

IMPLEMENTATION OF THE HELSINKI ACCORDS

**BRIEFING ON U.S.
ASSISTANCE TO CENTRAL
AND EASTERN EUROPE
AND THE NIS: AN
ASSESSMENT**



February 17, 1995

**Briefing of the
Commission on Security and Cooperation in Europe
Washington, DC**

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BRIEFING ON U.S. ASSISTANCE TO CENTRAL AND EASTERN EUROPE AND THE NIS: AN ASSESSMENT

Friday, February 17, 1995

Commission on Security and Cooperation in Europe,

Washington, DC.

The Commission met at 10 a.m., in room 2200, Rayburn House Office Building, Washington, DC, David M. Evans, moderator, presiding.

Present: David M. Evans, Thomas Dine, Serge Duss, Linas Kojelis, and John D. Sullivan.

Mr. Evans. On behalf of the Commission on Security and Cooperation in Europe I would like to welcome you this morning to this briefing on "U.S. Assistance to East-Central Europe and the NIS; An Assessment." My name is David Evans. I am the senior advisor to the Commission, and I will be your moderator this morning.

As many of you, perhaps most of you, probably know, the Commission, commonly called the Helsinki Commission, was established in 1976 by the Congress to monitor and encourage the implementation of the Helsinki Final Act and subsequent accords of the CSCE, which is now the OSCE, the Organization on Security and Cooperation in Europe.

The Chairman of the Commission is Representative Chris Smith, and the Co-chairman is Senator Alfonse D'Amato. The Commission is composed of 9 Senators, 9 Representatives, and 3 members from the executive branch, a representative each from the Departments of State, Defense, and Commerce, for a total of 21 Commissioners.

The Commission has a wide range of activities, including congressional hearings, congressional trips to areas of concern, participation in the many activities, meetings, and so forth of the OSCE itself, including the OSCE parliamentary assembly, and just recently last year we began this format of briefings which we have found to be very effective to focus on particular interests and particular areas of concern.

Much of the Commission's focus over the years has been in the area of human rights, as well as regional security, but the third major area and component of the OSCE is, as you know probably, the economic area and assistance. Assistance to the New Independent States and emerging democracies in the region has been of great interest and concern to the Commission for the last couple of years.

This year, particularly, with the developments in Chechnya, we thought it appropriate to hold such a briefing this morning. We have set for ourselves an ambitious agenda. Discussion of U.S. assistance to Central and Eastern Europe and the countries

of the former Soviet Union for geographic reasons alone could easily have been the subject of several briefings.

In addition, within the region the pace of democratic reform and transition to free market economic systems has varied widely from country to country, creating a multi-tiered effect on the transition.

Both the successes achieved and the difficulties encountered on the road to democratic reform and stabilization are reflected throughout the region and have had an impact on the scope and tenor of U.S. assistance programs. Since 1990, U.S. assistance to East-Central Europe and the NIS, including food and nuclear weapons reduction programs, exceeds \$9 billion. These programs involve assistance to countries throughout the region in democratic institution building, market reform and restructuring, health care improvement, energy efficiency, environmental policy, and housing sector reform.

The President is asking for \$1.4 billion in assistance for the region in fiscal year 1996. Many see this type of assistance as critical to United States security and economic interests in the region. However, some observers have criticized United States efforts as slow to materialize, uncoordinated, too Russia-centered, and lacking evident positive results at the grassroots level.

Regardless of one's views on specific programs, it appears certain that the crisis in Chechnya, continued conflict in the Balkans, and tensions in various parts of East-Central Europe make successful reform in the region even more important to United States interests today.

The Congress will, in the coming months, be reviewing and scrutinizing all funding for the region. This morning we will focus on the goals of U.S. assistance to the NIS and East-Central Europe and the effectiveness of current programs in furthering those goals.

We are very pleased to have with us a distinguished panel of experts to address these issues. Mr. Thomas Dine, to my right, is Assistant Administrator of the U.S. Agency for International Development, USAID for Europe and the New Independent States. A foreign and defense policy expert, Mr. Dine has worked during his career in national security affairs for the U.S. Government and a think tank and academic institutions.

Before joining USAID, he headed the American-Israel Public Affairs Committee, AIPAC, from 1980 to 1993. Prior to that Mr. Dine worked in the U.S. Senate for 10 years, serving as national security staff director of the Senate Budget Committee, legislative assistant for foreign affairs to the late Senator Frank Church, SALT advisor to former Senator Edmund Muskie, and deputy foreign policy advisor to Senator Kennedy.

Mr. Serge Duss, to my far right, is Associate Director for Government Affairs of World Vision, an international relief and development organization with programs in more than 95 countries. Resident in Moscow from 1991 to 1994, he served as field director for development projects, focused primarily on training and education, which were initiated in five republics of the former Soviet Union.

Before coming to World Vision, Mr. Duss directed Soviet and Indo-Chinese refugee programs with World Relief in the 1980's. He also served as a program officer for refugee affairs at Interaction, an association of American private voluntary organizations involved in international projects.

Mr. Linas Kojelis, to my left, is here today representing the Central and East European Coalition, an organization composed of 16 national membership organizations. As

president of the U.S.-Baltic Foundation, Mr. Kojelis has implemented programs in the region involving local government, rule of law, and public health.

Prior to joining the U.S.-Baltic Foundation, Mr. Kojelis served as Deputy Assistant Secretary of State for Refugee Admissions and, in the White House, as Special Assistant to the President for Public Liaison.

Dr. John Sullivan, to my far left, is executive director of the Center for International Private Enterprise, CIPE. An affiliate of the U.S. Chamber of Commerce, CIPE is mandated to advance private enterprise and market institutions that support democratic development. Under Dr. Sullivan's leadership, CIPE has provided financial support and technical assistance for 250 projects in over 45 countries.

Dr. Sullivan joined CIPE in 1984, a year after its inception. Prior to that, he served for 2 years as director of the Washington office of the International Center for Economic Growth, and before that he was associate director of the Democracy Program and director of Business and Economic Education for the U.S. Chamber of Commerce.

Our format this morning will be that all four presenters will speak, and then following that we will open up to questions and answers.

Mr. Dine, will you please lead off?

Mr. Dine. Thank you very much, David.

The first thing I would like to say is what I observe. It has been a long time since I have seen a roomful of people in Washington concerned with American foreign policy, and American foreign assistance programs. In a period of focus on domestic policy and programs, I am delighted to see a standing room only crowd.

I am here to talk about the work of the U.S. Government, in particular about the U.S. Agency for International Development's efforts to develop the private sector in the Central and Eastern European countries, as well as in the former Soviet Union countries.

Basically 80 percent of American appropriated funds for this area of the world goes to the goal of helping to create a private sector. This is an integrated program, and I think it's one that is in the interest of the United States.

All of the former Soviet Bloc countries, 27 of them, are in transition. They are going from totalitarianism and one-party power to nascent democracy and political pluralism; from central planning, military production, and plant quotas to competitive market economies; from closed societies where knowledge was secret to open societies where information about human tragedy in Chechnya or corruption in Prague or the failure of economic growth in Tajikistan is now revealed to the public; from isolation in an internationally stagnant bloc to the beginnings of integration into the global community. So this is a profound, a profound transition.

Stated most directly, America's goal, the U.S. Government's goal, our challenge in the entire region, is to help create an environment for prosperity. If you look back historically to the Marshall Plan, 1948 to 1960, when appropriated moneys were provided to that effort, we tried to help Western Europe reconstruct and recover, and we did. The United States Agency for International Development today is trying to help the countries of the crumbled Soviet empire to restructure themselves one by one as democratic, free market oriented commonwealths, and hopefully these countries will then join the broader commonwealth of free nations.

For the peoples of the whole area to restructure and rebuild, all of this means a 180 degree turn. It means, first, undoing the failed Soviet legacy, and you still see this effort today everywhere one goes.

Second, it means a long-term transformation, psychological, material, political.

It is in the U.S. national interest that radical political and economic change take place. It is in the U.S. national interest that this change be irreversible. All of this is in the vital interest, I believe, of the Central and Eastern European countries and the former Soviet Union countries as well.

The transition to business friendly societies is a win-win situation if we can achieve it.

Let me stress three thrusts of the U.S. Government's efforts, especially USAID's, in trying to achieve our national objectives. First is targeting reformers in reforming countries. A simple sentence, a clearcut goal, a clearcut strategy. We are directly linked to the change agents in each of the countries.

Last week I participated in a fact finding delegation that went to Ukraine, Belarus, Georgia, and Armenia to size up the reformers in these newly emerging reform countries. We believe that these four countries are the next wave, the second wave, if you will, of reform, and it is important from the perspective of our national interest that we be engaged with this effort.

The first wave in the former Soviet Union was led by Russia. Russia today is way ahead of the rest of the countries. But Moldova, Belarus, and Kazakhstan have also been reforming, and we are engaged with their reform leaderships.

In the Central and Eastern European area, reform came quickly after the Berlin Wall came down in 1989. Reform came quickly to Estonia, Latvia, Lithuania, the four northern tier countries of Poland, Hungary, the Czech Republic, and Slovakia, and is coming much slower in the southern tier countries, Romania being ahead of Albania and Bulgaria, and as our moderator said, we have got problems in the Balkans where they are engaged in war, not reform.

So the first thrust is to be on the side of the reformers; engage with the reformers as they go about being the change agents in their own societies.

The second key thrust is private entrepreneurship, the driving force, the turbo engine, if you will, that will create and sustain market reform. Privatization is the foundation of this change. It is the critical element in the overall transformation process.

Most of U.S. foreign assistance to this part of the world is directed to mass privatization, post-privatization, economic restructuring, as well as democratic reform which is, I believe, entwined with the whole economic change.

The leaders clearly are Estonia and the Czech Republic, which has had a dynamic, clear sighted, forceful leadership in its Prime Minister. Poland, which has had three straight years of real growth and last year reached 4 percent. Perhaps this year Poland will have up to 7, 7½ percent growth. Russia has had its problems, certainly articulated in the press every day and in every way. Russia by the end of June 1994 had concluded the biggest sell-off of state property the world has ever witnessed in just a short year and a half period of time.

The privatization program has resulted in quite literally the dismantling of communism, the undoing of state ownership of the means of production, the end of the command economy. Vestiges, however, still remain. I have vividly in my mind as I say those

words being in Belarus last week. It is the only country that I know of that wants to belong to Russia again, to be part of a command structure somehow or other again, Russia's leadership has rejected that desire to come back.

In Russia, more than 70 percent of the country's productive property, comprising 20,000 large enterprises and about 100,000 small businesses, is now in private hands. Sixty-five percent of the Czech Republic's GDP is due to a private sector. Over 55 percent at least in Estonia and Latvia, probably Lithuania as well, 55 percent of the GDP is now due to the private sector, and 50 percent we estimate of the GDP of Russia is the private sector, both official and unofficial.

And I would make a prediction here that a year from now if we sit, we will be able to say something similar about Ukraine because I believe under President Kuchma that country, that rich country, now has direction, and its government is assembled around that direction, and I believe the reform, that long awaited reform in that very important and rich country will take place.

The third key thrust of USAID is the promotion of wholesale structural change, structural changes in the political, economic, and social systems. In our projects we are linking politics and law, on the one hand, and economics and business on the other. A business friendly environment depends upon the rule of law, upon well ordered institutional and regulatory framework, upon the predictability, transparency, and enforceability of norms of commercial conduct.

For the next few years, USAID, the Treasury Department, and USIA, the Energy Department, a whole host of agencies, even the New York Federal Reserve Bank, will be engaged with the moneys that Congress authorizes and appropriates to fulfill these goals.

I mention the New York Federal Reserve Bank because Viktor Yuzhchenko, National Bank Chairman of Ukraine, is in town this week. We are doing projects with him, with his central bank, through the New York Fed. This gives you an idea of the vast array of resources America has, the kinds of technical assistance knowhow that gets transferred abroad, and in ways that I think achieve what we are all after.

USAID is developing capital markets, establishing equity and commodity exchanges, and other trading infrastructure. We are about establishing responsible regulatory agencies, for instance, analogues to our Securities and Exchange Commission, as well as practices of commercial self-regulation, such as we have on the New York Stock Exchange and the NASDAQ.

We are instituting modern financial accounting standards throughout these countries in their various financial, budgetary, economic structures. We are developing rules and standards of corporate governance dealing with these newly privatized entities to try to make them work. We are drafting, helping draft modern commercial laws.

I might note that on January 1, 1995, the first part of the new Russian civil code containing many of the basic commercial laws went into effect.

And we are overhauling irrational taxation systems to establish a clear, fiscally sound, and nonpunitive tax regime. We are also perhaps bucking our heads against the wall in certain countries trying to privatize land, but we are trying to bring land reform to all of these countries in a modern business sense.

And finally, we are deeply engaged with all of these countries outside of their capital cities. You cannot do one without the other. I myself from my Peace Corps background and the organizing I did for 13 years at AIPAC believe in the bottom-up. I also know in

this kind of setting where we are trying to change structures 180 degrees, you must also go from the top down. That is where the new laws must come from, the new national institutions and structures.

We are supporting reformers then to achieve structural change, trying to build a constituency for the change, helping to open up the diverse new business opportunities to the world market, and I hope we play an effective role throughout this decade and then get out, exit.

Before the century ends, I believe the results in Central and Eastern Europe, as well as in the New Independent States of the former Soviet Union will match, if not exceed, the results of the Marshall Plan. If I am right, the West will have won not only the cold war, but more importantly, the peace that followed.

Thank you.

Mr. Evans. Thank you very much.

I think we will now turn to Mr. Duss. Serge, would you please?

Mr. Duss. Thank you, Mr. Chairman, for the opportunity to contribute these brief comments as we try to assess United States assistance to Central and Eastern Europe and the New Independent States of the former Soviet Union.

Since my specific area of expertise is the New Independent States, I will enter my comments on that geographic area and focus more on the perspective from one active in the grassroots level.

Living and working in Russia for almost 3 years, arriving in Moscow only weeks after the attempted coup against President Mikhail Gorbachev in 1991, allowed me to witness an event several months later very few thought would take place in this century: the termination of the Soviet Union as a political state.

However, the question of dissolving the Soviet welfare state culture molded over 70 years and three generations and whether it evolved into a civil society where a free market flourishes is quite another issue.

At the start the U.S. assistance program to the NIS, particularly Russia, was well intentioned with its emphasis on promoting a market economy and fostering an emerging civil society. However, United States rush to demonstrate support for and solidarity with the new fledgling Russian Government resulted in two major problems which dog the program to this day.

First, Russian reformers and reform institutions were simply unable to responsibly absorb the aid, more than \$1 billion in fiscal year 1994. It did not have the legal and civil infrastructure to accommodate privatization for the most part.

Even though companies may be privatized on paper, they are still controlled by Soviet era directors and operate along the principles of a command economy that are resistant to change.

Small businesses, the key to any thriving free market economy, appear to have missed out on a substantial amount of foreign aid. A recent poll conducted by the Center for Economic Reform in Moscow reveal that only .3 of 1 percent of the small businesses surveyed across Russia, just five out of 1,628, had managed through the help of professional associations to get any international assistance.

In addition, I think too much emphasis was placed on short-term results, jump starting the economy rather than long term. Believe me; nothing is ever jump started in the former Soviet Union.

No. 2, USAID money was dispersed to agencies and contractors that were simply ill prepared to achieve the objectives of the assistance program. One pool of well prepared groups that could have been utilized for project implementation in the NIS, particularly in Ukraine and the Baltics were American ethnic organizations. These organizations are comprised of professionals who speak the language fluently and, more importantly, understand the culture and are committed to the long term.

In addition, before the Bureau for Eastern Europe and the NIS was created at USAID, layers of bureaucracy were actively involved in the decisionmaking process for grant approval.

It's my observation that U.S. assistance programs that focus on the grassroots, the common folks who make up the vast majority of the countries, derive the greatest payback on it investment. Programs that sought to build and strengthen civil society through the development of a variety of citizen voluntary organizations, including self-help associations, empowered those in post-Soviet society who had never before had the right to govern their own destinies.

Programs that focus on management training, education about democracy, rule of law, and free markets inspire and empower formerly powerless people to think for themselves and begin to resolve their own problems utilizing their own available resources.

As the U.S. Government funding begins to decrease in the NIS, programs should begin to focus more on developing a democratic infrastructure, strengthening civil society by training and educating present and potential leaders in these communities. What we must understand is that a social revolution is just beginning to take place in Russia, the Baltic Republics, and Armenia, and less so in the other NIS republics.

This social revolution supersedes political and economic changes. Communities and individuals conditioned to subservience to the state are for the first time dealing with choices and for many it is a very scary experience.

We should also understand that United States assistance, in fact, all Western assistance to the NIS but especially to Russia, is merely a stimulant for a free market development and civil society. Therefore, the U.S. should use diminishing resources to till and cultivate the grassroots so that whatever seeds of aid are invested will be nourished by communities prepared to develop and promote trust, fairness, cooperation, tolerance, and inclusion.

I would suggest that during the remaining years of the U.S. assistance program it focus more on smaller scale privatization, the shopkeepers of the NIS, and target sectors of society that will impact the greatest number of people.

Some suggestions: one, help rebuild educational systems. Schools are starving for new textbooks and curricula free of communist ideology. Funds should be redirected to create books, videos, and films that explain democracy, free markets, political, ethnic, and religious pluralism.

Enthusiastically support legal reforms. Legal systems in all the republics continue to reflect the arbitrary nature of Soviet justice. Legal reform programs should be strengthened. Support must be provided for building an adequate court structure and creating legal associations.

Significantly increase the number of exchange programs for NIS students and budding community, political, and business leaders, and let's not be shy about incorporating the study of ethnics and the vital role of moral values in civil democratic society.

In Russian there is a single word that characterizes all of the envy, hate, and tired mediocrity of the Soviet legacy. The word is "sovok." It's a slang term derived from "sovyet," as in "Sovyet'skiy Soyuz," the Soviet Union.

A 1992 article in one of Russia's first independent newspapers, Nezavisimaya Gazeta, describe the "sovok" as a person with a crazed thirst for equality, a deep hatred for the success of others, and a flourishing laziness.

Ultimately it's the "sovok" mentality that stands as the greatest obstacle to political and economic reform and the steady emergence of civil society and democratic institutions. Only as United States assistance programs in business, government, and social sectors are able to help citizens of post-Soviet republics shed the "sovok" mentality can we have any real hope of success in the NIS and achieving the program's goals for the benefit of future generations.

Thank you.

Mr. Evans. Thank you very, much, Serge.

Next we will turn to Mr. Kojelis. Linas, you have the floor.

Mr. Kojelis. Thank you.

I am pleased to speak on behalf of the Central and East European Coalition on U.S. Government assistance to Central and Eastern Europe and the New Independent States of the former Soviet Union. We are especially pleased to speak before this Commission because it is this Commission, the Helsinki Commission, which for decades has focused and studied the fundamental issues which should be at the heart of U.S. assistance to the region: human rights, democracy, and free markets.

The U.S. assistance program of the past 5 years and the foreseeable future should have been a dream come true for that cluster of individuals and organizations which we can call the Democracy-Human Rights Community. This is the community which worked side by side with this Commission, organizations like Helsinki Watch, Amnesty International, Freedom House, and a host of others, in the long, hard struggle against totalitarianism in Central and Eastern Europe and the former Soviet Union.

All of the members of the Coalition I represent this morning are charter members and veterans of the Democracy-Human Rights Community. We, like you, know fully and understand deeply the wholesale harm done to the countries of CEE and NIS by communism and the excruciating pain and difficulty of the current democratic transformations.

We have worked side by side with you for the past two decades and will continue to work with you far into the future. For organizations like ours, the waste, fraud, and abuse which have become the hallmark of United States assistance to Central and Eastern Europe and the New Independent States is ironic and painful. Everyone in the Democracy-Human Rights Community understood the joy of learning that another hand typed issue of a "samizdat" publication had been successfully smuggled to the West or the anguish in hoping that a letter or a package to a prisoner of conscience in the Gulag might actually be received by the addressee.

