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Problems of *Post-Communism*

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Photo Credit: A girl stands on a statue of KGB founder Feliks Dzerzhinskii, which was toppled during the 1991 attempted coup and now lies abandoned near Gorkii Park. In the background is a statue of Mikhail Kalinin, the first Soviet President (AP photo).

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International Aid to the Former Soviet States

Agent of Change or Guardian of the Status Quo?

Alexander Cooley

Foreign aid may be inadvertently undermining popular support for economic reform and encouraging governments to use quasi-authoritarian tactics.

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NEARLY a decade after the Soviet collapse, scholars are still evaluating the outcomes of the political and economic reforms undertaken by the Soviet successor states. **Curiously**, however, few analysts examine the local impact of the significant inflows of loans, grants, and technical and humanitarian assistance provided by the West. Indeed, the assumption that foreign assistance, as a whole, is having a positive effect on the consolidation of market and political reforms in the former Soviet region has rarely even been questioned.¹

The theoretical issue of how foreign aid affects host polities is usually glossed over by two prevailing schools of thought. The first school, transitology, assumes that as formerly planned economies steadily progress toward constructing market institutions, links to the international system will inevitably accelerate the transition process.² Whether in the form of foreign direct investment, liberalizing trade and capital accounts, or deepening ties with international organizations, international flows are viewed as agents of change in both a positive and a normative manner. Foreign aid is seen not only as accelerating political and economic reform, but as a force that “helps” its recipients.)

The second dominant view is the “sovereignty-undermined” thesis, articulated by international relations theorists and scholars of international political economy.⁴ From this perspective, the International Monetary Fund (IMF) and other international donors curtail the sovereignty of recipients by imposing “conditions.”

Host governments may bargain with international lenders in an effort to preserve as much autonomy as possible, but eventually they **must** agree to some reforms as a condition of the aid disbursement or be cut off from future assistance. From this view, aid does not simply initiate domestic changes, it undermines the existing institutions and sovereignty of the recipient state.

This article challenges both of these views, demonstrating how conditional loans, technical assistance, and other types of foreign aid have not been agents of reform, but instead have actually preserved many of the institutions and patronage networks of the old Soviet state. These informal networks, which functioned parallel to the formal institutions of the Soviet state, have been strengthened by the material, political, and normative resources provided by the donor community. As a result, while reforms have certainly been initiated in the economic sphere, they have not been consolidated in the manner that most donors predicted at the outset of the transition period.⁵ Moreover, democratization has in many cases been hindered by the inflow of foreign aid. Tainted by the corruption and illegitimacy of the recipient regimes, international aid providers run the risk of undermining the credibility of the reform process or even triggering a violent backlash.

While space does not permit a full evaluation of these hypotheses or a discussion of all the Soviet successor states, the evidence that is offered draws upon the experiences of the must reform-oriented members of the CIS: Armenia, Georgia, Moldova, and Kyrgyzstan. Russia is deliberately excluded because of its size and geostrategic importance, but the dynamics outlined in this article can also be observed in the former imperial core.⁶

Soviet legacies: Formal and Informal

An array of formal and informal institutions and networks of exchange underpinned the Soviet economic system. Formally, it was founded upon a series of union-wide and republic-level ministries, organs, and agencies that were part of an expansive bureaucratic hierarchy. Officially, micro-level institutions like the collective farm or the enterprise relied upon this bureaucracy to allocate credits, coordinate and monitor activities, and provide output targets. General planning was controlled by an all-union agency, Gosplan, and broad decisions and output targets were made in accordance with the political calculations and needs of the Communist Party.⁷

In reality, a network of informal economic and social institutions Co-existed with the official communist

economic organizations. **Networks** for informal barter and exchange, usually based on personal as opposed to legal ties, permeated every sphere of Soviet socioeconomic life.⁸ Moreover, as Boyko, Shleifer, and Vishny suggest, although property and assets were formally owned by the state, local administrators, bureaucrats, managers, and other economic agents exercised *de facto* control over them, especially after the decentralizing experiments of *perestroika*.⁹ Informal institutions played key roles in the management, allocation, and distribution of economic assets during the Soviet era.¹⁰

In some places, especially in the Caucasus and Central Asia, traditional socioeconomic cleavages of kinship and clan Co-existed with the formal Soviet system. Moscow's ineffective oversight, especially in decentralized issue areas like agriculture and education, afforded rural administrators and republican elites opportunities to distribute positions and resources based upon traditional social loyalties and affiliations. As a result, informal state-society networks grafted themselves onto local chapters of the Communist Party or collective farms.¹¹ They were reinforced by direct economic transfers (between 22 percent and 47 percent of total republic-level revenues in Central Asia) from the union budget, and they persisted right through the collapse of the Soviet Union.¹² As a result, economic activity was as much patronage-governed as socialist-driven, as several studies even by Soviet scholars acknowledged.¹³

This patronage system became stronger during the Brezhnev era, when administrative decentralization along a number of issue areas effectively entrenched Moscow's clientelistic relationships with republican cadres. The infamous Uzbek "Cotton Affair" is a dramatic example of the extent to which informal networks hid their activities under the rubric of the Soviet state. In the late the mid-1980s Moscow's prosecutor general discovered that Uzbek cotton barons and local Party bosses had conspired to bill Moscow for 1 billion rubles worth of cotton that was never produced.¹⁴ The widespread purging of Central Asian Party bosses on the grounds of nepotism and corruption during Gorbachev's reign only testifies to the extent to which patronage politics fused with the communist state in the peripheral republics.

With the collapse of the Soviet Union and the communist system, these informal networks continued to structure many aspects of economic, political, and social life, albeit in a new formal context—the "transition" process. Viewed from this perspective, the corruption that has characterized most aspects of the reform process—including insider privatization, em-

Table 1

IMF Disbursements to CIS Countries, 1993–1999 (millions of SDRs)

Country	1993	1994	1995	1996	1997	1998	1999	Total	Repayments
Armenia	0	16.88	30.38	33.75	16.88	37.80	20.93	156.60	9.98
Azerbaijan	0	0	67.86	53.82	76.05	30.41	80.32	308.46	11.72
Belarus	70.10	0	120.10	0	0	0	0	190.20	60.46
Georgia	0	27.75	49.95	55.50	55.50	27.75	33.30	249.75	16.42
Kazakhstan	61.88	136.13	92.82	92.78	0	154.70	0	538.30	203.15
Kyrgyzstan	43.86	9.46	30.32	16.13	32.25	10.75	19.63	162.39	23.70
Moldova	63.00	49.45	42.40	22.50	15.00	0	50.00	242.35	114.66
Russia	1,078.28	1,078.28	3,594.25	2,587.86	1,467.25	4,600.00	471.43	15,596.34	4,494.06
Tajikistan	0	0	0	15.00	7.50	47.80	6.66	76.96	3.75
Turkmenistan	0	0	0	0	0	0	0	0	0
Ukraine	0	249.33	787.98	536.00	207.26	281.82	466.60	2,528.98	484.36
Uzbekistan	0	0	105.95	59.25	0	0	0	165.20	18.37

Source: www.imf.org, individual country information pages.

Note: Data reflect total loans from the General Resource Account (GRA), Structural Adjustment Facility (SAF), Poverty Reduction and Growth Facility (PRGF) and Trust Fund (TF). Yearly disbursements may not exactly match totals due to rounding. The Russian total also includes a disbursement of 719 million SDRs from 1992.

bezzled state funds, and pervasive organized crime—is evidence of the power and durability of the old patrimonial networks, not an exception to a marketizing norm.

Unfortunately, foreign donors have paid scant attention to how the reform process affects these informal institutions at the micro-level. Indeed, the exclusive focus on eliminating the formal institutions of socialism from law, economy, and society has actually strengthened the power of the informal. As a result, donors have unwittingly preserved many of the informal institutions despite the successor states' official claims of political and economic liberalization.

What Is International Aid?

The term “international aid” encapsulates many different types of external assistance. While the Soviet successor states have been given nothing like the new Marshall Plan that some economists advocated, the smaller of them have received substantial support for their reformist policies, especially in relation to their GDP and populations. A great many countries and multilateral institutions have offered both monetary and non-monetary assistance.

The IMF has granted the most publicized loans, providing short-term financing to all of the post-Soviet states except Turkmenistan (see *Table 1*).¹⁵ As in Russia, the IMF's imposition of condition—a set of policies meant to stabilize the economy, free prices, privatize state assets, and liberalize international transactions—has been a politically sensitive issue.¹⁶ In the smaller, more aid-dependent states, such as Moldova and

Kyrgyzstan, IMF conditionality packages were the driving force behind the adoption of an ambitious series of reforms.

Despite its reputation, however, the IMF is only one of a host of multilateral economic-assistance providers. Other prominent players include the **European Bank for Reconstruction and Development (EBRD)**, the World Bank, the **Asian Development Bank (ADB)**, and the United Nations Development Program (UNDP). Unlike IMF loans, designed to stabilize the current account, loans from these agencies target specific state sectors and projects. For instance, the EBRD generally provides funds for infrastructure development, while the World Bank extends loans as part of a general poverty-relief campaign. What should be noted, though, is that the overwhelming majority of such lending—by its nature—accrues directly to some division or agency of the state.”

Non-monetary aid provides advice and expertise for transforming various sectors. So-called technical assistance rapidly increased throughout the 1990s, in response to perceptions that important organizational changes were needed in the bureaucratic organs of the aid recipients. The most prominent technical-assistance providers have been the United States Agency for International Development (USAID) and the European Union's Technical Assistance Program to the Commonwealth of Independent States (TACIS). Aid of this kind focuses on issues ranging from promoting democracy and reforming legal institutions, to economic initiatives, such as creating capital markets, reforming tax codes, and introducing Western accounting standards. In many

instances, the total value of such aid has exceeded the monetary assistance from the **IMF**, as **Table 2** indicates for 1998. Certain multilateral lenders, including the **ADB** and the World Bank, have also provided technical-assistance projects, usually as complements (often as conditions) to monetary and developmental assistance in a particular sector.

In theory, both conditional assistance and technical assistance are supposed to promote institutional change and help consolidate newly introduced market mechanisms. In addition to providing financial assistance to help stabilize the economy, conditionality forces the state to **spend** less and curtail subsidies, privatize previously state-controlled enterprises, and liberalize prices, the exchange rate, and the trade regimes. **As** the state retrenches from the economy, **so** the conventional wisdom holds, its aggregate role should diminish and the private sector should flourish. The accompanying changes in the state's governing institutions resulting from technical assistance programs should bring about changes in the organizational norms, rules, and operating procedures of the regulative state bureaucracies, allowing them to better govern the new market institutions.

The logic behind these two sequences of events is flawed. Foreign donors incorrectly assume that new market institutions, when introduced, will necessarily replace existing informal mechanisms for economic decision-making, allocation, and distribution. As shown below, however, there are several reasons why foreign aid, both conditional and technical, has inhibited the consolidation of economic and political institutional change.

Conditional Aid: Institutional Change or Institutional Hybrid?

While the four states discussed in this article have at times had rocky relations with the **IMF**, all have generally stuck to the prescribed reforms, although loan packages have been delayed in Georgia and Moldova because of their non-compliance with Article IV (bilateral consultation) **agreements**.¹⁸

IMF conditionality played a decisive role in initiating, expediting, and shaping structural reforms in these states, and credit disbursements have played a crucial role in stabilizing the budgets of the Soviet successor states (see **Table 1**). The neglected analytical issue, however, is whether conditionality is sufficient to consolidate these reforms or whether the process of adjustment, or "transitioning," is itself being institutionalized as a permanent state of affairs. In other words, has IMF

conditionality brought about true institutional change?

While conditionality measures supposedly curtail some of the state's involvement in the economy, the partial or total elimination of its administrative or regulatory structures does not mean that previous economic practices at the micro-level will be transformed. Indeed, most conditionality **programs** do little to create new institutions (e.g., legal or regulatory codes) that **will support** the macro-economic policies of **an** austerity and stabilization program. **As** scholars working in the field of new institutional economics have pointed **out**, **un-**less appropriate institutions can be created to solve the informational, monitoring, and enforcement problems (or "transaction costs") inherent in the exchange of **private** property, the **efficiencies** of market-based **exchange** will not be realized.¹⁹ Simply put, while economic conditionality can **rectify** certain macro-economic problems in a recipient's economy, such as reducing the rate of inflation, it cannot create the supporting infrastructure for institutionalizing market behavior at the micro-level.

This institutional "lag" has profound consequences. **As** the experiences of other impoverished IMF borrowers suggest, old forms of state behavior, such as patronage, state **corruption**, and political control over economic activity, will continue even after extensive macro-economic reforms are implemented.²⁰ In fact, given the extent to which patronage networks in government and in society at large permeate the post-communist states, the most logical outcome is that new market institutions will **Co-exist in parallel** with previous networks. Furthermore, there is no theoretical or empirical reason to expect that this institutional hybrid will be ephemeral or transitory. As long as multilateral aid continues to flow into the bureaucracies and agencies of the patrimonial state, such **an** environment will itself become a consolidated state of affairs.

The issue of tax collection best illustrates the **co-existence** of old and new economic institutions. New tax codes have been enacted in the Soviet successor states, usually **as** a result of donor projects, but tax collection is not enforced, and individuals and enterprises with strong official connections and networks are given tax breaks or exemptions. Tax institutions are particularly weak in Georgia, a country with one of the world's poorest collection records. **As** a percentage of **GDP**, government revenues in 1996 were 8.1 percent, significantly lower **than** any neighboring country, including Tajikistan (12.3 percent), Armenia (16.2 percent), and Azerbaijan (16.2 percent).²¹ In comparison with the average of other post-Soviet countries, Georgia collected just **20** percent of profit taxes, 40 percent of income taxes, and 33 percent

Table 2

USAID Project Expenditures, 1998

Country	1998				1999
	Total (\$USm)	Per Capita (\$US)	Total IMF credits (\$US)	IMF credits (\$US) per capita	Total (\$USm)
Armenia	87.5	23.0	50.3	13.2	79.9
Azerbaijan	34.3	4.3	40.4	5.1	23.8
Belarus	7.3	0.7	0	0	9.8
Georgia	92.5	17.1	36.9	6.9	84.4
Kazakhstan	40.5	2.6	205.8	13.1	44.2
Kyrgyzstan	24.5	5.2	14.4	3.1	28.5
Moldova	33.1	7.7	0	0	35.9
Russia	133.2	0.9	6,118.0	41.6	172.4
Tajikistan	12.2	2.0	63.6	23.7	12.0
Turkmenistan	5.5	n/a	0	n/a	13.4
Ukraine	225.0	4.5	374.8	7.5	195.0
Uzbekistan	20.7	0.9	0	0	27.6

Source: www.imf.org USAID congressional presentations at www.info.usaid.gov/pubs/cp200.

of the value-added tax as a ratio to GDP.²² Georgian officials estimate that in 1996 more than \$40 million in tax arrears was not collected due to corruption problems.²³ The 1998 actual revenue figure of 8.9 percent shows that little is changing in the impoverished republic.²⁴

In Armenia, the total amount of tax arrears (excluding penalties) rose in 1997, despite reforms in administration and collection procedure — again, the fruits of technical assistance projects.²⁵ Moldova's level of tax revenues is comparatively strong (28 percent of GDP), but direct taxes, such as corporate and social security taxes, have been steadily dropping as the government grants amnesties to individual enterprises.²⁶ Kyrgyzstan, which adopted a "modernizing" tax code because of a much-publicized USAID project, has also failed to improve domestic extraction. As the IMF recently noted, "an increasing number of discretionary tax exemptions to VAT, customs, and excise duties has eroded the tax base following the introduction of the new tax code on July 1, 1996."²⁷

While macro-reforms and privatization have been implemented in all the aid-dependent reformers, they have not altered the underlying political and social motives that structure economic relations between individuals and entities on the micro-level. The 1998 IMF survey of Georgia underscores the point:

Patronage rather than superior management appears to be the key to success in many sectors, given the weak legal framework and broad discretion of officials. Firms with official connections are more able to avoid taxes. . . . Official connections can also help borrowers obtain access to credit and it is not unusual for govern-

ment departments to operate businesses in areas which they regulate, including, for instance, competitive markets such as cellular communications and taxis.²⁸

Even with attached conditions, foreign donors have unwittingly helped to perpetuate the institutional status quo. Aid has worked against the nominal goal of promoting lasting economic transformation and, instead, has preserved the informal institutions of the successor states. Ironically, foreign aid is now playing the same role as Moscow subsidies during the Soviet era, providing external funds with which state officials consolidate their political base and informal power networks.

Project Monitoring and Opportunism

Even when conditionality reforms are fully implemented, an ambiguous institutional environment will ensue. However, very often, in the successor states, the glass is less than half-full. When oversight mechanisms are poor, the recipient may not implement externally sponsored conditionality measures or projects. Funds targeted for state institutions, such as central banks, ministries, and other state organs, are often misallocated or embezzled.

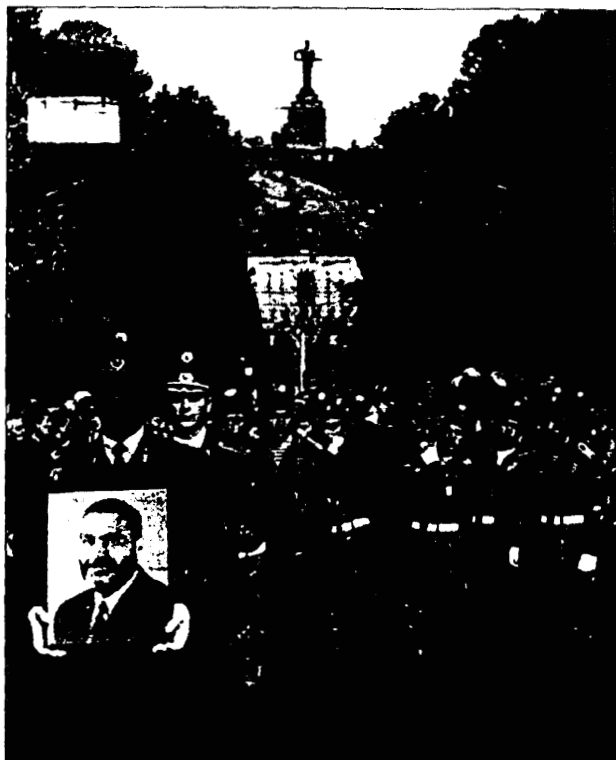
In theoretical terms, relations between a recipient and a donor can be modeled as a principal-agent problem where the aid provider is the principal and the aid recipient is the agent. Terry Moe defines this relation as one "in which one party, the principal, considers entering into a contractual agreement with another, the agent, in the expectation that the agent will subsequently choose actions that produce outcomes desired by the

principal.²⁹ As in any hierarchical relationship, the fulfillment of the principal's directives by the agent cannot be taken for granted.³⁰ Agents have their own set of preferences, often at odds with those of the principal, and will engage in opportunistic behavior when given the chance. Moreover, agents tend to withhold information about their activities or skew it in such a way as to avoid revealing non-compliance with obligations.³¹

For all these reasons, there is a crucial need for monitoring mechanisms that minimize opportunism by effectively processing information and providing feedback about the agent's activities.³² In the case of foreign aid, multilateral donors may establish committees or hold regular meetings with the recipient to review and evaluate economic performance. They may also demand the right to approve important economic decisions, such as the appropriation of the budget. Finally, delaying future credit disbursements for outstanding contractual obligations is itself a potent mechanism for ensuring the aid recipient's compliance.

Oversight is very difficult in the post-communist states, however. Bureaucrats and state agencies carried over from the Soviet era excel at concealing their actions from the public, external auditors, and one other. External agencies, in turn, lack substantive local experience and knowledge of these bureaucratic shell games. IMF and World Bank staff members, trained in theoretical economics, have very little background in the politics of the countries where they serve. Even a permanent international mission must rely on local officials to implement policies in good faith. Finally, bureaucrats in the former Soviet peripheral republics are accustomed to falsifying information, data, and economic indicators, a practice perfected in the Soviet era.³³ For all these reasons, the implementation of a conditionality package cannot be taken for granted.

Inadequate monitoring of external credits and conditional aid has led to a great many corruption and embezzlement scandals in the small aid-dependent post-Soviet states. In Kyrgyzstan, external credits designated to build pharmaceutical, mineral water, and baby food plants—all from different external donors—were almost totally embezzled by various state agencies and bureaucracies. None of the projects made it past the design stage.³⁴ Similarly, in Armenia, corruption is endemic in state ministries and organs, especially after the massive inflow of grants and food aid that followed the cease-fire with Azerbaijan. The former minister of light industry, Rudolf Teimurzan, allegedly embezzled a substantial portion of a \$5 million grant from China earmarked for the purchase of goods.³⁵ In Moldova,



An officer carries a photo of slain Armenian prime minister Vazgen Sarkisian as the body of the prime minister follows behind en route to the Irablur military memorial, October 31, 1999. Sarkisian, parliamentary speaker Karen Demirchian, and six other officials and legislators were killed in an attack of the Armenian parliament four days earlier. The general perceptions of rampant corruption and authoritarianism in Sarkisian's government were linked in part to his close ties to the international donor community. (AP Photo/Misha Japaridze)

Communist Party officials repeatedly alleged that the Lucinschi regime had abused external financing or poorly distributed international assistance, leading to a number of corruption scandals involving state officials.³⁶

Of course not every state agency engages in rent-seeking activities, nor are all state officials corrupt. Throughout the post-communist states, genuine reformers are trying to promote economic change. However, as long as monitoring problems persist, individuals with access to foreign credits and project—r in traditionally abused posts, such as the customs and tax inspectorates—will steer some funds for personal profit and perpetuate the entrenched culture of *étatisme*.

External Debt and the Reform Process

Related to the problem of revenue extraction, the reforming former Soviet states have relied too much on external financing to maintain their fiscal solvency. The regimes in Georgia, Armenia, Kyrgyzstan, and Moldova have increasingly turned to foreign lenders and inter-

Table 3

Debt/GDP Ratios for Selected CIS and lower-Middle-Income States

Country	1997	1998
Armenia	49.0	43.5
Georgia	29.4	32.8
Kyrgyzstan	81.9	96.9
Moldova	47.9	62.6
Russia	28.9	64.7
Brazil	23.6	28.2
Kenya	61.3	60.8
Malaysia	47.1	66.5
Thailand	62.7	86.8

Sources: World Bank individual country data; www.worldbank.org/html/extdr/regions.htm.

national money markets to finance their spending. The growing amounts of external debt threaten the very heart of the reform process for several reasons.

First, the continuing availability of external finance, whether in the form of IMF loans, import credits, grants, or Euromarket borrowing, further discourages governments from improving their anemic systems of domestic revenue extraction. As debt-to-GDP ratios continue to climb, aid-dependent reformers may find their growth potential stunted by a debt crisis reminiscent of the one that struck Latin America in the early 1980s (see Table 3).³⁷

Ominously, the post-Soviet states have accumulated their arrears at a much faster rate than other debtors, such as Thailand, Malaysia, or Kenya.³⁸ As of early 1999, the total external debt (as a percentage of GDP) had grown to 62.6 percent in Moldova, while the figure had reached 96.9 percent in Kyrgyzstan. In the same period, Georgia and Armenia reached 32.8 percent and 42.5 percent, respectively. The post-Soviet states' growing exposure to volatile international capital markets risks an outflow of short-term investment capital if the debt situation is not improved. As Tomas Maier, EBRD representative to Moldova, commented:

One of Moldova's key problems is its dependence on international financial support. If this support is curtailed because of lack of compliance with the International Monetary Fund (IMF) and the World Bank, there could be a situation where the currency implodes.³⁹

Beyond this "moral hazard," the growth in debt threatens to undermine popular support for the reform process. As post-Soviet borrowers devote ever larger proportions of their budgets to debt-service payments, social spending and public investment — already at cri-

sis levels—will have to be cut even more.⁴⁰ In turn, further austerity measures will adversely affect certain segments of the populace, such as white-collar public employees, the unemployed, and pensioners, and reinforce public perceptions that the reform process is benefiting a select elite.

The reliance on external flows may also prove fatal for democratic consolidation. Politically, continuing to rely upon external flows for budgetary solvency disrupts the fiscal origins that have historically underpinned democratic legitimacy. A common pattern in consolidated democracies, particularly those in the West, is that they all have effective institutions of internal-revenue extraction. As scholars of Western state formation have argued, rulers and governments have traditionally ceded a certain amount of power and voice in government to certain social segments in exchange for domestic revenues.⁴¹ Indeed, for Robert Bates and Da-hsiang Lien, the ability of revenue-seeking governments to make citizens willing to pay taxes entails deferring to their policy preferences in a manner that delineates the "origins and limitations of democratic institutions."⁴² This does not mean that successful revenue extraction always necessitates a democratic bargain, for authoritarian regimes are often more flexible in designing new tax institutions.⁴³ However, the converse has always been true historically: Successful democratic consolidation has never occurred without an effective system for domestic extraction.

Donor Interests and Competition

The organizational interests of the donors are another factor that has inhibited international aid from functioning as an agent for change. International lenders and technical-assistance providers, of course, are often well aware of the institutional issues and monitoring difficulties, but they have an organizational interest in supervising — and taking credit for — instances of successful reform. As permanent organizations, international donors must maintain their reputations as effective reformers and be able to point to "successful cases" where an implemented structural reform plan has produced positive results. Consequently, donors in a reforming country that is faltering or renegeing on parts of a conditionality package have incentives to ease their loaning criteria and overlook aid abuses.

Moreover, both USAID and TACIS almost exclusively rely on subcontractors for project implementation, creating another set of agency problems. Since subcontractors are primarily interested in renewing their

project contracts, they have incentives to ignore problems in project design and implementation and to allow local bureaucracies and agencies that are nominally reforming to violate many of the project's initial aims and goals. The fact that most contractors are large corporations, with their own extensive managerial structures, staff, and organizational routines, hinders their capacity to learn and adapt to the needs of a local environment.⁴⁴

Furthermore, donor control over policy implementation will be diluted in situations where several donors are vying for influence. The so-called multiple-principals problem arises when several international agencies compete to provide assistance in the same sector of a recipient state.⁴⁵ As a result of donor competition, the targeted recipient bureaucracy is empowered to pick and choose among the subcontractors' proposals without enacting the institutionally disruptive parts of any project. In Kyrgyzstan, for instance, reforms in taxes, energy, small-scale agriculture, and the pension system were all put off, if not halted, due to competition and lack of coordination among USAID, TACIS, the World Bank, the Asian Development Bank, and GTZ.⁴⁶ In such instances, bureaucracies hostile to reform can play competing donors off against one another and demand additional perks from project directors.

Aid, Democratization, and Domestic Regime Legitimacy

Finally, the very presence of several major aid organizations in a country necessarily endows the ruling regime with international legitimacy that it can subsequently use to camouflage anti-reform practices. Recipients of foreign aid and technical assistance acquire an international reputation for liberalization that may, in fact, diverge from actual state and bureaucratic practices. This can play a critical role on the political front. While organizations like the IMF and the World Bank publicly encourage the development of "good governance" institutions and democratization, their primary interests reside in such organizational goals as disbursing loans, initiating economic reforms, and sustaining ongoing development projects.

These "sunk costs" lead donors to gloss over violations of democratic norms and manipulations of the political process in order to preserve their good relations with an existing regime. When organizations like the IMF point to Kyrgyzstan, Armenia, Georgia, and Moldova as successful models of economic and political liberalization, officials in these states conclude that

they can violate democratic codes of conduct with international impunity.

The 1995 Kyrgyz parliamentary elections illustrate the point. In the weeks leading up to the February 5 polling date, numerous opposition groups, non-governmental organizations (NGOs), and the independent media complained of open intimidation and bribery during the campaign (particularly in rural areas). Despite appeals by local activists and NGOs to annul the election, monitors from the Organization for Security and Cooperation in Europe (OSCE) reported that the voting was "fair and free," even though they acknowledged substantial evidence of irregularities.⁴⁷ The report, as one Western journalist observed, was "a bland, compromise document which glossed over major irregularities in the voting procedures."⁴⁸ The criticism was underscored by non-governmental observers from the Washington-based International Republican Institute, who argued that there were more than sufficient grounds for the election to be canceled.⁴⁹

In the end, the election results were allowed to stand, although President Askar Akaev had to establish a practically meaningless committee to review alleged violations. With their organizational interests so closely tied to the fortunes of the Akaev regime, the IMF, the World Bank, TACIS (EU), and the ADB were conspicuously silent throughout the affair. Whatever the reason for their approval of an obviously tampered election, the OSCE and foreign donors furthered perceptions within the Kyrgyz government that its favorable international standing would shield it against criticism, let alone sanctioning, by the international community.

The correlation between foreign aid dependency and increasing authoritarianism is also strong in Armenia. Despite its international reputation as one of the freest ex-Soviet republics, President Levon Ter-Petrossian (1991–98) headed a regime known for authoritarian tendencies, electoral manipulation, and human rights abuses.⁵⁰ According to Ian Bremer, Western governments and organizations were noticeably silent following the Ter-Petrossian regime's tainted re-election in 1996. In 1997, for instance, the United States provided \$100 million worth of aid and technical assistance to Armenia, more per capita than to any state except Israel.⁵¹ And while it would be foolhardy to attribute the October 27, 1999, assassination of Prime Minister Vazgen Sarkisian and seven members of parliament to international donors' neglect of Erevan's repressive tendencies, the general perceptions of rampant corruption and authoritarianism in Sarkisian's government were, in part, linked to his close ties with the donor community.

Despite the substantial assistance specifically earmarked for “democracy promotion,” there are ample theoretical and empirical reasons to suggest that external economic donors may actually be harming the consolidation of democratic institutions and encouraging the use of quasi-authoritarian tactics by the governments with which they have close ties.⁵² Similarly, donors should be wary of their current enthusiastic backing of Sheverdnadze in Georgia and their skepticism about the new left-wing coalition in Moldova. Given the unsettled ethnic conflicts in both of these countries, the potential for social upheaval remains quite high, especially as socioeconomic conditions show no sign of improving.

What Can Be Done?

Is foreign aid really inhibiting the economic and political institutional change that so many people envisioned after the Soviet Union’s disintegration? Contrary to the transitologists of post-communist studies and the sovereignty-undermined views of international relations theorists, this article has outlined a range of theoretical reasons that explain how foreign aid can inhibit economic and political institutional change. By providing financial, political, and normative support to the still-hegemonic institutions and informal networks of the post-Soviet space, international donors have become guardians of the status quo rather than agents of reform. This argument finds strong comparative support in the critical literature on the political economy of foreign aid in other former colonial regions, especially South-east Asia and Africa.⁵³ Four sets of conclusions follow, one theoretical and the others policy-oriented.

First, the post-Soviet experience with international aid casts doubt upon the assumptions of both transitologists and the sovereignty-undermined thesis. By unwittingly preserving the informal institutions, patronage networks, and distributive hierarchies of the former Soviet state, external assistance flows are stunting the consolidation of economic transition. Economists, political scientists, and policy-makers alike would do well to jettison their teleological assumptions about the inevitability of institutional reform along previously envisioned Western paths. Instead, as David Stark and Laszlo Brustz have recently argued in regard to Central Europe, scholars should begin to examine how the legacy of communism is providing the “institutional building blocks for political, economic and social reconstruction” in the former Soviet region.⁵⁴ As the discussion in this article has shown, international organizations and lenders are helping to support the

sovereignty and institutions of the Soviet successor states, albeit in unexpected and subtle ways. International relations theorists should examine more closely the relationship between international pressures and micro-level networks and outcomes.

Second, on the policy front, donors should seek to reform the fundamental institutions of a post-communist state before providing financial assistance. To borrow Peter Evans’s phrase, the problem with the former Soviet states is not that they are “over-supplied” with bureaucracy, but that they are under-supplied with credible, competent bureaucratic agencies to oversee the reform process and enforce changing laws and procedures.” Financial donors should make reform of the state and decoupling from embedded societal interests a prerequisite of any future financial assistance, especially given the critical amount of external debt that many of these states are accumulating. Conditionality, in other words, must become primarily *political* before it can serve a useful economic function.

USAID, TACIS, and the World Bank should concentrate on promoting bureaucratic independence and autonomy in the region. They should insist that unless there is meaningful reform of the civil service and certain key agencies, such as the tax inspectorate (i.e., ending politically charged hiring processes, adopting a civil service code of ethics, vigorously prosecuting state corruption in the courts, and establishing a credible grievance procedure for state employees), further assistance for stabilization, development, and infrastructure will not be granted. NGO donors should increase their funding to domestic groups that independently monitor these reforms.

Third, and most counter-intuitively, **USAID** and **TACIS** must reform the present subcontracting system and not grant subcontractors renewable contracts. This flies in the face of the attempt by most international organizations to promote “lasting projects.” While it is true that institutional change proceeds slowly, so that project contracts should be for meaningful periods of time, conceivably several years, the setting of specific end-dates will dissuade subcontractors from tolerating bureaucratic opportunism and developing personal ties with government officials that may inhibit the project’s implementation. In situations where a project must be extended, donors should rotate administrators, project and country directors, and management staff. This would ensure that project personnel are primarily concerned with executing and overseeing projects and not subject to undue domestic influence. **USAID** and **TACIS** should actively encourage their regional directors to draw attention to, reform, or even terminate trouble-prone projects.

Finally, multilateral donors must improve their mechanisms of coordination. The presence of many lenders often has a detrimental impact upon the reform process. The availability of multiple lenders and technical assistance providers often empowers aid recipients to play prospective donors off against one another and enact only the parts of an assistance package that support their rent-seeking tendencies. The multiple principals problem can only be overcome if external donors establish regular procedures for coordinating their programs and objectives. Donors should also establish a resident coordinating unit in each of the Soviet successor states and maintain a database of all active projects, budgets, and institutional recipients by international donors and NGOs. The contents of this database should be made accessible to the independent media, domestic NGOs, and the public. In addition, lenders should consider forming a debt-rescheduling regime for the most endangered of the borrowers, much as private lenders did during the Latin American debt crisis of the 1980s.³⁶

The main danger of foreign aid as currently administered and received in the post-communist states is that it threatens to undermine popular support for continuing economic and political reforms. In Jeffrey Sachs's terms, the "social window of opportunity" for undertaking structural changes is rapidly closing? The aftermath of the Bank of New York embezzlement scandals in Russia suggests that most Russians now associate Western donors with the state elites and oligarchs who place their individual interests ahead of state-building and the common good. As debt continues to accumulate, and as foreign organizations and their consultants maintain these Soviet-style institutional hierarchies, a popular backlash would threaten the political and economic legitimacy of the liberalizing project. Such an outcome would be unacceptable not only to the West, but to those in the post-communist states who continue to fight for fundamental institutional change.

Notes

1. There are some notable exceptions. On strategies for promoting democracy, see Thomas Carothers, *Assessing Democracy Assistance: The Case of Romania* (Washington, DC: Carnegie Endowment for International Peace, 1996). On technical assistance, see Raymond J. Struyk, *Making Aid Work: Lessons from Successful Technical Cooperation in the Former Soviet Bloc* (Washington, DC: Urban Institute Press, 1997); Nancy Lubin and Monica Ware, *Aid to the Former Soviet Union: when Less Is More* (New York: JNA Associates, 1996). See also Janine Wedel's provocative anthropological study, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe, 1989-1998* (New York: St. Martin's Press, 1998).

2. The literature on economic transitions is vast. Classic works include Jeffrey Sachs, *Poland's Jump to the Market Economy* (Cambridge, MA: MIT Press, 1994); Anders Åslund, *How Russia Became a Market*

Economy (Washington, DC: Brookings Institution, 1995); and Padma Desai, ed., *Going Global: Transition from Plan to Market in World Economy* (Cambridge, MA: MIT Press, 1997). For good surveys published by international lenders, see the World Bank's *World Development Report 1996: From Plan to Market* (Washington, DC: Oxford University Press, 1996); European Bank for Reconstruction and Development, *Transition Report 1999* (London: EBRD, 1999).

3. Jeffrey Sachs, "Western Financial Assistance and Russia's Reforms," in *Making Markets: Economic Transformation in Eastern Europe and the Post-Soviet States*, ed. Shafiqul Islam and Michael Mandelbaum (New York: Council on Foreign Relations Press, 1993).

4. Stephen Krasner, *Sovereignty: Organized Hypocrisy* (Princeton, NJ: Princeton University Press, 1999), chap. 5; Kendall W. Stiles *Negotiating Debt: The IMF Lending Process* (Boulder, CO: Westview Press, 1991); Robin Broad, *Unequal Alliance: The World Bank, the IMF, and the Philippines* (Berkeley: University of California Press, 1988); John Williamson, ed., *IMF Conditionality* (Washington, DC: Institute for International Economics, 1983).

5. Of course, the reasons for the FSU states' current economic stagnation are complex and in no way should be attributed solely to the practices of international donors and financial institutions. See Joseph Stiglitz, "Whither Reform: Ten Years of the Transition" (paper prepared for the Annual Bank Conference on Development Economics, Washington, DC, April 28-30, 1999); Clifford Gaddy and Barry W. Ickes, "Russia's Virtual Economy," *Foreign Affairs* 77, no. 5 (September/October 1998): 53-77.

6. Indeed, the recent embezzlement scandals and reports of IMF loans finding their way to offshore bank accounts only lend support to my argument. However, there are serious political arguments for continuing assistance to Russia that perhaps do not apply to smaller states like Moldova and Kyrgyzstan.

7. Classic analyses of the Soviet economic system are given by Paul Gregory and Robert Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, 5th ed. (New York: Harper Collins, 1994); Alec Novc, *The Soviet Economic System* (Boston: Allen & Unwin, 1986).

8. See Alena Ledeneva, *Russia's Economy of Favors: Blat, Networking, and Informal Exchange* (New York: Cambridge University Press, 1998).

9. Maxim Boycko, Andrei Shleifer, and Robert Vishny, *Privatizing Russia* (Cambridge, MA: MIT Press, 1995), chaps. 2-3.

10. For an excellent discussion of the relationship between formal and informal institutions in the communist and post-communist eras, see Martin Raiser, "Informal Institutions, Social Capital and Economic Transition: Reflections on a Neglected Dimension," Working Paper 25 (London: EBRD, August 1997) (www.ebrd.com/english/region/workings/index.htm).

11. On the dynamics of kinship and nepotistic social ties in the Soviet Central Asian states, see Nancy Lubin, *Labour and Nationality in Soviet Central Asia: An Uneasy Compromise* (London: Macmillan, 1984).

12. On the political significance of these transfers, see Bameet Rubin, "Tajikistan: From Soviet Republic to Russian-Uzbek Protectorate," in *Central Asia and the World*, ed. Michael Mandelbaum (New York: Council on Foreign Relations Press, 1994).

13. Sergei Poliakov, *Everyday Islam: Religion and Tradition in Rural Central Asia*, ed. Martha Brill Olcott (Armonk, NY: M.E. Sharpe, 1992).

14. James Critchlow, *Nationalism in Uzbekistan* (Boulder, CO: Westview Press, 1992).

15. The IMF has a number of different lending facilities for the post-Soviet states. Upon the collapse of the Soviet Union, the Fund created the Systematic Transformation Facility (STF) as a new facility specifically designed to aid the reform process in the former Soviet region. The quota of Extended Structural Adjustment Facility (ESAF) drawing rights is calculated based upon the economy's economic size and is the standard conditional loan associated with structural adjustment. See Gertrude Schroeder, "The Economic Transformation Process in the Post-Soviet States: The Role of Outside Actors," in *The International Dimension of Post-Communist Transitions in Russia and the New States of Eurasia*, ed. Karen Dawisha (Armonk, NY: M.E. Sharpe, 1998), pp. 243-76.

16. For a useful overview of the IMF's involvement in Russia, see Nigel Gould-Davies and Ngaire Woods, "Russia and the IMF," *International Affairs* 75, no. 1 (1999): 1-21.

17. See Peter Evans, "Transnational Linkages and the Economic Role of the State." in *Bringing the State Back In*, ed. Peter Evans, Dietrich Rueschmeyer, and Theda Skocpol (New York: Cambridge University Press, 1985).

18. For specific details of credit releases and obligations on the part of the recipients, see www.imf.org.

19. Kathryn Firmin-Sellers, "The Politics of Property Rights," *American Political Science Review* 89, no. 4 (1995): 867-81; Thrain Eggenson. *Economic Behavior and Institutions* (New York: Cambridge University Press, 1990); Douglass North, *Institutions, Institutional Change, and Economic Performance* (New York: Cambridge University Press, 1990); idem, *Structure and Change in Economic History* (New York: Norton, 1981).

20. Accounts of why conditionality programs have failed in Africa include Thomas M. Callaghy and John Ravenhill, eds., *Hemmed In: Responses to Africa's Economic Decline* (New York: Columbia University Press, 1993); Fredoline O. Anunobi, *The Implications & Conditionality: The International Monetary Fund and Africa* (Lanham, MD: University Press of America, 1992); Dharam P. Ghai, ed., *The IMF and the South: The Social Impact of Crisis and Adjustment* (Atlantic Highlands, NJ: Zed Books, 1991).

21. International Monetary Fund, *Georgia: Recent Economic Developments and Selected Issues* (Washington, DC: IMF, 1998), p. 43.

22. *Ibid.*, p. 44.

23. "Georgia: Tax Revenues Fall Short Because of Corruption," Interfax [Moscow] (June 23, 1997), translated in World News Connection, *Daily Report: Central Eurasia* [hereinafter WNC:SOV] (June 23, 1997).

24. "IMF Approves Augmentation and Extension of Georgia's ESAF Loan." International Monetary Fund press release No. 99/34, July 23, 1999 (www.imf.org/external/np/sec/pr/1999/PR9934.HTM).

25. International Monetary Fund, *Annenia: Recent Economic Developments* (Washington, DC: IMF, 1998), pp. 18-19.

26. International Monetary Fund, *Moldova: Recent Economic Developments* (Washington, DC: IMF, 1998), p. 14.

27. International Monetary Fund, *Kyrgyz Republic: Recent Economic Developments* (Washington, DC: IMF, 1998), p. 14. VAT areas that were granted subsequent exemptions included organized gambling, financial services, and selected agricultural producers. The more politically motivated amendments for exemptions from the income tax include income derived from the extraction of precious metals, inheritances, interest income, and "income from the sale of apartments, houses, cars, jewelry, and artwork" (*ibid.*, pp. 83, 87).

28. International Monetary Fund, *Georgia*, p. 14.

29. Terry M. Moe, "The New Economics of Organization," *American Journal of Political Science* 28, no. 4 (November 1984): 756.

30. An excellent overview of agency problems in hierarchies is provided by Gary J. Miller, *Managerial Dilemmas: The Political Economy of Hierarchy* (New York: Cambridge University Press, 1992).

31. For studies that apply principal-agent modeling to issues of economic control in the former Soviet Union, see Randall W. Stone, *Satellites and Commissars: Strategy and Conflict in the Politics of Soviet-Bloc Trade* (Princeton: Princeton University Press, 1996); Steven Solnick, *Stealing the State: Control and Collapse in Soviet Institutions* (Cambridge: Harvard University Press, 1998).

32. See North, *Institutions, Institutional Change, and Economic Performance*; Eggenson, *Economic Behavior and Institutions*.

33. Vladimir Treml and Michael Alexeev, "The Growth of the Second Economy in the Soviet Union and Its Impact on the System," in *The Postcommunist Economic Transformation: Essays in Honor of Gregory Grossman*, ed. Robert W. Campbell (Boulder, CO: Westview Press, 1994); and Gregory Grossman, "The 'Second Economy' of the USSR," *Problems of Communism* 26, no. 5 (September/October 1977): 25-40. For discussion of Central Asian patterns of corruption, see Boris Rumer, *Soviet Central Asia: "A Tragic Experiment"* (Boston: Unwin Hyman, 1989), chap. 8.

34. "Foreign assistance to Kyrgyzstan," *Central Asian Post* 14 (April 13, 1998); "'Hot' Atmosphere Expected in Parliament Upper-House Session," *Slovo Kyrgyzstana*, in WNC:SOV (May 15, 1998).

35. "Armenia: Armenia Court Stops Investigation of 'Chinese Credit' Case," *Erevan Noian Tapan*, in WNC:SOV (July 9, 1998).

36. See "Communist Leader Wants 'Drastic Change' of Reform Course,"

Chisinau Infotag, in WNC:SOV (March 17, 1998); and "Moldovan Parliament Reopened Facing Corruption Scandal." ITAR-TASS World Service WNC:SOV (July 1, 1998).

37. See Jeffrey Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965-1985* (Princeton: Princeton University Press, 1991).

38. Ishan Kapur and Emmanuel van der Mensbrugge, "External Borrowing by the Baltics, Russia, and Other Countries of the Former Soviet Union: Developments and Policy Issues," IMF Working Paper WP/97/72-EA (Washington, DC: International Monetary Fund, 1997), p. 22.

39. "Out of the Shadows," *Central European* (September 1997): 8.

40. Kapur and Van der Mensbrugge, "External Borrowing."

41. Charles Tilly, *Coercion, Capital, and European States, AD 990-1990* (Cambridge, MA: Basil Blackwell, 1990); Margaret Levi, *Of Rule and Revenue* (Berkeley: University of California Press, 1988). See also North's development of the theory of the predatory state in *Structure and Change*.

42. Robert Bates and Da-Hsiang Lien, "A Note on Taxation, Development, and Representative Government," *Politics and Society* 14, no. 1 (1995): 53.

43. See Steven Heydemann, "Taxation Without Representation: Authoritarianism and Economic Liberalization in Syria," in *Rules and Rights in the Middle East*, ed. Ellis Goldberg, Resat Kasaba, and Joel Migdal (Seattle: University of Washington Press, 1993).

44. On this point and the role of large corporate subcontractors, see Nancy Lubin, "U.S. Assistance to the Newly Independent States," in *The International Dimension of Post-Communist Transition in Russia and the New States of Eurasia*, ed. Karen Dawisha (Armonk, NY: M.E. Sharpe, 1998); Lubin and Ware, *Aid to the Former Soviet Union*.

45. For discussion and application of multiple-principals problems, see Deborah Avant, *Political Institutions and Military Change: Lessons from Peripheral Wars* (Ithaca, NY: Cornell University Press, 1994); Terry M. Moe, "An Assessment of the Positive Theory of Congressional Dominance," *Legislative Studies Quarterly* 12, no. 4 (1987): 475-520.

46. For more detailed accounts of this problem and the technical assistance sector in general, see Alexander Cooley, "Depending Fortunes: Aid, Oil, and the Formation of the Post-Soviet, Post-Colonial States" (Ph.D. diss., Columbia University, 1999), chap. 4.

47. Organization for Security and Cooperation in Europe, *Report on the Parliamentary Election in Kyrgyzstan* (Bishkek: OSCE, February 5, 1995), p. 11.

48. Ian Pryde, "Kyrgyzstan's Slow Progress to Reform," *World Today* (June 1995): 116.

49. *Ibid.*

50. Ian Bremer, "Help Wanted for Armenia," *Christian Science Monitor* (February 25, 1998): 20. On this point, also see Nora Dudwick, "Political Transformations in Postcommunist Armenia: Images and Realities: in *Conflict, Cleavages, and Change in Central Asia and the Caucasus*, ed. Karen Dawisha and Bruce Parrott (New York: Cambridge University Press, 1997).

51. Bremer, "Help Wanted for Armenia."

52. Of course, certain democracy-promotion projects are more successful than others. See Carothers, *Assessing Democracy Assistance*.

53. Recent popular works include Michael Maren, *The Road to Hell: The Ravaging Effects of Foreign Aid and International Charity* (New York: Free Press, 1997); Catherine Caufield, *Masters of Illusion: The World Bank and the Poverty of Nations* (New York: Henry Holt, 1996); Robert E. Klitgaard, *Tropical Gangsters* (New York: Basic Books, 1990).

54. David Stark and Iaszlo Brunt, *Post-Socialist Pathways: Transforming Politics and Property in East Central Europe* (New York: Cambridge University Press, 1998), p. 6.

55. Peter Evans, "The State as the Problem and as Solution: Predation, Embedded Autonomy, and Structural Change," in *The Politics of Economic Adjustment*, ed. Stephan Haggard and Robert R. Kaufman (Princeton: Princeton University Press, 1992), pp. 176-77.

56. Charles Lipson, "The International Organization of Third World Debt," *International Organization* 35, no. 4 (1981): 603-31.

57. Sachs, *Poland's Jump to the Market Economy*.