
General Accounting Office
Washington, D.C. 20548**

**National Security and
International Affairs Division**

B-251521

December 30, 1992

The Honorable Claiborne Pell
Chairman, Committee on Foreign Relations
United States Senate

The Honorable Dante B. Fascell
Chairman, Committee on Foreign Affairs
House of Representatives

The Honorable Patrick J. Leahy
Chairman, Subcommittee on Foreign Operations
Committee on Appropriations
United States Senate

The Honorable David R. Obey
Chairman, Subcommittee on Foreign Operations,
Export Financing, and Related Programs
Committee on Appropriations
House of Representatives

The republics of the former Soviet Union need massive amounts of international assistance to help them restructure the remnants of a centrally planned command economy into independent thriving market economies. This report, one in a series on U.S. assistance to Central and Eastern Europe and the former Soviet Union, provides the results of our work to date on aid provided to the republics by international donors, in particular the United States. Specifically, we (1) identified the extent and nature of assistance provided, (2) determined whether the United States intends to apply lessons learned from its assistance program to Central and Eastern Europe, and (3) assessed the level of coordination among donors.

We are conducting an in-depth review of aid to the Russian Federation, the principal successor state to the former Soviet Union, and plan to provide you with the results of that review in a separate report.

Results in Brief

Between 1990 and 1992, donor countries pledged about \$90 billion in aid to the former Soviet republics, State Department figures show. Less than half that amount—\$40 billion—will have been disbursed by the end of 1992, according to estimates provided by the U.S. Executive Director of the

International Monetary Fund (IMF). The United States pledged about \$9.2 billion, or 10 percent of the total. Disbursement data was not available for individual donors. Grants made up only 19 percent of the total aid pledged; loans, including credits and guaranties, constituted the other 81 percent. Twenty-eight percent of the U.S. pledges are in the form of grants. In addition to their bilateral efforts, donor countries are also providing assistance through several multilateral organizations, such as the IMF.

U.S. officials said they intend to apply lessons learned from the aid program in Central and Eastern Europe to the program in the republics of the former Soviet Union. For instance, U.S. officials have built up the Agency for International Development's (AID) field presence in the former Soviet Union more quickly than was done in Central and Eastern Europe. However, State Department officials have decided to duplicate the experimental Washington-based management structure that was used for delivering assistance to Central and Eastern Europe, a structure which we believe may complicate and hamper management of the program. Another lesson learned, according to officials, is that free market development requires a modern banking system. The United States, as well as other donors, has made efforts to provide assistance in this sector.

Donors convened three international conferences during 1992 to, among other things, address coordination problems. At the October 1992 conference, donors and all the former Soviet republics except Turkmenistan agreed to establish "consultative" groups to help coordinate assistance. Currently, coordination on aid is reported to be limited, in part because of competition among donors and because no single country or multilateral organization has taken a lead role in providing assistance. This limited coordination has had no apparent major adverse impact yet, but as aid programs are expanded, donors may begin to duplicate one another's efforts or fail to address critical needs.

Background

In December 1990, the United States and other industrialized countries began to provide limited assistance to the Soviet Union to show support for the reform efforts of President Gorbachev. Following the dissolution of the Soviet Union in December 1991, donors increased their commitments of assistance to the successor states.

The 12 republics of the former Soviet Union are facing enormous challenges in their transition to market economies.¹ They must overcome the political, economic, and social effects of more than 70 years of communist rule and stabilize economies burdened by high inflation and external debt, severe shortages, and other problems.

The major international donors have reached a consensus that the republics will need substantial amounts of foreign aid and investment to stabilize and restructure their economies. The IMF has estimated that the Russian Federation alone needs \$12 billion to \$18 billion in balance-of-payments support in 1992 and \$22 billion to \$30 billion, assuming there is no debt rescheduling, in 1993.

Assistance Provided Between 1990 and 1992

Although the former Soviet republics have received substantial pledges of assistance, pledges do not necessarily translate into actual assistance. Some officials of the former Soviet states have complained that disbursements of aid funds have been slow. Donors have pledged \$91 billion in loan and grant assistance for the period 1990-92, but only \$39.9 billion, or 44 percent, has been disbursed. The Group of Seven (G-7) industrial nations and the European Community (EC) Commission have pledged about \$81 billion (89 percent) of the \$91 billion. As shown in tables 1 and 2, grants constitute a small share of these pledges, and pledges of technical grants outpace those of humanitarian grants. Grants are considered the most effective type of assistance since they do not create additional external debt.

¹We do not include the three Baltic republics in our discussion of the former Soviet Union as their incorporation into the Soviet Union was never recognized by the United States and they are included as part of the U.S. assistance program for Central and Eastern Europe.

Table 1: G-7 and EC Pledged Assistance to the Former Soviet Union, 1990-92

Dollars in millions

Donor	Loans ^a		Grants		Total
	Amount	Percent	Amount	Percent	
Canada	\$1,940	96	\$91	4	\$2,031
France	2,580	96	103	4	2,683
Germany ^b	42,000	78	12,000	22	54,000
Italy	5,600	100 ^c	18	0 ^c	5,618
Japan	2,600	96	106	4	2,706
United Kingdom	476	71	197	29	673
United States	6,685 ^d	72	2,552	28	9,237
EC Commission	2,363	58	1,702	42	4,065
Total	\$64,244	79	\$16,769	21	\$81,013

^aIncludes credits and guaranties.^bMuch of the German assistance was tied to the withdrawal of former Soviet troops from the former East Germany.^cFigures are due to rounding.^dOf this amount, \$5.75 billion represents Commodity Credit Corporation commitments to guarantee loans. As of December 11, 1992, Russia had missed payments on \$31.8 million of amounts due.

Source: Department of State.

Table 2: G-7 and EC Pledged Grant Assistance to the Former Soviet Union, 1990-92

Dollars in millions

Donor	Grant aid		Total
	Humanitarian	Technical	
Canada	\$11	\$80	\$91
France	35	68	103
Germany	1,000	11,000	12,000
Italy	18	0	18
Japan	80	26	106
United Kingdom	39	158	197
United States	1,058	1,494	2,552
EC Commission	608	1,094	1,702
Total	\$2,849	\$13,920	\$16,769

Source: Department of State.

The U.S. program includes nearly \$230 million in Economic Support Funds for projects administered by AID. To finance these projects, the agency reprogrammed \$85 million in Economic Support Funds from its Pakistan program and later reprogrammed an additional \$150 million from its Pakistan and Philippines programs. Another \$30 million in Public Law 480 funds and \$19.7 million in disaster assistance funds were provided. AID's projects are listed in table 3.

Table 3: AID Projects in the Former Soviet Union (as of September 24, 1992)

Dollars in millions	
Project	Amount
Special initiatives	\$53.7
Energy efficiency	37.6
Environmental restructuring	5.0
Health care	22.1
Private sector initiatives	48.5
Food systems restructuring	20.0
Democratic pluralism	14.0
Housing sector reform	6.0
Economic restructuring	14.0
Eurasia Foundation	8.0
Total	\$228.9*

*An additional \$6.1 million was allocated for administrative expenses.

Source: AID.

The Freedom Support Act (P.L. 102-511), passed by Congress and signed by the President in October 1992, authorizes \$410 million in additional bilateral assistance to the former Soviet Union. It also authorizes a \$12 billion increase in the U.S. quota to the IMF, which will permit the Fund to make additional lending to the former Soviet Union; and confirmed congressional support for \$3 billion for currency stabilization funds for Russia and other republics.

Initiatives of Multilateral Organizations

Multilateral organizations also have undertaken several major initiatives in the former Soviet Union, especially Russia. Following is a description of some of these initiatives:

- The IMF is working with the leading industrialized nations to set up a \$24 billion Russian aid package assembled from all donors. The package includes a \$6 billion fund (with U.S. participation of up to \$1.5 billion) to help stabilize the Russian currency. It also includes \$4.5 billion in loans from international financial institutions, \$2.5 billion in bilateral debt deferral from the Paris Club, and \$11 billion in bilateral assistance, much of which had been previously committed. In August 1992, the IMF made \$1 billion available to augment Russia's currency reserves. As of December 15, 1992, Russia had drawn about \$250 million of these funds, according to a U.S. Treasury official. The IMF has also hosted three sessions at the Bank for International Settlements for central bank representatives from donor countries. The sessions identified Russian needs and assistance to be provided by the various participants.
- The European Bank for Reconstruction and Development has opened an office in Moscow. It has committed \$17.5 million for technical assistance grants to Russia, \$1 million to Belarus, and \$4 million to Ukraine. In addition, the Bank has loaned \$86.8 million for projects and made equity investments of \$12.1 million in Russia. It has loaned \$37.5 million for projects in Belarus, and \$3.5 million for equity investments in Ukraine.
- The Organization for Economic Cooperation and Development (OECD) is providing advice and training on economic reforms. OECD is planning to establish missions in Russia, Belarus, Ukraine, and Kazakhstan.
- The United Nations' Economic Commission for Europe is performing economic and statistical analyses on the former Soviet Union and has held 50 technical workshops on the transition process. An additional 50 workshops are in the pipeline.
- The North Atlantic Treaty Organization has provided transportation for the delivery of food and medical assistance and hosted a conference on defense industry conversion to commercial production.
- The World Bank has sent various assessment missions to the former Soviet Union and has extended a \$600 million balance-of-payments loan to Russia for the purchase of essential imports.

Lessons Learned Are to Be Applied

On November 28, 1989, the President signed the Support for East European Democracy (SEED) Act of 1989 (P.L. 101-179), which authorized an assistance program for Central and Eastern Europe for fiscal years 1990 through 1992. Poland and Hungary were specifically designated for initial assistance because they took the lead in the transformation from communism to democracy and market-oriented economies. The United States developed a short-term, experimental economic assistance approach based on assumptions that (1) assistance would be required for

only a 5-year transitional period; (2) regional rather than country-specific allocations of funds would enhance program flexibility; and (3) program planning, implementation, and management authority would be retained in Washington, D.C., rather than delegated to U.S. personnel in-country.

The experience gained in Central and Eastern Europe will help shape the aid program in the former Soviet Union, according to State Department and AID officials. Officials said they learned that an AID field presence should be built up quickly and have acted to do so. However, there is disagreement about the program management structure. While AID officials strongly believe that program management should be transferred to the field missions, State Department officials have decided to duplicate the Washington-based management structure used in Central and Eastern Europe.² Although AID missions have been established in Russia, Ukraine, and Kazakhstan, and a smaller office has been established in Armenia,³ the AID mission directors and office representative have only minimal delegations of authority.

The U.S. approach to managing the assistance program for Poland and Hungary was appropriate during that program's early phase; however, as circumstances changed and more became known of the economic problems facing Central and East European countries in their transformation processes, some assumptions upon which the United States based its assistance approach proved unrealistic. As we concluded in an earlier report, Poland and Hungary: Economic Transition and U.S. Assistance (GAO/NSIAD-92-102, May 1, 1992), this approach hindered the host countries' planning for and prioritizing of assistance, limited the flow of information between the United States and the host countries, and complicated and hampered management of the program.

The assistance program in Central and Eastern Europe also underscored the critical role of banking reform. Donor officials concluded that attracting investment and increasing privatization depended on the development of a modern banking system that could offer a full range of

²In the fiscal year 1993 appropriation for foreign assistance (P.L. 102-391), Congress directed that by December 1, 1992, AID issue delegations of authority giving primary program responsibility to the principal AID officers in each East European country "to the maximum extent practicable." The law further directs that not less than 65 percent of funds for Central and East European assistance be made available for country-specific activities within bilateral, regional, or multilateral programs in Eastern Europe.

³The Russian mission will concentrate its work in that country, although it will provide some technical support to other missions. The Ukraine mission will also cover Belarus and Moldova. The Kazakhstan mission will cover the Central Asian republics. The responsibilities of the Armenia office may be expanded to include Georgia.

financial services, and foreign aid was subsequently directed to this sector. Similarly, the United States and other donors are providing assistance in the banking sectors of the former Soviet republics. For instance, at the initiative of the former U.S. Ambassador to Russia, the New York Federal Reserve Bank and several large U.S. commercial banks are undertaking a project to help Russia modernize its commercial banking system.

U.S. officials cited several other lessons learned that they intend to apply to the former Soviet Union. For example:

- Aid should be concentrated in a few priority areas to prevent a proliferation of projects.
- Experienced personnel should be assigned in the early stages of the program.
- The number of short, one-time visits by donor officials should be limited.

It is unclear to what extent these lessons learned are being implemented. For example, there have been complaints from some republics about the large number of trips by donor representatives.

Limited Coordination Among Donors

Coordination of international assistance to the former Soviet Union has been criticized as inadequate by some donor officials. No donor has been willing to take the lead in coordinating aid, according to these officials. One reason for this is that donors link foreign aid with their own national interests; thus, the donors are in a sense competing with one another. In addition, donors believe that taking a lead role would result in a greater financial burden because of the example they would be expected to set for other donors.

The lack of coordination has not hampered the effectiveness of donor assistance, according to officials, because the aid programs are still in their early stages. In the future, however, donors may duplicate efforts or fail to address critical needs if no effective coordinating mechanism is developed. There has been some reported duplication of donor efforts in financial sector reform and in providing food and medicine to Russia. At the same time, assistance in the housing and construction sectors has been called insufficient.

Some coordination is occurring. At the initiative of the U.S. government, donors convened three international conferences during 1992 to discuss assistance to the former Soviet Union. The conferences were held at

Washington (January), Lisbon (May), and Tokyo (October). At the first conference, donors exchanged information and established five working groups, each addressing a different sector. These sectors were medicine, food, energy, shelter, and technical assistance.

During the second conference, participants discussed establishing country-specific consultative groups, and at the third conference, donors and the former Soviet republics agreed to establish the consultative groups, which they hope will provide some coordination of assistance. Turkmenistan has not agreed to participate. Also called donor groups, aid groups, or consortia, consultative groups are currently used to coordinate foreign aid to some developing countries. The groups are usually chaired by the World Bank and meet periodically to discuss assistance and make or confirm pledges. Consultative groups allow donors to depoliticize assistance and to condition aid on specified policy reforms. Donor officials said that the World Bank would chair the groups for each republic except Russia. The chairmanship and form of the Russian consultative group remains to be determined.

Another area where some coordination is occurring is the sharing of assistance information among donors. OECD, at the request of the January 1992 Washington conference, established a data bank to use as an information clearinghouse on assistance efforts. The data bank currently lists about 2,600 donor activities in the former Soviet Union. OECD officials believe the data bank could be a catalyst for improving coordination. However, project information from each donor varies widely and, in some cases, is neither comprehensive nor timely. For example, donors have not fully reported their involvement in defense conversion efforts. Moreover, the data bank does not include funding information. In October 1992, OECD began tracking donor financial flows but officials do not expect to have complete data for several months.

Scope and Methodology

We interviewed officials from the Department of State; AID; EC; OECD; the European Bank for Reconstruction and Development; the North Atlantic Treaty Organization; the U.N. Economic Commission for Europe; and the British, French, and German governments. We also obtained and analyzed pertinent documents from these sources.

In our review of U.S. aid, we did not assess (1) humanitarian assistance donated under Operation Provide Hope or (2) Department of Defense support for converting defense manufacturing plants to commercial

production. Our use of the term "former Soviet Union" refers to the newly independent states of the former Soviet Union. Our use of the term "Russia" refers to the Russian Federation.

We performed our work from March through October 1992 in accordance with generally accepted government auditing standards. We did not obtain written agency comments; however, we discussed the report with officials from the State Department, Treasury Department, and AID and have incorporated their comments as appropriate.

We are sending copies of this report to the Secretary of State; the Secretary of the Treasury; the Administrator, Agency for International Development; the Director, Office of Management and Budget; and interested congressional committees. Copies will also be made available to others on request.

Please call me on (202) 275-5790 if you or your staff have questions concerning this report. The major contributors to this report are listed in appendix I.



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