

WORLD NEWS - EUROPE - Russia turns its back on western aid - As its economy starts to come right, ...

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WORLD NEWS - EUROPE - Russia turns its back on western aid - As its economy starts to come right, Moscow can afford to ignore international donors, even to the extent of declining to make repayments. Andrew Jack reports.

Just as international organisations are seeing Russia achieve the kind of economic performance they long hoped for, their prospects of influencing the country's future policy are declining fast.

With growth of 7 per cent last year, a strong trade balance, a projected budget surplus for this year, the rouble stable and foreign currency reserves building up, Russia's economy looks stronger than it has for years.

A compliant parliament, an energetic president and a team of liberal economic reformers in key government positions ought to be well placed to implement structural reform - notably in banking and of natural monopolies - that has long been demanded by bodies such as the International Monetary Fund.

Yet an IMF mission hoping to agree a new programme left Moscow empty-handed in late November after unexpected and fundamental disagreements over issues including the levels of government expenditure.

Since then, there has been little sign of reconciliation. Indeed, the supposedly private meeting in Moscow this weekend between Germany's Chancellor Gerhard Schroder and President Vladimir Putin has taken on a new public importance following hints yesterday that Russia would not honour repayments this month to the Paris Club of sovereign creditors.

One reason for Russia's apparent lack of concern over making repayments is that it does not now need money from foreign donors and is more confident in dictating its own terms as a result. "We have far less leverage than in the past because of the strong financial situation," says a senior official at one international organisation.

Another factor is that Mr Putin, concerned about Russia's dependence on the outside world, has sent signals to his administration in recent months that foreign aid should be reduced in an effort to establish greater autonomy.

Just as important, however, is that the main foreign lenders are rethinking their strategies towards Russia and taking a tougher stance. Organisations as diverse as the World Bank and the Soros Foundation have reduced their commitments.

"There was a tremendous urge in the early 1990s to pump a lot of money into Russia, but the actual results were less than the expectations," says Tom Graham, a political analyst at the Carnegie Foundation and former US diplomat. "Everybody is reassessing what happened."

Janine Wedel, a US academic, argued in her book *Collision and collusion* that western assistance to Russia focused on supporting a small circle of individuals - the young liberal reformers - rather than on specific policies. When these individuals fell out of favour, so did the foreign sponsors and their programmes.

US Republican congressman Christopher Cox, who last September produced a scathing report on President Bill Clinton's policy towards the country during the 1990s, concluded: "Russia today is more corrupt, more lawless, less democratic, poorer and more unstable than it was in 1992."

An analysis published this month by the US General Accounting Office (GAO) examined the \$38bn provided to Russia in the 1990s by five leading international institutions: the IMF, the World Bank, the European Bank for Reconstruction and Development (EBRD), the European Union's Tacis and the US Aid programme.

Albeit couched in more diplomatic language, the report is also critical, citing studies by the organisations themselves. It says that approaches were unco-ordinated, expectations too high, and both corruption and a lack of Russian political consensus in favour of reform substantially limited progress.

Mr Graham says that much aid was directed at supporting companies in the donor countries and "trying to persuade Russians to do things they didn't want" with little thought to local social and economic conditions. The result only helped boost corruption.

Meanwhile the IMF, the largest individual lender, came under political pressure to offer repeatedly credits in exchange for promises that never materialised, while apparently turning a blind eye to less attractive aspects of policy.

If international organisations are reconsidering their approach to Russia in the wake of the difficulties of the past, the political environment in which they are operating is also changing.

The fading memory of the collapse of communism, disillusionment over the slow pace of progress, and recent scandals including allegations of money laundering through the Bank of New York and Russia's campaign in the breakaway republic of Chechnya and cultivation of "pariah states" have done much to reduce the appetite for increased support.

Finally, all the international organisations remain hampered by another factor. Russian thinking on economic matters roughly reflects the approaches of the organisations. But the broader goals of building a civil society and a just legal system - which most believe are essential for long-term policy implementation - remain far from fulfilled.

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