

Transition

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Cliques and Clans and Aid to Russia

Self-styled 'reformers' don't necessarily bring about reform, contends the author, an anthropologist. Her inquiry into links between U.S. government aid and the 'St. Petersburg clan' has paved the way for scrutiny-and suspension-of some aid programs.

By Janine R.Wedel

WHEN the Soviet Union abruptly ceased to exist on 25 December 1991, it seemed that the West, particularly the United States, finally had what it had always wanted: the opportunity to introduce quick, all-encompassing political and economic reform that would remake Russia in the West's own image. Calling for a new Marshall Plan to Russia, Western governments were willing to pay, though stintingly, for the privilege. What they were not willing to do was hand the sacred torch of reform to Russians tainted by association with the former communist regime.

The West wanted to see new faces and to hear "new" ideas, but from its own ideological mold. As Thomas A. Dine, the U.S. Agency for International Development's assistant administrator for Europe and the New Independent States, declared: "We will not waste U.S. taxpayer dollars to provide ... assistance where reformers do not, or cannot, flourish." And so a cadre of Russian self-styled "reformers" stepped into the role that the West had created for them. From 1992 until the present, U.S. economic aid to Russia was essentially entrusted to these reformers—who were dominated by a decade-old clique known as the "St. Petersburg clan."

What was this clan? In short, the St. Petersburg clan was and remains a group of like-minded friends, many of whom came from the city of St. Petersburg. Further, it was and remains the powerhouse behind Russian aid politics. Working closely with Harvard University's Institute for International Development, also known as the Harvard Project, the clan controlled, directly and indirectly, millions of dollars in aid through a variety of "institutions" and organizations set up to perform privatization, economic-restructuring, and related activities. Between 1992 and May 1997, the Harvard Project received \$43.4 million from USAID in noncompetitive grants for work in Russia. The Harvard Project was scheduled to receive another \$14 million before USAID suspended the project in late May due to "activities for personal gain by [Harvard Project] personnel placed in a position of trust in Russia." The Harvard Project-St. Petersburg partnership also managed some World Bank loans to Russia. The aid seemed to yield results: it achieved some market reforms, notably the transfer of a large number of state-owned companies to private ownership.

Just what was the real agenda of the St. Petersburg clan? What made it deserve the status of partner with the West more than other reform-oriented Russian groups and individuals? Did the strategy of focusing largely on one group further the aid community's stated goal of establishing the transparent, nonaligned institutions so critical to the development of democracy and a stable economy for this world power in transition? What were the long-term implications of supporting one group of reformers over others? By 1996, as members of the St. Petersburg clan were being propelled into the highest reaches of the Russian government following the re-election of Russian President Boris Yeltsin, the answers to these questions were emerging. They were not always what the West had expected-or intended.

THE CONSUMMATE CLAN

In a 1995 article in *Nezavisimaya gazeta*, Thomas E. Graham, a senior political officer at the U.S. embassy in Moscow, wrote that Russia is run by rival clans with largely unchecked influence. With unstable political, legal, and administrative structures, there are myriad opportunities for clans to penetrate public institutions, bypass other influences, and lay claim to resources. From the beginning of their association with the West, members of the St. Petersburg clan showed themselves to be savvy operators. None was more astute than the chief figure in the group, Anatolii Chubais, the 41-year-old who, having served as Yeltsin's campaign manager and chief of staff, is currently first deputy prime minister. Chubais has consistently charmed the West with his talent, sophistication, fluency in English, and impressive organizational and political skills. Western politicians and investors see him as the only man capable of keeping the nation heading along on the troublesome road to economic reform.

The view from Russia, however, is quite different. Chubais, who led the much-detested effort to introduce privatization from 1992 to 1995, may be the most hated public figure there. His role as the executor of privatization gave him very strong links with the country's new rich, and many average Russians perceive him as the agent of the privileged. In recent nationwide public-opinion polls, 70 percent of those surveyed said that Chubais's privatization policies had a bad effect, and 85 percent said that they did not approve of his activities as Yeltsin's chief of staff. Chubais's disapproval rating goes way back to 1991, when he was anointed Russia's "tsar of economic reform." Chubais brought together a group of Westward-looking, energetic associates in their 30s, many of whom were his long-standing friends from St. Petersburg. This "St. Petersburg clan" traces its roots to economic and political activities during the Gorbachev years of glasnost in what was then Leningrad. Working closely with Anatolii Sobchak, Leningrad's mayor, Chubais served as his deputy while other members of the clan also helped run the city.

Shifting to Moscow, Chubais acquired a broad portfolio, ranging from privatization and the restructuring of enterprises to legal reform, the development of capital markets, and the formation of a Russian securities and exchange commission. "A new center of economic power is being created around First Deputy Prime Minister Anatolii Chubais," declared the Russian newspaper *Kommersant-Daily* in 1995. Chubais also secured sweeping political powers: a 1996 presidential directive dictated that only Chief of Staff Chubais had the authority to decide whether presidential decrees were ready to be signed; the directive could be circumvented only by direct instruction from the president. Members of the St. Petersburg clan quickly discovered that their Western contacts could help them leverage support that would serve as a critical launching pad and a political and economic resource at home and abroad.

The preferred method of governance continued to be top-down presidential decree, now orchestrated by Chubais. This was true not only of political moves, but also of market reform. After the privatization program passed the State Duma in 1992, every major regulation pertaining to privatization was introduced by presidential decree rather than parliamentary action.

Some USAID officials explicitly promoted market reform through presidential decree and circumvented parliamentary authority. As Walter Coles, a founding father of USAID's privatization and economic restructuring program in Russia, said, "If we needed a decree, Chubais didn't have to go through the bureaucracy." Acknowledging the lack of political support for many reform measures, Coles says: "There was no way that reformers could go to the Duma for large amounts of money to move along reform."

Instead of encouraging reform, however, rule by decree has frustrated many market reforms. Some reforms, such as price controls, can be achieved by decree. But most others, including privatization and economic restructuring, depend on changes in law, public administration, or mindset. They require working with the full spectrum of legislative and market participants-not just one group.

USAID's showcase efforts to reform Russia's tax system and to set up "clearing and settlement organizations"-an essential ingredient in a sophisticated financial system-failed largely because they were put solely into the hands of one group, which declined to work with other market participants. In Moscow, for example, despite millions of USAID dollars, many Russian brokers were excluded from the process and declined to use the Moscow clearing and settlement organization. Thus, since 1994, when consultants working under USAID contracts totalling \$13.9 million set out to design and implement such organizations in five Russian cities, very little evidence of progress has emerged. After investigating Harvard Project activities in Russia, the U.S. General Accounting Office (GAO) called the clearing and settlement organization effort "disappointing."

In addition to hindering particular market reforms, governance through decree stifles democracy and the building of transparent, non-aligned institutions so critical to the development of democracy and a stable economy for this world power in transition.

THE CLIQUE ZONE

The reformers set up still other means of bypassing democratic processes: a network of aid-funded "private" organizations controlled by the St. Petersburg clan and the Harvard Project. These organizations enabled reformers to bypass government bodies, such as ministries and branch ministries, and to circumvent the Duma.

The donors' flagship organization was the Russian Privatization Center (RPC), a private, nonprofit organization set up in Moscow. The center received more than \$41 million from USAID, millions of dollars more in grants from G-7 countries, and loans from both the World Bank (\$59 million) and the European Bank for Reconstruction and Development (\$43 million) to be repaid by the Russian government.

Formally and legally, the RPC is a non-profit, non-governmental organization. But the "private" RPC was established by Russian presidential decree and received foreign-aid funds because it was run by the St. Petersburg reformers, who played key roles in the Russian government. Lending credence to its appearance as a government organization, the RPC's tasks have included participating in policy-making on inflation and other major macroeconomic issues, as well as negotiating loans with international financial institutions. In practice, the RPC and other aid-created organizations are situated somewhere in the twilight zone between state and private, between the Russian government and Western donors, and between Western and Russian allegiance and orientation. Whatever their predilection at a given moment, these organizations are run by the St. Petersburg reformers (with support from USAID through the Harvard Project and U.S. contractors) and serve as the reformers' political resource to allocate in the communist tradition, through patronage networks like those that ran the Soviet Union.

The RPC has presided over ten local privatization centers outside Moscow. With Western aid concentrated in Moscow, donors endorsed aid to the provinces. However, far from serving development, the local centers instead have been used for political purposes, according to

representatives of the three consulting firms (Price Waterhouse, Arthur Andersen, and Carana) that set them up. These contractors maintain that Maksim Boyko, the RPC's managing director, handpicked the directors and deputy directors of each regional center. Dennis Mitchem, a former partner at Arthur Andersen, notes that leaders of local privatization centers were rewarded for blind loyalty, even if that involved doing little or nothing, and were even scolded for local reform initiatives. Mitchem says that the local center directors were concerned mainly with pleasing the RPC; Carana's Robert Otto concurs that local directors "did what [the RPC] wanted done. ... The [local privatization center] people slid very easily into that because it was normal for them to get orders from Moscow."

Can the RPC and other St. Petersburg clan-run, USAID-funded organizations spawn sustainable institutions? All three contractors who helped set up the local privatization centers questioned the extent to which they could have a lasting, positive impact-as did the GAO, which concluded that "the RPC's sustainability is in question once USAID assistance ends in 1997." The practice of funding personalities over reform processes appears to collide head-on with the aid program's broader goal of building lasting, non-aligned institutions.

INTERFACING WITH THE CLAN

Both visibly and behind the scenes, the Harvard Project has been active in setting up, advising, supporting, staffing, and lobbying for funding on behalf of the St. Petersburg clan and its network. The Harvard Project received two cooperative agreements, managed by USAID's Moscow mission, to serve as an impartial adviser to USAID on related projects in Russia. These agreements put the project in the unique position of recommending U.S. aid policies in support of market reform while being a chief recipient of the aid, as well as overseeing some other aid contractors, some of whom are its competitors. The GAO found that "[The Harvard Project] served in an oversight role for a substantial portion of the Russian assistance program" and that the project had "substantial control of the U.S. assistance program." It described USAID's management and oversight of the Harvard Project as lax.

All these circumstances-one group's near-monopoly on aid in support of market reform, support of communist-style patronage networks and top-down reform, and the creation of chameleon-like private organizations used as political machines-have made it easy for members of the St. Petersburg clan and their supporters to work all sides of the table. If criticized by Russians for public policies or misuse of funds, the clan could claim that donors made the decisions. If they came under fire for funding privatization, which many Russians have dubbed pri-khvatizatsiya, or the "great grab," donors could disassociate themselves from the state because they were funding "private" organizations, even if the organizations were run by government officials. That setup not only facilitates deniability, it institutionalizes it. Such an aid system lacks outside accountability and precludes significant oversight by U.S. and Russian authorities not aligned with the chosen group.

POLITICAL AID

It is easy to understand the donors' impulse to support reformers. As USAID's Walter Coles said, "Reformers are the ones who are willing to take the risk. Their necks are on the line."

While that approach sounds good in principle, it is less convincing in practice because it is an inherently political decision disguised as a technical matter. Reformers Maksim Boyko, Andrei

Shleifer, and Robert Vishny admitted in their 1995 book *Privatizing Russia*: "Aid can change the political equilibrium by explicitly helping free-market reformers to defeat their opponents. ... Aid helps reform not because it directly helps the economy-it is simply too small for that-but because it helps the reformers in their political battles." U.S. privatization aid, the reformers added, "has shown how to ... alter the balance of power between reformers and their opponents."

In a recent interview, the U.S. aid coordinator to the former Soviet Union, Ambassador Richard L. Morningstar, stood by that approach: "If we hadn't been there to provide funding to Chubais, could we have won the battle to carry out privatization? Probably not. When you're talking about a few hundred million dollars, you're not going to change the country, but you can provide targeted assistance to help Chubais." U.S. assistance to Chubais continued even after he was dismissed by Yeltsin as first deputy prime minister in January 1996. Chubais was placed on the Harvard Project payroll.

Several fallacies appear to guide these policies. One lies in the faith of U.S. policymakers in stated ideological positions and in "Western" appearance. Donors tended to identify the reformer as such not because he was an agent of change in support of market reform (although he might, indeed, have embraced reform). The characteristics that donors appeared to recognize most often were pro-Western orientation; ability to speak English and to converse in the donor vernacular of "markets," "reform," and "civil society"; already-established Western contacts; travel to or study in the West; and, perhaps most important, self-declaration as reformers. The most popular Russian reformers in Western political and aid circles were young and energetic, adept in their dealings with donors-and Westerners took them at face value.

Yet identifying reformers on the basis of personal attributes and declared ideological positions-as they look in the West-is wrongheaded. The disillusionment of those who were not young or glib or "Western" enough to be chosen was expressed to me by Aleksandr Lebed's spokesman: "We [are] disappointed by the way you Americans find friends in Russia. ... Criminal and corrupt men can use all new opportunities with success, but men of work and honor cannot advertise themselves. ... If you did not want crisis in Russia, if you want [a] free, wealthy, democratic Russia, try to find friends that really can work on market reforms."

Another fallacy lies in expecting that any group-even a group of talented, visionary reformers-would ignore its own agenda, especially when it is designated the sole beneficiary of so much aid. While in the West this loyalty might signal effectiveness, in Russia it tends to appear more like a nomenklatura-type network that creates and shares profits. The chosen St. Petersburg reformers were as visibly involved in politics and creating opportunities for themselves as they were in reform activities.

In apparent pursuit of their own agenda, key St. Petersburg players have been known to actually obstruct reform when reform initiatives have originated outside the group. When a USAID-funded organization run by St. Petersburg players did not receive the additional funds they had expected from USAID, those players reportedly interfered with legal reform initiatives in title registration and mortgage that were launched by agencies of the Russian government.

All this exposes the fact that partisan politics in Russia have played a major role in shaping U.S. economic aid to that country. U.S. policies afforded one group a comparative advantage and allowed much aid to be used as the group's tool. This feels familiar to Russians raised in the communist practice of political control over economic decisions-the quintessence of the discredited

communist system. Ironically, far from helping to separate the political and economic spheres, U.S. aid has instead reinforced their interdependency.

By siding with a particular group in a highly politicized environment, U.S. assistance weakens its own effectiveness. U.S. policies have made it difficult to establish credibility with other reform groups and opened Western aid to skepticism about capitalism, reform, privatization, and the West. How Russian elites perceive the efficacy of aid programs and the motives of donors should be a source of concern, especially because many Russians have questioned American intentions. According to one survey carried out by Igor Klyamkin in the spring of 1995, two-thirds of Russians believed that the United States had a calculated anti-Russian foreign policy. As long as suspicion of Western motives remains pervasive, anti-Western and anti-reform politicians can manipulate the Russian self-image of a wounded superpower and proclaim that Russia is, as always, being exploited by the West.

POLICIES FOR A LASTING IMPACT

First Deputy Prime Minister Chubais will probably continue to be one of the most important figures in the Russian government. Clearly, the West should maintain its channels to Chubais and other members of the St. Petersburg group. They can, along with other groups shaping Russian politics and economics, help to build institutions and launch market reforms. It is essential, however, that aid policies encourage the rule of law and discontinue support of non-inclusive "private" organizations and the bypassing of democratic process through decree.

Building lasting, non-aligned institutions is a tough assignment in any context, and all the more so in Russia. The major challenge in aid policy is how to help build bridges in a conflictive environment with many groups and few center coalitions. Donors should be required to work with all relevant parties, not just one political group, toward transparent, non-exclusive institutions. As USAID's Keith Henderson expresses it, "Over the long term the place to really invest resources is the participatory strategy, because that is where the primary reform becomes sustainable."

In a recent interview, Ambassador Morningstar outlined a new and promising initiative to the countries of the former Soviet Union, designed largely to spur trade and investment. As the U.S. continues to assist Russia, and Ukraine becomes the West's new aid priority (\$225 million in U.S. aid has been earmarked for Ukraine in 1997 and 1998 each), it is critical to not repeat the same mistakes.

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