Clique-Run Organizations and U.S. Economic Aid  
An Institutional Analysis

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With the dust finally settled after the Russian presidential election and inauguration, it is a good time to take a quiet look at how aid has affected U.S. and Russian political processes and to assess efforts to support market reforms in Russia. Have the efforts helped to build nonaligned, enduring institutions and moved Russia toward a market economy? Has the aid fostered friendly relations with the West, in particular, the United States?

One question under discussion in the community of aid providers and Eastern European analysts—What are the consequences of supporting one particular group of Russian reformers?—has become more pertinent with the rising political control of this group. Relatively limited Western aid, particularly from the United States, appears to have helped propel this group into the highest reaches of the Russian government following the reelection of Russian President Boris Yeltsin. The U.S. Agency for International Development (USAID) has set up and funded a network of activities and organizations in support of market reform run by this reformer group. Facilitating this are representatives of Harvard University’s Institute for International Development (HIID) and some of their associates, who have promoted the reformer group in the West and helped it create and operate a network of aid-funded organizations.

The United States has explicitly supported Russian reformers. As Thomas A. Dine (1995,11), USAID’s assistant administrator for Europe and the New Inde-
pendent States, declared: “We will not waste U.S. taxpayer dollars to provide technical assistance where reformers do not, or cannot, flourish.” This strategy of development assistance targeted at a particular political group has indeed achieved some market reforms, notably the transfer of a large number of state-owned companies to private ownership. William B. Taylor, deputy coordinator of NIS assistance, assessed, “We think we had pretty much of a good effect on the privatization program in Russia [which was] a critical piece of the economic reform program in Russia.”

But does this aid strategy, focused 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? And what are the long-term implications of supporting one group of reformers at the expense of others?

The reformer group, many of whose core members come from the city of St. Petersburg (thus, “the St. Petersburg group”), is one of a handful of important shapers of Russian politics and economics. Much U.S. economic aid, notably the so-called technical assistance in such areas as privatization and economic restructuring (accounting for more than two-thirds of USAID expenditures in Russia as of 31 March 1996), goes to pay Western consultants. But, with regard to input by Russian recipients, the St. Petersburg group is the only Russian group that has organized influence over and direct access to U.S. aid in support of market reform. That group has also played a role in managing some World Bank loans to Russia. It works closely with HIID’s Moscow-based, aid-funded program, also known as the “Harvard Project.” HIID has received $40.4 million from USAID in noncompetitive grants for work in Russia and stands to receive another $17.4 million, according to USAID.

Members of the St. Petersburg group have shown themselves to be savvy political operators. The chief figure in the group is Anatoly Chubais, currently Yeltsin’s chief of staff. Chubais was St. Petersburg’s deputy mayor before being brought to Moscow in 1991 to help execute economic policy. With important Western contacts, Chubais brought together a group of like-thinking, Westward-looking, energetic young male associates, many of whom were his long-standing friends from St. Petersburg. Anointed “the czar of economic reform in Russia” (as a HIID-sponsored report written for USAID put it), Chubais received the title of deputy prime minister in June 1992; he served as first deputy prime minister from November 1994 until being dismissed by Yeltsin in January 1996. Chubais returned to manage Yeltsin’s reelection campaign and to serve in his current key political position. As before, Chubais is building his team from among the St. Petersburg group, or, as some commentators have characterized it, the “St. Petersburg clan.”

With the post-Soviet economy under contention, groups like the St. Petersburg one compete for control and resources, operate in multiple spheres, and have a wide scope of influence. Thus Chubais, while continuing his political activities, acquired a broad portfolio, ranging from privatization and the restructuring of enterprises to legal reform and the development of capital markets and of a regulatory framework for business and securities transactions. A number of com-
missions dealing with bankruptcies, the inter-firm debt crisis, and tax arrears were set up under Chubais, who also headed the nation’s State Property Committee, the GKI. The creation of the Commission on Economic Reform in 1995 was further confirmation, as the Russian newspaper Kommersant-Daily expressed, that “a new center of economic power is being created around First Deputy Prime Minister Anatoly Chubais.” With “very great” powers, the commission is “a quasi-Council of Ministers . . . in direct competition with the bodies that have already been vested with such powers.”6

These “very great” powers were expanded through frequent top-down presidential decrees, the preferred method for many market reforms. After the privatization program passed the Duma [Russian parliament] in 1992, “every subsequent major regulation of privatization was introduced by presidential decree rather than parliamentary action,” as representatives of the St. Petersburg reformers-Harvard partnership acknowledge in a book for a Western audience (Boycko, Shleifer, and Vishny, 1995, 5).7 Moreover, a recent presidential directive dictates that only Chief of Staff Chubais has the authority to decide whether presidential decrees are ready to be signed, a directive that can be circumvented only with direct instructions from the president.8

Aid officials have explicitly promoted top-down presidential decrees and the circumvention of parliamentary authority as a means of achieving market reform. As Walter Coles, a founding father of USAID’s privatization and economic restructuring program in Russia, put it, “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 added, “There was no way that reformers could go to the Duma for large amounts of money to move along reform.”9

They didn’t have to. USAID set up a network of “private” organizations that would help reformers to supersede channels of government decisionmaking, such as parliament, and to bypass legitimate bodies of government, such as ministries and branch ministries, that might otherwise be relevant to the activities being performed were it not for the aid-created organizations. Thus, U.S. aid policies have concentrated on support of specific reform measures at the expense of processes and institutions.

It is easy to understand the donors’ impulse to support reformers. As aid coordinator William B. Taylor explained, U.S. assistance has chosen a narrow focus. “We have a limited amount of money. If you spread your money too thin, you probably won’t have as much of an effect. As [USAID Administrator] Brian Atwood has said, you can go [in] . . . as a sprinkler and spread out over a lawn or can go in as a fire hose.”10 Of course, the strategic targeting and coordination of resources are critical. But USAID went further to sustain certain firemen. As USAID’s Walter Coles expressed, “Reformers are the ones that are willing to take the risk. Their necks are on the line.”11

While this approach sounds good in principle, it is less convincing when put into practice because it is an inherently political decision disguised as a technical matter. Aid was to serve direct political goals, as reformer representatives Boycko, Shleifer, and Vishny have emphasized (1995, 142):
... aid can change the political equilibrium by explicitly helping free-market reformers to defeat their opponents. Aid can help reformers by paying for the design and implementation of their projects, which gives them a greater capacity for action than their opponents have. 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. (emphasis added)

With the goal of U.S. assistance to “alter the balance of power between reformers and their opponents,” these reformers confirmed that “United States assistance to the Russian privatization has shown how to do this effectively” (Boycko, Shleifer, and Vishny 1995, 128). In answer to the question, “Did USAID help propel Chubais into top positions in Russian government?” USAID’s Thomas A. Dine concurs with the reformers: “As an observer, I would say yes.”12 In other words, in its own terms, the fire-hose approach has worked.

Clans
The problem with this is that aid based on promoting a particular political group doesn’t necessarily advance the building of nonaligned, transparent institutions. The goal of working toward such institutions is critical in structuring a democratic political and economic system, although the goal may be virtually impossible to achieve. This is especially true in societies where personal ties and handshakes are crucial to the way business is conducted. Thomas E. Graham, a senior political officer at the U.S. embassy in Moscow, points out that Russia is such a place, run by rival clans with largely unchecked influence (Graham 1996, 26). With unstable political, legal, and administrative structures, there are myriad opportunities for “clans” to penetrate public institutions and lay claim to resources. This state of affairs enables clans to bypass other sources of authority and influence, and thereby enhance their own. With the main rivalry between clans occurring within the executive branch, the Russian government is not a level playing field that can ensure impartiality under the rule of law.

Although the clan is the base of operation, the St. Petersburg group is so closely identified with particular ministries or institutional segments of government that their agendas sometimes seem identical; meanwhile competing clans have equal ties with other segments of government such as the Central Bank, the Ministry of Finance, and the “power ministries” (e.g., the ministries of defense, internal affairs, and the Federal Security Service). These clans depend on state authorities to stand far enough away from commercial activities that they do not interfere with the clan’s acquisition and allocation of resources, but close enough to ensure that no rival clans will draw on the resources.

Indeed, in the present context, the ability of organizations to influence and execute policies depends more on personal ties than on formal institutional authority. St. Petersburg group member Sergei Vasiliev (1995, 182), deputy minister of the economy, noted the “development of a ‘personal authority syndrome,’ where many important rulings were obtained through personal connections with those close to the President, rather than through standard procedures. The importance of presidential officials was measured by their closeness to the President, not by their official status” (emphasis added).
What are the effects of concentrating aid on one particular clan, if the clan system is “business as usual” as in Russia? Is it realistic to expect that any clan would operate in a vacuum, especially when singled out to receive resources to which competing clans will not have access? Beyond this, given the Russian self-image of a wounded superpower,\(^\text{13}\) is it reasonable to expect that Western support of one particular clan in a highly politicized environment (such as that surrounding parliamentary and presidential elections) would not fuel charges of Western interference from other clans?

**Noble Reformers in the Shadows of Socialism**

The Western image of Russian politics as a contest between a few select reformers and just about everyone else is fundamentally flawed. To begin with, what are the manifestations of a reformer and how do we know when we have found one? Donors have tended to identify the reformer as such not because he is a change agent in support of market reform. Although he may, indeed, embrace market reform, the identity markers that donors appear to most often recognize are pro-Western orientation; ability to speak English and to converse in the donor vernacular of “markets,” “reform,” and “civil society”; already established Western contacts (the more known or influential, the better); having traveled to and/or studied in the West; and, perhaps most important, self-identification (at least vis-à-vis the West) as a reformer and association with other reformers. The most popular Russian reformers in Western political and aid circles appear to be young, energetic, savvy, and adept in their dealings with donors.

In answer to the question, “who are the reformers in Russia and how do you know who they are,” USAID’s Thomas A. Dine identified specific individuals associated with the St. Petersburg group: “Obviously, Chubais and all his offsprings . . . [Maxim] Boycko, [Dmitry] Vasiliev, and [Ruslan] Orekhov . . . those guys are critical to what we’re doing. . . . If Maxim Boycko tells me that X, Y, and Z are reformers, I believe him.”\(^\text{14}\) Clearly, this way of identifying reformers leaves out many change agents in support of market reform.

But Dine goes further. He sees Chubais’s unpopularity among Communists and nationalists as an advantage: “It’s no secret that nationalists and Communists don’t like him [Chubais] and perhaps that’s the best proof of all [of his reform credentials].”\(^\text{15}\) Identifying reformers on the basis of personal attributes and declared ideological positions—as they look in the West—alienates other reformers and potential reformers. Aleksandr Lebed, Russia’s national security chief, questions Western perceptions of reformers. His spokesman points to a common misperception by contrasting two governors:

We Russians and you Americans often use the same words meaning different things. For example . . . “the true reformer”: is it a friend of the West, as you usually think? We have two governors—one is . . . considered by mass media as a true liberal, reformer, market-thinker. . . . He really uses only the market language, is West-oriented, young, has “camera appeal,” is full of energy and zeal. . . . He has all the opportunities that the title—“true reformer”—affords him: support from Moscow and the West. . . . The second reformer . . . is called “red,” almost Communist, anti-reformer, old-thinker. . . . No one can say that this man is the friend of the West and the cen-
tral government. At first view the picture is clear, there is no doubt: one is “the Reformer,” the other—“the Communist.” But in reality the first man can speak well and advertise himself to the West, while the other one tries to do little, slow but effective steps to achieve civilized market reform and does not care how he looks in the eyes of the mass media.16

The West, in equating Western-oriented Russians with “pro-reform” and “traditionalist” or Communist Russians with “anti-reform” positions has created stereotypes. As Stavrakis (1996, 16) points out, these stereotypes have made it “virtually impossible to conceive of a pro-reform Russian nationalist.” Clearly, the West has imposed its own ideological view of what constitutes a reformer onto the Russian context.

An even more fundamental problem with the view that the Russian political economy is being decided by a contest between a few good reformers and everyone else is that this view overemphasizes ideology while neglecting the role of Communist legacies in change processes. To be sure, change so dramatic as the breakup of the Soviet Union in 1991 is bound to generate discussion at the level of ideology and broad systems (e.g., democracy, civil society, and market economy). It is tempting to frame changes in Russia today in terms of the dichotomies that these systems imply (e.g., state versus private, centralized versus decentralized, bureaucratic vs. market) because they offer us a ready-made analysis of otherwise new and unpredictable phenomena.17

Yet these frameworks ignore the fact that change often involves complex interactions of the new and the old and may even distort the analysis of changing institutions. The emergence of the new Russian nation in 1991 did not constitute a fresh starting point for Russia. Although such a dramatic step as the breakup of an empire might look like death with resurrection, in fact it was more like a messy divorce involving custody disputes over young children.

It is unreasonable to expect that any group—even a group of visionary reformers—would ignore its own agenda, especially when it is designated the sole beneficiary of so much aid in support of market reform. If Russia is indeed run by rival clans, it is difficult to accept the “reformer” group as far-sighted, while all others are retrograde, resistant to reform, and Communist or nationalist.

Following in Communism’s Footsteps

To appreciate the full implications of donors’ playing favorites, it is necessary to understand the legacy of Communist social organization and suspicion and the key role of aid after the breakup of the Soviet Union. According to Marxist theory, the Soviet state was eventually supposed to have faded away. In practice, however, the Soviet Union developed a strong, centralized bureaucracy that main-
tained its power by controlling the distribution of goods and services. In an “economy of shortage,” where demand invariably outstripped supply (Kornai 1980), such control over resources guaranteed state power. With the dissolution of the Soviet Union, suddenly there were fewer resources to distribute. Nevertheless, political and economic collapse did not erase people’s expectations that the paternalistic state would continue to provide. Aid became doubly important because those looking to the state for help found fewer resources.

To legitimize themselves and increase their power at the local and national levels, the new Russian leaders needed to provide the goods and services that the former Communists had provided. Foreign aid promised a way to do just that; the new political leaders could establish their influence over the old Communists by beating them at their own bureaucratic game. By serving as the chief recipients and hence distributors of foreign aid, the new political leaders would consolidate their positions, just as the Communists had done. More than mere assistance, aid became a political resource for certain Russian reformers.

This new resource was allocated in the Communist tradition, through patronage networks like those that virtually ran various regions of the Soviet Union (see, e.g., Albini, Rogers, Shabalin, Kutushev, Moiseev, and Anderson 1995; Fainsod 1975; Hough 1969; Hough and Fainsod 1979; Orttung 1995; and Ruble 1990). This led many Russians to call powerful economic and political alliances “clans” and to identify some groups and activities as “mafia,” although most of these groups did not match the meaning of the term in its classic (Sicilian) sense. Still, the newfound ability to make huge amounts of money in a previously semi-closed and relatively egalitarian society opened myriad opportunities for the proliferation and unchecked operation of patronage networks.

By following in communism’s footsteps, aid planners and politicians opened themselves to a barrage of criticism and a great deal of suspicion: aid was often perceived by recipients as partial and political. But for aid to achieve its developmental goals, it must be regarded as impartial and apolitical, so that it can operate outside the political sphere. Of course, aid can and does have ramifications in the political sphere; nevertheless, aid must be perceived by those who receive it as apolitical, lest it be rejected for political reasons. But the Communist legacy and the history of integration between politics and economics make it nearly impossible to depoliticize contemporary aid. Most Eastern Europeans simply cannot conceive of economic activities that are devoid of political motives.

Their reaction was not unreasonable. Western aid came in the service of engendering democracy and restoring civil society. Although this agenda was welcomed by many Russians, it exposed the fact that economic aid in its present context was intrinsically political. The Communist concept of a planned economy was simply replaced with a capitalist one, in which the Western donor filled the gap left by the Communist Party. And the consistent failures of socialist reform programs (Bennett 1988, 16) were enough of a legacy to generate more cynicism than hope with regard to aid in this all-too-familiar guise.

The fact that the chosen reformer group often has had as much to do with politics as with activities in support of market reform appears to have contributed to the
cynicism around aid. So has the narrow way in which the United States is seen to have chosen the St. Petersburg reformers as its partners for achieving its market reform agenda. Although these reformers occupied some key roles in government early on and were unquestionably talented, they also clearly made themselves available, appealing, and apparent to influential Western contacts. Importantly, the St. Petersburg group was organized in that its members knew each other, supported and promoted each other. But Western decisionmakers tended instead to see individual reformers and were rarely aware of the extent of members of the group’s previous association and the importance of the group’s internal organization and coordination in getting established vis-à-vis the West. By situating themselves as reformers, members of the St. Petersburg group established their reputation and themselves as the West’s most suitable partners. In turn, by anointing Chubais as a chosen reformer, U.S. assistance helped him to develop an international reputation, notably in the community of Western donors and international financial institutions.

But the strategy of supporting chosen reformers has come at the expense of establishing credibility with other groups, as Lebed’s spokesman indicates:

We [are] disappointed by the way you Americans find friends in Russia. . . . Criminal and corrupted men can use all new opportunities with success, but men of work and honor can not 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.20

Pri-hvatizatsiya (or “The Great Grab”)
The St. Petersburg-HIID partnership had begun working together in 1991-92 when Russian economic reform activities were centralized in the GKI. As head of the GKI beginning in November 1991, Chubais designed and coordinated the signature mass voucher privatization program, launched in November 1992, in which citizens were given shares or “vouchers” in state-owned enterprises. USAID spent $58 million to underwrite the privatization program.21 Through HIID, USAID supported about 10 advisers to the GKI, 22 whose contracts added up to $7.75 million.23 As USAID’s Deirdre Clifford offered, “It was essential to jump start the mass privatization program. At that time there was enormous pressure to get things going.”24 The U.S. Department of State’s annual report on aid to the former Soviet Union (1996a, 54) declares that:

Russia’s mass-privatization program was successfully completed in July 1994, with state assets having been transferred to over 40 million new shareholders. Today, it is estimated that almost half of Russia’s workers are employed in private firms—all almost three times as many as in 1992.

However, the privatization of state-owned enterprises through the issuance of vouchers has been controversial, and only a small minority of Russian citizens stand to benefit from it. Millar (1996, 8) explains that “The voucher program is not anchored in the reality of Russian enterprise success criteria, and thus it cannot influence the steam, smoke, and sweat of the actual production process,” and concludes that voucher privatization has been “a de facto fraud.”
Moreover, as Glinkina (1994, 385-91) and Shelley (1995, 245-47) point out, privatization has been carried out with little concern for organized crime. Yet privatization processes will shape the distribution of wealth in Russian society as well as citizens’ perceptions of democracy and capitalism. Part of the public has come to associate the terms “market economy,” “economic reform,” and “the West” with dubious activities in which a few people profit while others experience a devastating decline in their standard of living, far from the secure, albeit stark, life under socialism. Responding to public sentiment against privatization—what Russians have come to call pri-hvatizatsiya, or the “great grab”—in 1994 Yeltsin dismissed Chubais from his post as head of the nation’s privatization committee, the GKI. Yeltsin derided “Chubais-style” privatization, citing the corrupt nature of the governmental apparatus.

This sentiment helps explain why, after the December 1995 State Duma election in which Communist parties won about one-third of the popular vote and 42 percent of the seats, reform came under siege and members of the St. Petersburg group were placed under investigation. This also helps explain why Russian politicians and the press have periodically attacked reformers such as Chubais. During the presidential election campaign, candidate Aleksandr Lebed slammed the bureaucrats who have brought Russia crime, corruption, and “nomenklatura capitalism.”

Of course, the main accountability for how privatization is carried out in Russia rests with Russians. USAID’s Walter Coles, for example, had the foresight to develop an integrated vision of the economic reform process, which, if followed would ensure that USAID could “graduate” from Russia “within three to five years.” Coles predicted that, “If we’d focus resources on just six areas [capital markets, a legal-regulatory framework, land markets, privatization, a functioning, fair and transparent tax system, and postprivatization systems], in five years we could be out of Russia.” But implementing that vision was problematic at best. Coles attributes this to the fact that aid resources were “extremely fragmented” and that the powers that be “nibbled around all these activities.” And, he emphasized, “You can’t do one of them in isolation. . . . If you do all of four or five but not tax, chances of success in all of those is remote.”

However, although fragmentation of aid resources may well be of concern, there appear to be other, more fundamental problems. For example, why wasn’t the tax reform effort, which was critical, made a priority? HIID and USAID failed to sufficiently interest Chubais and his reformer group in the effort, although it was included as part of HIID’s initial Cooperative Agreement to work in Russia. Any proposed tax reforms were attempted through decrees, which were unsuccessful because they failed to attract the necessary political support. (Tax reform is, again, being attempted under HIID’s new Cooperative Agreement, with yet uncertain results.) Cole’s integrated concept, however visionary, was suspended from politics, yet couldn’t be achieved without wide political support. USAID had put its market reform portfolio in the hands of the St. Petersburg group, thus alienating other parties and avoiding other processes that clearly had to be brought on board if legal and regulatory reforms were to take place.
To be sure, certain reforms such as price controls can be accomplished by decree. But most reforms, including privatization and economic restructuring, depend on changes in institutions, administration, law, and mindsets. As Charles Cadwell, a consultant working in Russia under USAID’s legal reform program, expressed, “To the extent you want to control relationships among firms and to affect the behavior of managers, that is the last thing that can be done by decree. . . . [Managers] will continue to operate in the old ways until there are incentives to operate in new ones. . . . You have got to have people on board.”31 Responsible USAID contractors working in Russia also have felt compelled to address the issue of inclusion. As Cadwell put it, “Do you access and deal with local politicians and political realities or do you bulldoze over them?”32 Reflecting his experience working with Russians and other contractors, Cadwell (1996) writes that Western consultants must “Avoid a ‘client’ relationship with a particular counterpart and organize activities that make expertise available to a range of Russian interests. To do otherwise snare the donor ‘technical experts’ deeply in internal political matters.”

Yet some influential Russians have complained of just that. Leonid Abalkin, director of the Institute of Economics of the Russian Academy of Sciences, said that American aid was “given to Chubais” and about “personal contacts.”33 Sergei V. Burkov, chairman of the Duma’s Committee for Property, Privatization, and Economic Activity, concurred that American aid supports one particular political group. The “process needs to be opened up,” he said.34

The St. Petersburg group’s use of aid resources for its own ends in several publicized instances has fostered this viewpoint. In one case, the reformers used USAID-funded “public education” efforts at least in part to further their own agendas. Under U.S. aid-funded programs, Western public relations firms have engaged in “public education” to promote privatization.35 USAID spent $18.9 million on public education for mass privatization alone.36 In Russia, the first PR/public education project undertaken was the promotion of the voucher auction. This began with informational television spots that explained what a voucher is (and what to do with it) and what shares and auctions are.

However, in April 1993, the nature of the “public education” efforts changed from being informational to convincing Russians of the benefits of privatization. According to the public relations firm that handled the project, this entailed monitoring the reformers’ political competitors and “making sure the right reformists were getting in [office].”37 The firm arranged radio and television spots to promote privatization, including some featuring prominent politicians. A “man of the week” series highlighted reformers like Chubais.38 The effort came to a head during the election campaign of 1993. Although the project was formally being run by a Western PR firm, the reformers had enough contacts and control over the Russian media to insert their own political slogan into the process, changing it from “Your voucher, your choice,” to “Your choice, Russia’s Choice.” “Russia’s Choice” is the name of Chubais’s political party.

This created a small scandal that resulted in USAID’s firing the public relations company that had been handling the project. But according to the firm, members of the St. Petersburg group were responsible for the scandal. They had
changed the slogan over the company’s resolute protests. In any event, USAID’s hiring of yet another PR firm to continue “public education” work did not stop the reformers’ use of such efforts to advance their own agenda. As the representative of the second aid-funded PR firm explained: The GKI has an “obvious political agenda. . . . We have to be careful not to subscribe too closely to them without demonstrating we’re in opposition. . . . My sense is that American taxpayers wouldn’t like money spent on what a political party should do.” She explained that Chubais had wanted her firm to fund “things of benefit to his political future” but not necessarily to the privatization effort.

While Western donors might rightfully assess that the loyalty exhibited by the St. Petersburg group is part of its effectiveness and see this as positive, many Russians would tend to see the group as a nomenklatura-type network that creates and shares profits. The St. Petersburg reformers clearly were adept at approaching and tapping resources. While long-standing loyalty in the West might signal, “They’re effective,” in Russia it tends to appear suspicious: “They’re sharing money.”

By largely putting their eggs in one basket and allowing much aid to be used as the tool of one group, aid planners and politicians have alienated non-Western oriented reformers and opened themselves to suspicion and cynicism about aid programs, capitalism, and the West. Along with accusations that the West is playing colonialist politics, foreign advisers working with the reformers also have been subject to criticism. “Too much” foreign involvement has presented issues of credibility with the Duma. The response both on the part of USAID and the Russian government has been to diminish USAID’s visibility and to “Russify” aid projects to show that they are under Russian, not foreign, control. But the Russians who are assuming control often are linked to the Chubais group, fueling the old suspicions.

How Russian elites perceive the efficacy of Western aid programs and the motives of donors should be a source of concern to donors, especially because many Russians already question the intentions of the United States. According to one public opinion survey carried out in the spring of 1995, two-thirds of the Russian people believe that the United States has a calculated anti-Russian foreign policy. As long as suspicion of Western motives is pervasive, politicians unfriendly to the United States will be able to mobilize popular support by showing that the Russian government is subject to undue foreign influence.

All this has resulted in a growing realization on the part of some U.S. aid officials that aid is not just as a technical matter, but a complex task with political challenges that must be faced. As Keith Henderson, head of USAID’s rule of law program for Eastern Europe and the former Soviet Union, expressed, “We realized in Russia that it was important to work with many different players and one way to do that was to work with different [U.S. and European] contractors who worked with different players. We know it was important to have all of these different people in the process.”

**A Few “Good” Men: The Reformers from St. Petersburg**

The case of the St. Petersburg reformers illustrates how U.S. aid in support of market reform has interfaced with Russian social organization. When Anatoly
Chubais came to Moscow in 1991 to help execute economic policy, he brought his associates from St. Petersburg to take charge of economic reform activities. As an HIID-sponsored report written for USAID (Bernard 1995, 1) boasted, “an idealistic, but pragmatic ‘St. Petersburg mafia’ of young economists led by Mr. Chubais . . . infiltrated the power structure in Moscow.”

While professing simply to support reformers, Western donors have bolstered the St. Petersburg group by giving it a comparative advantage and provided resources and access that its members could leverage. Such ability to monopolize resources and penetrate government and business through what Podgorecki (1987) calls “dirty togetherness” is what likely creates an association with the word “mafia.” Thus, although the St. Petersburg group is not associated with violence, some Muscovites have called the group the “St. Petersburg Mafia.”

In anthropological terms, however, the St. Petersburg group got its start as a “clique”—a core group of people who see each other frequently and are linked by networks that are “dense,” whereby each member of the clique is linked to every other member, and “multiplex,” whereby members contact one another for many different purposes (Boissevain 1985, 557). (This use of “clique” should not be confused with the Russian klyka, which has an entirely different, pejorative connotation.) Members of a clique have a common identity that is recognized both by those inside the group and by outsiders (Boissevain 1974, 174). The clique exists to accomplish something and members of the clique promote their common interests (Ryan 1978, 41) through strategic concentration of power and resources. Because cliques operate in many spheres—not only political—*their potential influence is much more widespread and monopolistic than that of interest groups, factions, or coalitions.*

The St. Petersburg group, consisting mostly of men in their thirties, traces its roots to the mid-1980s. Its core members were originally brought together through university and club activities and have been collaborating with each other ever since. Most members of the St. Petersburg group studied either at the Leningrad Institute of Engineering Production, where Chubais was a student; the Institute of Finance and Economics; or Leningrad State University. Some also were associated with the Leningrad Shipbuilding Institute and the Leningrad Polytechnical Institute. Chubais was an active participant in ECO (Economics and Organization of Industrial Production), a club and magazine published by the Russian Academy of Sciences. According to Leonid Bazilevich, vice president of the club, who was Chubais’s professor and acquainted with several members of the St. Petersburg group, members of the group were “very intensively connected” with each other at that time and “well-oriented to Western economic models.”

Later, in the Gorbachev years of glasnost, some members of the St. Petersburg
group became involved in explicitly political activities and formed an informal club that called itself Reforma. This club organized special meetings on economic issues that sometimes attracted hundreds of people. It put together lists of candidates and platforms for local and national elections, as well as drafts of legislation and a business plan for a free enterprise zone in Leningrad. In these years, Chubais and other members of the St. Petersburg group became connected to the mayor of that city, Anatoly Sobchak, and were influential in running the city. In moving from academia to city government, “Chubais brought with him many of the brightest young scholars he had come to know working in Leningrad’s well-developed intellectual circles,” Orttung (1995, 201) points out. Before going to Moscow, several members of the St. Petersburg group served as first deputy mayor under Sobchak (Chubais, Alexey Kudrin, and Sergei Belyaev). Others headed state privatization agencies there (e.g., Chubais, Sergei Belyaev, Eduard Boure); still others worked as deputies in these offices (e.g., Dmitry Vasiliev, Alfred Koch, Mikhail Manevich).

Although the “St. Petersburg group” took on some powerful members who are not from St. Petersburg (notably Maxim Boycko from Moscow), all are tied and obligated to Chubais and associated with the reformers from St. Petersburg. Chubais and the St. Petersburg group have depended on and appear to work closely with still others (e.g., Ruslan Orekhov, head of the president’s legal office). Andrei Schleifer, who heads the Harvard Project, said that he introduced Boycko to the St. Petersburg group. According to Schleifer, Orekhov’s association with the group began in 1993 when its members had to work with Orekhov because decrees went through his office. While cliques do not necessarily have a center or leader (Boissevain 1974, 177, Ryan 1978, 41), they have clearly recognized authorities who often retain their standing and influence whether or not they shoulder leadership responsibility. By skillfully manipulating others’ interests, a clique leader builds up a following of those who are under obligation to return past favors and support (Ryan 1978, 41). Accordingly, members of the St. Petersburg group need not recognize one single leader, but they “support each other in critical situations,” as Chubais’s former professor, Leonid Bazilevich, expressed.

Thus, there were powerful reasons for the St. Petersburg group to stick together after the breakup of the Soviet empire in 1991. Members of the group were called by Chubais to serve in key government positions because of their clique membership. They discovered that, working together, their Western contacts and orientations could help them leverage Western support for use as a political and economic resource at home. And, indeed, the St. Petersburg group did serve as a critical launching pad and resource for Chubais.

The Twilight Zone of Clique-Run Organizations
The St. Petersburg-HIID partnership became institutionalized with the creation of a network of quasi-private organizations under the partnership’s control. Following mass privatization activities centered around the GKI, the locus of reform shifted away from the GKI. USAID set up a separate office for the Harvard Project, which housed a number of post-privatization activities and members of the St. Petersburg group. It was at this time that USAID also helped set
up several quasi-private organizations run by members of the St. Petersburg group.

For administrative, legal, and ideological reasons, donors (of bilateral aid in particular) like to support non-profit, private organizations. For many in the donor community, channeling money through private organizations is an aid ideal. But some “private” organizations set up by USAID carry out functions of government such as negotiating on its behalf and even managing money that the Russian government is responsible for repaying. These organizations also bypass government ministries and branch ministries that would otherwise be relevant to the activities being performed. USAID’s Walter Coles explained that the organizations were “set up as a way to get around the government bureaucracy.”50 The World Bank’s Ira Lieberman, who played a major role in setting up one organization, said that private organizations were necessary because Chubais was surrounded by people in government offices whom he could not directly dismiss. Having witnessed the the “brain drain” from government administration elsewhere, in which the most talented people departed for much higher salaries in the private sector, Lieberman wanted to use market rates to hire Russians. “Given the weakness of line ministries and their politicization,” as Lieberman described,51 setting up nongovernmental organizations was the best way to go.

Adding to the apparent impressiveness of the nongovernmental organizations is that they are run largely by Russians. However, these Russian “private” organizations set up by USAID bear little resemblance to private organizations in the donor country such as the nongovernmental organizations that carry out many USAID projects. What often is missed in the enthusiasm is that the organizations were created for the convenience of donors (who needed a repository for funds) and molded to donor specifications. The fact that the organizations possess formal structures such as boards of directors and bookkeeping and auditing does not ensure that these will be used in the way donors envisioned nor does it necessarily achieve the decisionmaking processes donors have in mind. Finally, what often is overlooked is that although USAID has funded several largely Russian-run organizations with separate names and functions (and donors’ reports cite them without indicating links), they often can be traced to the St. Petersburg-HIID partnership.

In practice, the aid-created organizations have a chameleon-like quality: They 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. They are sometimes private, sometimes state, sometimes pro-Western, sometimes pro-Russian. But in whatever guise (or obscurity) they appear at a given time, the organizations are run by the St. Petersburg reformers (with financial and organizational support from USAID through U.S. contractors and HIID52) and serve as these reformers’ domain and political asset.

The donors’ “demonstration” organization appears to be the Russian Privatization Center (RPC): It is seen by many in the aid community as a model for the other quasi-private organizations. Lieberman said of the RPC that “It’s become a very convenient source for multidonor funding.”53 The RPC has received loans from the World Bank and the European Bank for Reconstruction and Develop-
The World Bank has committed $90 million to support privatization and post-privatization activities, of which $59 million is to be implemented by the RPC. The RPC was important in planning the loan, according to Lieberman. The World Bank is beginning to pick up some of the overhead and operating costs that USAID previously covered. Despite then-Finance Minister Boris Fedorov’s opposition to at least aspects of this loan, the World Bank (and the RPC) proceeded, and additional loans have been negotiated. Shortly before the Russian presidential elections, Eduard Boure, the new managing director of the RPC in Washington, D.C., to negotiate new World Bank loans, said, “It’s better if we get the loan before [Communist presidential candidate Gennadii] Zyuganov gets too far.”

The RPC illustrates the workings of aid-sustained nongovernmental organizations in the Russian context. The founding, governing, and management structure of the RPC is made up largely of members of the St. Petersburg group and their associates. Members of the St. Petersburg group have appointed each other to serve in the founding, governing, and management structure of the RPC, including Chubais (chairman of the board), Maxim Boycko (managing director or CEO until 1 July 1996), Eduard Boure (managing director or CEO after 1 July 1996), and Dimitry Vasiliev (deputy chairman of the board). Chubais continued to serve on the board even after his dismissal by Yeltsin. Boycko, too, will likely continue to serve on the board.

The RPC was established by presidential decree on 23 November 1992, while still housed in the GKI. USAID’s Walter Coles explained that setting up the RPC took ministries and branch ministries out of the policy process and gave the greenlight to an “independent body”—that is, Chubais, Boycko, Vasiliev, and HIID. Such an “independent group being financed outside government structure, could be hired and paid market rates.” Setting up the RPC, said Coles, “was a way . . . to get good people like Maxim Boycko . . . [the] group of people that Chubais was managing that were sitting at the GKI.” After reform activities expanded beyond the GKI, the RPC received its own aid-funded office in a separate building. HIID has provided management support to the RPC, according to USAID’s Cecelia Ciepiela.

Formally and legally, the RPC is a nonprofit, nongovernmental organization. But the “private” RPC receives foreign aid funds because it is run by the St. Petersburg reformers who occupy key functions of government. Lending credence to the RPC’s appearance as a “government” organization, the RPC’s tasks include helping to make policy on inflation and other major macroeconomic issues and negotiating loans with international financial institutions. This may be why there is some confusion on the matter among aid officials. In answer to the question, “Does USAID consider the RPC to be a government organization?” USAID’s Thomas A. Dine replied, “I think we do. . . . I’ve never considered it [the question]. It’s [RPC] such an important instrument.” Dine added that “Maxim [Boycko] was a government employee [when heading up the RPC].” All the while asserting the RPC’s nongovernmental status, the RPC was treated by
USAID as a government ministry when U.S. assistance authorities asked the RPC to nominate one person to serve on a technical evaluation panel to select a contractor. According to USAID contracts officer Stanley R. Nevin, USAID normally chooses this representative from a recipient government ministry, not from private bodies.

The World Bank’s treatment of the RPC provides yet another example of its ambiguous status. The Bank’s funding of the not-for-profit nongovernmental RPC is unusual in that the Bank typically negotiates with and loans money to governments. In this case, repayment is to be made by the Ministry of Finance, which is the official borrower for the Russian government while the RPC is the implementing agency. Lieberman explained that “We [the Bank] didn’t give it [the loan] to them [the RPC] as a private organization but as an agent for the government of Russia . . . the government of Russia is responsible for paying it back.”

Concerned about conflicts of interest and questions of accountability, donors have helped to build the trappings of independent institutions. The RPC, for example, was set up with all the apparatus of bona fide nonprofit organizations. It has some administrators paid by Western aid on board and conducts audits of its activities. Although this may create the impression for outsiders of impersonalistic and depoliticized institutions, in fact the RPC is run by and identified with the St. Petersburg group. As a U.S. aid official in Moscow put it: “the RPC . . . may be private but certainly looks political . . . [just as] the Heritage Foundation may be private but certainly supports a political constituency . . . [The] average Russian doesn’t make that distinction.”

The network of Local Privatization Centers (LPCs) in the provinces under the umbrella of the Moscow RPC illustrates this point. By now ten LPCs have been set up—each with about twelve employees and one or two satellite offices with several employees, according to Ciepiela. Three aid-paid consulting firms—Price Waterhouse, Arthur Andersen, and Carana—were charged with setting up the LPCs, two or three each. Representatives of all three said that the LPCs were used for political purposes and questioned the degree to which they were designed for sustainability.

The idea of channeling technical resources beyond Moscow and setting up centers to help do so certainly sounds promising. However, with aid as a political resource for the St. Petersburg reformers, and local leaders accustomed to looking to Moscow for favors, the Moscow RPC has used its network of LPCs for its own political purposes. The Price Waterhouse consultant who helped to set up three of the LPCs said, “They set out to use the centers as a political machine.” Dennis Mitchem, a former partner at Arthur Andersen, explained that “Many things revolved around political considerations . . . . I was told by Victor Pankrashchenko [deputy director at RPC] that, for political reasons, our center [in Novosibirsk] would not be opened.” Thus, although Arthur Andersen was supposed to set up four LPCs, it was allowed to set up only three.

The USAID-funded RPC replicated Moscow’s central authority in the patron-client tradition of Soviet society with regard to how central authority and local elites treated each other. Under that system, the careers of regional elites depended on
high Communist patrons in Moscow, and access and invitations to Moscow depended on the whim of high party officials there. In this tradition of patronage, Maxim Boycko, the RPC’s managing director, hand picked the directors and deputy directors of the regional centers, according to the consultants who helped to set up the LPCs and USAID’s Cecelia Ciepiela. In answer to the question, “On what basis were people hired?” Mitchem said “Obviously, it was political. There were political reasons behind appointments . . . some appointments were purely political.”

LPC leaders were rewarded for loyalty, even if that involved doing little or nothing, and sanctioned for local reform initiatives. Mitchem said that one of the things that was very disconcerting to the contractors was that “we had some strong talents and we made it clear to the RPC and AID that we wanted to use our talents,” but were often stymied. Mitchem said that the LPC directors were concerned mainly with pleasing the RPC: “Some local Russian directors were responsive to the RPC and [to] nothing else. . . . They did what Maxim [Boycko] wanted.”

As an example of this, Mitchem cited an RPC strategic planning process that was “badly flawed.” Because the LPC director in Chelyabinsk, Evgeny Lisov, wanted to do something constructive, he was viewed as a bad boy by the RPC.” When the RPC decided that each of the LPCs should develop a long-range plan, Lisov, together with a well-respected Western expert, developed a plan that Mitchem judged to be most impressive. When Lisov took that plan and his Western colleague along with him to the RPC meeting in Moscow, “they chastised him for getting the [Western] expert involved.” According to Mitchem, the RPC was upset because “one of the directors had the gumption to utilize a professional strategic plan” and rejected his plan, although it was, in Mitchem’s judgment, the best of the LPCs by far. On the other hand, the St. Petersburg LPC had no problems with the RPC. The Russian staff reportedly sat around and played computer games and read newspapers and did little more, which would get them in trouble with Moscow. Given all this, Mitchem concluded that “Maybe they [the RPC] didn’t want to accomplish anything. At least it often appeared that way to me.”

Robert Otto of Carana, who set up the remainder of the LPCs, likewise concluded that local directors were “inclined to do whatever Moscow told them to do. . . . The Central office defines the rules of the road. . . . From the start it was clear that the RPC wanted the LPCs to facilitate the RPC’s agenda.” Otto described the LPCs as “very tightly controlled subsidiaries or branch offices, where local variations were not encouraged. . . . all the way down to staffing patterns.” He said that the LPCs did little by way of consulting with companies. They “were to look for interesting opportunities for post-privatization activities. . . .

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“The USAID-funded [Russian Privatization center] replicated Moscow’s Central authority in the patron-client tradition of Soviet society with regard to how central authority and local elites treated each other.
But at the end of the day, the only thing that mattered to the RPC was that the
LPCs did what they [the RPC] wanted doing. . . . The LPC people slid very eas-
ily into that because it was normal for them to get orders from Moscow.”79

Under these circumstances, are useful activities with a potentially lasting
impact being accomplished? The RPC receives many foreign aid funds largely
because of the clout of reformers Chubais and Boycko. But is an organization
dependent on the clout of these two reformers able to spawn sustainable local
institutions? Otto concluded that the biggest benefit from the LPCs was probably
contact with Westerners: It is a “place where people can go to get information
about the West and about potential partners.”80

The RPC is reportedly discussing alternatives for its future, given the cutting
back of USAID funding (although, at the moment, there appear to be plenty of
other donor resources). In response to the question, “What’s to ensure that these
organizations won’t become just like many Third World parastatal aid-dependent
organizations?” USAID’s Walter Coles replied, “Probably nothing.” He confided
that, “I would have advocated a sundown clause a year ago to preclude it from
becoming yet another bureaucracy.”81

Two other quasi-private groups set up by USAID were modeled after the RPC,
according to Coles and Lieberman. At present, these are not as institutionally elab-
ored as the RPC, although accounting and managerial systems that would allow
them to seek and managed donor grants and loans are being set up.82 With USAID
funding, HIID set up the Institute for Law-Based Economy (ILBE), which was
registered with the Russian government as a nonprofit, noncommercial entity in
April 1995.83 Chubais has played a “substantial” role in ILBE, and Jonathan Hay,
Albert Sokin, and Ruslan Orekhov of the St. Petersburg group serve on ILBE’s
board of trustees and tend to make decisions on behalf of ILBE, according its
Deputy Director Sergei Shishkin.84 ILBE has received $20 million from USAID
through HIID.85 ILBE’s main donor is currently the World Bank, and it also “car-
ries out tasks on behalf of the [Russian] government . . . serving as Program Imple-
mentation Unit on some World Bank Projects,” according to Shishkin.86

ILBE works on developing a legal and regulatory framework for markets; It has
drafted a lot of legislation and decrees for the Russian government. ILBE has
employed Russian lawyers to help write regulations and, importantly, to explain
their significance to members of the Duma. However, there were a number of cases
where laws were written but not submitted to the Duma. There also were cases
where ILBE’s Western affiliation proved to be a handicap in achieving the proper
support in the Duma. ILBE has worked with a coordination committee and work-
ing groups with participants from the Duma and the executive branch, but often they
were not able to overcome obstacles and have resorted to using decrees. However,
ILBE appears to have had some successes that go beyond the St. Petersburg group.87

Because HIID received a Cooperative Agreement to serve as an impartial
adviser to USAID, HIID wields influence over some other U.S. contractors. In at
least one instance, HIID even became involved in the administration of a contract
that it had competed for and lost. The contractor who won the project was strongly
couraged to include ILBE as a subcontractor. ILBE has tried to influence the
direction of the project via the HIID oversight process. HIID has leverage through its ability to influence the decree writing and approval process through Ruslan Orekhov, Yeltsin’s legal adviser.

Like the RPC and ILBE, the Resource Secretariat, another USAID-funded organization (with some support from other donors), was set up by HIID in the post-privatization phase. However, unlike the other two organizations, the Resource Secretariat is not a legal entity registered with the Russian government. The Resource Secretariat was first headed by an American working for HIID and now St. Petersburg group member Dmitry Subbotin heads the organization.

The Resource Secretariat was to provide “intellectual capital” (and to coordinate the USAID-funded contractors providing it) to the Federal Commission on Securities and the Capital Market (the “Federal Commission”), also known by Americans as the “Russian SEC.” (With regard to the Federal Commission, Chubais has served as chairman and St. Petersburg group member Dmitry Vasiliev as vice chairman and executive director.) USAID’s Matthew Mosner describes the Secretariat as “a think-tank organization and coordinating body . . . [that acts] as a clearing house where we could coordinate USAID contractors.”

USAID has supported the Federal Commission and the Resource Secretariat by paying U.S. contractors and HIID more than $15 million.

The Resource Secretariat and the ILBE, in contrast to the RPC, appear to have had some success in broadening benefits beyond the St. Petersburg group. For example, the law on the securities market that Yeltsin signed in April 1996, which established a structure for market regulation by the Federal Commission, results from work conducted at the Secretariat and at the Federal Commission under HIID’s supervision. This legislation may well make a critical, lasting contribution.

However, on balance, the capacity of the RPC, ILBE, and the Resource Secretariat to move beyond the scope of the St. Petersburg group remains limited. This has and will continue to constrain any “results” toward market reform and especially institution building. Thus, on balance, the overall ability of the quasi-private organizations to make many lasting contributions with broadly based benefits remains questionable.

The Faces and Interfaces of the St. Petersburg Group: A Game of Musical Chairs

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 group and the network of organizations established by donors under its charge. HIID has served as the chief interface between aid-created institutions and donor organizations.

Jonathan Hay, an American now in his mid-thirties, and one of the “bright kids from Harvard” (Bernard 1995, 1), serves as HIID’s representative and works very closely with members of the St. Petersburg group. A number of donor officials and contractors wanting to talk to Russian officials responsible for aid have been directed instead to Hay.

Hay serves as a key link between the St. Petersburg group and the aid commu-
nity at large. He not only runs the Harvard Project but also speaks to USAID and other donors on behalf of the Russians. He says he views his role as “getting policy focused right and turning that into a message for donors,” which includes helping Chubais and others to prepare requests to the leadership of USAID that communicate what the Russian government wants to do. Many non-Harvard connected consultants have indicated that Hay has some control over their purse strings and that he speaks on behalf of the Russian government (that is, the St. Petersburg group) to USAID. Thus, it is not surprising that at a meeting the author observed in which Hay, representatives of the St. Petersburg group, and high-priced aid-paid Western consultants were present, consultants treated Hay with considerable deference.

Indeed, the Harvard Project in Russia and in the United States has achieved a special standing in the U.S. aid bureaucracy and secured terms that are different from and more advantageous than other aid contractors. HIID has 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 established that Harvard would be “providing policy advice to reformers [who are] part of the [Russian] government—and also to AID on the policy, design and oversight or management of projects in such areas as privatization, capital markets, legal reform, land reform, and tax,” according to USAID’s Deirdre Clifford. HIID sometimes speaks on behalf of the St. Petersburg group, sometimes on behalf of itself as an aid contractor, and sometimes also as a contractor managing the projects of competitor-contractors. Thus, from an American standpoint, HIID appears to be in a conflict of interest position.

All of these circumstances present in U.S. aid to Russia—one group’s near-monopoly on aid in support of market reform, support of old patronage networks and top-down reform, and the creation of quasi-private organizations used as political machines—make it easy for representatives of the St. Petersburg group and HIID to actively pursue their own individual interests and to work on all sides of the table both in Russia and with the donors. HIID and the St. Petersburg group work through the donor community to influence aid policies toward Russia, to direct the allocation of technical assistance grants, and then to manage the aid themselves. Chubais signed letters requesting foreign aid while he and his associates were also the recipients of the aid.

With the backing of USAID, the St. Petersburg group and the Harvard Project
are loyal and mutually dependent: each is the other one’s entrée. The St. Peters-
burg group is HIID’s avenue to Russia and to its ability to claim clout and con-
tacts with the Russian government. In turn, HIID is the St. Petersburg group’s
entrée to the ears and eyes of U.S. policymakers and aid dollars, although mem-
bers of the St. Petersburg group have cultivated their own contacts and now often
speak on their own.

Lobbying can be very effective because the structure of authority is, in many
ways, ad hoc and allowed to be so because USAID’s management practices are
often fragmented and ambiguous. USAID has essentially conferred responsibili-
ty to HIID for administration of the aid in support of market reform portfolio—
embracing everything from privatization to post-privatization and capital mar-
kets. If a member of the partnership fails to get a “yes” in one place, he often goes
up the ladder (and around it) until a “yes” is indeed achieved. When he does not
get a hearing to his satisfaction or is turned down by lower or local USAID author-
ities, he may go directly to high authorities, often the U.S. Department of State’s
coordinator of NIS assistance, Richard L. Morningstar. Jonathan Hay, Maxim
Boycko, Dmitry Vasiliev, and Ruslan Orekhov all have made trips to Washington
to talk to Morningstar and/or have lobbied him directly when they have been
stymied somewhere down the chain. Some officials high in the chain of command
in the U.S. executive branch have strongly endorsed HIID’s role in Russia.

The St. Petersburg group and HIID are not only loyal to one another, but loy-
alty is a key strategy for success. Top U.S. aid officials confirm that after Chubais was
dismissed by Yeltsin as first deputy prime minister in January 1996, he was placed
on the HIID payroll.97 In response to the question, “why was Chubais put on the
USAID-HIID payroll?” USAID Assistant Administrator Thomas A. Dine replied
that, “The Harvard people said that they could use him as a consultant to them.”98

Similarly, when Stanford University, not Harvard, was awarded a contract to
work with the St. Petersburg-run Federal Commission, Dimitry Vasiliev, its head
and a member of the St. Petersburg group, turned down Stanford’s help. In
response to the question, “Why did Vasiliev turn down the Stanford project?” HIID
director Andrei Schleifer replied that Vasiliev “had a group of people he was work-
ing with. The people at Stanford were on record being extremely hostile to priva-
tization. . . . He didn’t want to work with them.” Also, since Vasiliev was getting
a loan from the World Bank, Schleifer remarked, the “AID loan doesn’t matter as
much.”99 Additional USAID funds were forthcoming after Vasiliev turned down
assistance from Stanford. In September 1995, the Federal Commission and HIID
received $1.7 million, an amendment under the 1992 Cooperative Agreement.

Thus, the St. Petersburg-HIID partnership appears to be virtually “seamless,”
as one observer put it. The partnership seems to be like a game of musical chairs,
with Chubais and other key players directing when the music will be turned on
and off. This game, in which roles are constantly being switched depending on
the situation, facilitates deniability. As manager vis-à-vis other aid contractors,
HIID can represent its own interests as an aid contractor, while as representative
of the Russian government’s chair, HIID’s Jonathan Hay can represent the inter-
est of HIID as an aid contractor and/or those of the St. Petersburg group. If under
fire for funding controversial privatization practices of the Russian state, donors can disassociate themselves from the state because they are funding “private” organizations, even if these organizations are controlled or strongly influenced by key officials of the state. If under fire from countrymen for public policies or misuse of funds, the St. Petersburg group can claim that Americans made the decisions. Likewise, donors can claim that Russians decided. As one contractor put it, this setup “not only enabled the deniability, it institutionalized it.”

An aid delivery system that facilitates deniability by definition lacks outside accountability and precludes significant oversight on the part of U.S. and Russian authorities who are not aligned with the chosen group. The body that is physically closest to Russian aid implementation, USAID-Moscow, has conceded some of its management and oversight role to HIID. Moreover, a high-level interagency U.S. government “Steering Committee” made up of representatives from USAID (Thomas Dine and Donald Pressley), the U.S. Department of State’s Coordinator’s Office (Richard Morningstar), the U.S. Department of Treasury (David Lipton), and the National Security Council (Carlos Pascual) appears inclined to favor HIID.

Market Participants Rebuff Aid-Created Institutions

The St. Petersburg-HIID partnership is centrally involved in attempts to set up capital markets in Russia. However, there is a crucial difference between the partnership’s attempts to set up capital markets and its involvement in organizations such as the RPC. The RPC can carry out post-privatization activities and appear to be successful without bringing in the full spectrum of market participants. To the contrary, the success of capital markets depends on involving the full spectrum of potential beneficiaries, not just one group. This has been demonstrated in one USAID-funded capital markets project: the attempt to set up clearing and settlement organizations (CSOs) in Russia.100

Since 1994 when consultants, working under USAID contracts totalling $13.9 million,101 set out to design and implement CSOs in five Russian cities, very little evidence of progress has been made in Ekaterinburg, Novosibirsk, and St. Petersburg.

In Moscow, USAID-paid consultants saw their client as USAID, HIID, and the Resource Secretariat, rather than the Russian broker dealers who would use the system. USAID tried to create the Moscow CSO out of one broker dealer—Cash Union—to do clearing operations.102 Cash Union, which had received a general banking license, had credibility and conflict-of-interest problems with other independent broker dealers. Because Cash Union in its CSO capacity would have access to market information from other broker dealers, which it could then use to compete with them, other broker dealers wanted little to do with the Moscow
CSO. As one consultant put it, “It’s like AT&T giving information to MCI.” Consequently, despite millions of USAID dollars spent, many of the relevant market participants were not brought into the process and declined to use the Moscow CSO (which is currently being used only for reregistration). One market participant, Viktor Agroskin of the brokerage Rinacoplus, said that the Moscow CSO is “incorporated and nothing else.”

Only Vladivostok reached the point of being operational, despite the fact that initially it got the least money from USAID. The Vladivostok CSO reached this point because the local leadership took control of the process of creating a Russian system by adapting outside models.

**Cash over Cronies: The Lure of (Il)Legal Tender**

The St. Petersburg group was created around a purpose—to develop projects for economic change, peddle them to Russian officials and the public, and solicit international publicity and support from Western experts. While in St. Petersburg, and against the backdrop at the time of perestroika and glasnost, it was prudent for the group to work together and support each other in activities such as election campaigns and public presentations. But will the members of the group stick together no matter what opportunities or obstacles external circumstances might present? Cliques are based on long-standing ties, both instrumental and emotional, but they also are strategic alliances that respond to changing circumstances.

However, the once-powerful reasons for sticking together appear to be less compelling today than several years ago. Now that members of the St. Petersburg group have situated themselves vis-à-vis the West as the key economic reformers and conduits of Western aid, they might not need each other as much. With so much at stake to be allocated and in the midst of such tumultuous change, old systems of social relations, such as the informal networks that functioned under communism and helped to ensure stability, can be broken up.

Or such networks can be reinforced, as appears to be the case with regard to some industrial networks of former nomenklatura. Members of the St. Petersburg group may not invariably find their association with one another advantageous; interests can diverge as do opportunities. There are circumstances under which members of the St. Petersburg group will cooperate as well as circumstances under which they will divide and seek other alliances. Already, two of the group’s members, both of them responsible for millions of dollars in foreign aid, have distanced themselves from each other. Dmitry Vasiliev, head of the Federal Commission, requested of the World Bank that a loan that had been earmarked for the Federal Commission but designated to go through Maxim Boycko’s RPC not be funneled through the RPC. Instead, Vasiliev has set up a receiving unit at ILBE.

Nevertheless, so far, most members of the St. Petersburg group have not found it prudent to break with each other entirely. This may be because Western donors see them as working together and because previous associations have put them together in a way that is hard to break off without risk to continued good relations and resources from the West. As a former Chubais associate predicted before the recent announcement of an additional World Bank loan: “As soon as the pie
becomes smaller and smaller, they [members of the St. Petersburg group] will break with each other. The pie is becoming smaller because the West is cutting back [in funding].” Yet, at least in part due to group members having been linked to each other by foreign aid agencies and agreements, the associate acknowledged that “Now they can not get rid of each other.” St. Petersburg group member Eduard Boure concurred, “You see, it’s like in a family.”

Repeat Performance in Ukraine?

The aid effort to Ukraine got underway later than to Russia. It was stepped up in 1994 and 1995 following much positive publicity in the West about the government of President Leonid Kuchma and its economic reforms, many of which were judged successful. Because of this publicity and because aid to Ukraine was seen to some extent as an alternative to aid to Russia (which had become increasingly unpopular in light of its operations in Chechnya, sales of nuclear technology to Iran, and renewed anti-Western sentiment), Ukraine has become the favorite kid on the bloc among the Western aid donors to the former Soviet Union. As in Russia, technical assistance in such areas as privatization and economic restructuring was the main type of aid sent, accounting for more than three-fourths of USAID expenditures in Ukraine as of 31 March 1996.

As in Russia, HIID (this time though a different group of players within it) has lobbied for and been awarded a contract to offer macroeconomic advice and to work with high officials, notably then-Deputy Prime Minister Roman Shpek. HIID’s proposal has been unusual in a number of respects, beginning with its point of origin, which was not USAID. In answer to the question, “Where did the HIID-Ukraine project originate,” Laurier Mailloux, director of USAID’s Office of Privatization and Economic Restructuring, said that it “did not originate here.” And who made the decision to fund the HIID-Ukraine project? “That was a political decision that we [my office] weren’t involved in. . . . There were a number of other actors,” said Mailloux.

Indeed, the HIID-Ukraine “project has not been without controversy,” as deputy aid coordinator Taylor put it. The USAID mission in Kiev and officials within the Ukrainian government, including some in the Central Bank, have opposed the project as redundant with other technical assistance projects. Likewise, USAID’s Dine confirmed that the International Monetary Fund wrote a letter raising objections “because they [the IMF] thought it would be duplicating their work.”

However, all these objections were overruled by the U.S. executive branch for foreign policy considerations, and HIID was awarded a noncompeted Cooperative Agreement to work in Ukraine. The high-level interagency steering committee detailed earlier has promoted the HIID-Ukraine contract, according to USAID’s Dine. Deputy aid coordinator Taylor said that the steering committee “played a role in coordinating Harvard work in Ukraine.” Some officials in the executive branch have enhanced HIID’s chances for obtaining the Cooperative Agreement for Ukraine on a noncompetitive basis. Whatever the details, the project was signed off at the highest aid levels.
In Ukraine, U.S. aid policymakers may be inclined to emulate the Russian aid model—to assign the market reform portfolio primarily to one contractor that works only with the “reformer” group. But, given some of the problems with the course of U.S. assistance in Russia, this may not be the most promising model for Ukraine.

Policies for a Lasting Impact
What was the alternative to supporting the Chubais group, charged as it was with responsibility for economic reform for the Russian state? And what could be wrong with creating quasi-private organizations to bypass inefficient government? The fallacy here is in thinking that lasting institutions can be built by supporting particular people, instead of helping to facilitate processes and the rule of law. A system based primarily on personal connections and handshakes does not foster the development of independent institutions that can outlive their current executives. In a system of personal ties and few formalized procedures, the rules become “whatever one can get away with.” When the executives doing the handshaking are replaced by new executives, the institutions empowered by the former executive often lose their influence or disappear altogether. Or, depending on the opportunities and what political advantages might accrue, institutions might shift entirely to the power structure of the new executives. Continuity is achieved by establishing procedures, few of which continue under a new regime of executives. Although such improvisation and informality may be expected to characterize a revolution and its aftermath, they collide head on with the aid program’s broader effort to build lasting, nonaligned institutions.

Other, more constructive scenarios were possible in this story, had the donors chosen to devote the bulk of their effort to working with and helping make government more effective, rather than simply to bypass it through top-down decrees and chameleon-like organizations, and had donors attempted to broaden their base of recipients and supported structures in which all relevant parties can participate and effectively own. Moreover, a leading American university might have played a more positive role toward this end.

Aid to Russia is presently being cut back, but the same dangers apply in other places such as Ukraine, the new focus of donors in the region. Pressure from outside donors for quick and visible benchmarks of reform is often in conflict with the way in which indigenous political and institutional processes function.

To try to help the cause of reform, donors need to work to develop a market infrastructure that all relevant parties can buy into—not just one political group. As one aid-paid consultant expressed: “One of hardest parts of Western aid . . . was figuring out how to build member-owned, member-driven organizations that are neutral third parties and don’t have a vested interest in the success of one or several parties. . . . The hardest thing to get people over is political ties . . . to get leaders of organizations to seek opinion and perform for people who aren’t political buddies.” The major challenge in the post-Soviet environment was to consider how to help to build bridges in such a conflictually pluralist environment with many groups and little in the way of center coalitions. This is precisely the
challenge for which aid contractors should have been paid. Their task was not to fly in and out, leaving behind drafts of legislation. Their task was to consider the structure and process of decision making in the context in which they were working. Their task was to build contacts and work with all relevant groups. Choosing one group was the easy way out—bearing possible short-term results but questionable long-term ones. Pressure to build institutions and against concentrating many in the same hands should be built into aid projects. As USAID’s Keith Henderson expressed, “The main challenge is to keep everyone’s eye on long-term sustainable objectives of the agency and the country. . . . Over the long term the place to really invest resources is the participatory strategy because that is where the primary reform becomes sustainable.”

The strength of aid efforts lies in offering technical training, educational programs and exchanges, supplying long-term resident advisers requested by and integrated into host institutions, and other long-range approaches. These methods might be less glamorous but are likely to be more effective in the long run.

However, by siding with a particular group in a highly politicized environment, U.S. assistance may have weakened its effectiveness. When support is concentrated in one group of reformers with American leanings and ties and whose American colleagues are both recipients and overseers of the aid, the West simply encourages anti-Western, anti-reform elements who can point with glee to the absence of real, measurable benefits to the host country as a sign that Russia is being exploited by the West.

NOTES

1. Interview with William B. Taylor, 9 August 1996.
2. This group’s portfolio, for which it received aid, included privatization, post-privatization, development of a Russian securities and exchange commission and capital markets, and legal reform.
3. Calculated from figures published by the U.S. Department of State, Office of the Coordinator of U.S. Assistance to the NIS (1996b), with input by Deputy Coordinator of NIS Assistance William B. Taylor as to which categories consist largely of technical assistance (interview of 9 August 1996).
4. According to USAID’s Deirdre Clifford, since 1992 HIID has received $40,373,994 in noncompeted grants under the First Cooperative Agreement. Another $17,423,090 has been designated for Harvard under the Second Cooperative Agreement (a three-year agreement that began on 30 September 1995), of which $4.5 million has been obligated. Source: USAID documents and interview, 11 June 1996.
7. Maxim Boycko is a Russian reformer; Andrei Schleifer, a professor of economics at Harvard University, heads HIID’s Russia project; and Robert Vishny, professor of finance at the University of Chicago, worked with reformers in Russia.
11. Interview with Walter Coles, 6 June 1996.
12. Interview with Thomas A. Dine, 16 August 1996.
13. See, for example, Lepingwell (1994).
15. Ibid.
16. Letter to Janine R. Wedel from Vladimir Titov, chief of staff to Aleksandr Lebed in the State Duma, 28 August 1996.
17. These dichotomies derive from the classical social theories of the nineteenth century and from the structural-functionalist “integration” models of sociological theory employed by many fields, including comparative politics, public administration, and sociology. But these dichotomies are inadequate to probe changing public-private and political-administrative relations in complex administrative states, especially those states that did not originate them.
18. Joseph L. Albini, R. E. Rogers, Victor Shabalin, Valery Kutushev, Vladimir Moiseev, and Julie Anderson (1995) explain that Russia’s historical inheritance of tsarism produced a system in which patrons and clients became the basic format of social interaction.
19. The extent to which mafia and the defining criteria for the development of mafia exist in Russia is the subject of debate. Millar (1995) contends that Russian mafiya is rather a case of organized and unorganized crime. On the other hand, Varese (1994) shows that both the demand for crucial sources of protection and the ready supply of individuals trained in the use of violence (e.g., unemployed KGB, army and police officers, and former criminals) are present; he argues that Russia is undergoing a transition similar to that experienced by Sicily during the last century. Hedlund and Sundstrom (1996, 32) concur with Varese that Russian conditions are favorable for the development of mafiya and conclude that “the future for Moscow represents a choice between a hierarchy dominated by strongly authoritarian ‘organs,’ or a total breakdown of all organized societal functions.”
22. Interview with Deirdre Clifford of USAID, 11 June 1996.
23. Figures provided by Deirdre Clifford, 11 June 1996.
24. Interview with Deirdre Clifford, 11 June 1996.
31. Interview with Charles Cadwell, 5 September 1996.
32. Ibid.
33. Interview with Leonid Abalkin, 27 February 1996.
35. The hiring of Western public relations firms to promote privatization also has been tried in Ukraine.
36. Information provided by Walter Coles, 5 June 1996.
37. Interview with Penny Goodwin and Barry French of Sawyer Miller, 17 June 1994.
38. According to Goodwin and French of Sawyer Miller (interview of 17 June 1994), a series of “success story profiles” of privatized state-owned enterprises was discontinued.
because the public relations firm had difficulties finding success stories and, in many cases, Russian workers being interviewed did not know whether or not their factories had been privatized.

39. The Russian newspaper Izvestiya (30 November 1993, 1-2) reported that “Information recently made public by the U.S. Agency for International Development, a governmental organization that has been coordinating aid to the countries of the former Soviet Union, leaves no doubt that American taxpayers’ money was used to campaign for the Russia’s Choice bloc. Anatoly Chubais, chairman of the State Property Committee [GKI], is one of the bloc’s leaders.” Izvestiya further reported that Dmitry Vasiliev, deputy director of the GKI (and a member of the St. Petersburg group) had this response: “Needless to say, we immediately withdrew the commercial. We officially apologized in writing to the Agency for International Development, which, without its desire or knowledge, unexpectedly found itself in the midst of a political scandal. But I categorically deny that Chubais or any other officials of the State Property Committee instructed anyone to make political changes in this business commercial.”


41. See Kliamkin (1995,16-17).

42. Interview with Keith Henderson, 24 July 1996.

43. Mafia implicates a particular set of economic and political arrangements that enable “the private use of unlicensed violence as a means of control in the public arena” (Blok 1974). Why and how Russians use the term is revealing of how they see the past and the present. Organized and violent crime has exploded in recent years. This invokes the association of the mafia, which might be expected to be behind such crimes. Further, in contrast to the relative social equality that Russians came to expect under communism, a huge divide has developed between a few people with enormous wealth and the vast majority of the population with little by comparison.

44. “Clique” appears to better convey the character of the St. Petersburg group than other terms in the lexicon of informal organization such as social networks and exchange relationships. The clique is, of course, comprised of networks and its members exchange with one another. But the clique is much more than a collection of networks. Networks that comprise the clique are “dense” in that members of a person’s network are in touch with one another independently of that person; each member of the clique is linked to every other member. Also, networks in the clique are “multiplex” (rather than single-stranded”) in that clique members are connected to one another for multiple purposes, often political, economic, and social. This feature of operating in many spheres—not only political—shows that cliques cannot be reduced to interest groups, factions, or coalitions. In the study of political anthropology, approaches within “action theory,” which concentrates on face-to-face interactions within given socio-political contexts, have emphasized the importance of such informal groups as cliques.

45. Documents and conversations with Russian sources, including Leonid Bazilevich on 23 May, 27 May, 14 June, and 7 August 1996.

46. Interviews with Leonid Bazilevich, 14 June and 7 August 1996.


49. Interview with Leonid Bazilevich, 7 August 1996.


51. Interview with Ira Lieberman, 23 July 1996.

52. For example, HIID pays the salaries of expatriates in executive positions.

53. Interview with Ira Lieberman, 23 July 1996.

54. The EBRD has contributed about $43 million to the RPC, according the EBRD’s Renae Ng, in a conversation of 24 September 1996.

55. Japan is currently the largest contributor among the G-7, according to Ralf-Dieter Montag-Girmes, director of post-privatization support with the Russian Privatization Cen-
ter in an interview of 12 June 1996.
56. Information provided by Deirdre Clifford, 11 June 1996.
57. Interview with Ira Lieberman, 23 July 1996.
58. According to Ira Lieberman in his 23 July 1996 interview, Fedorov objected to items of the loan on professional grounds.
60. For example, while the supervisory board nominated Maxim Boycko, a member of the St. Petersburg group, to run the RPC, Boycko chose its directors, of which Vasiliev is one. (Based on information provided by Ralf-Dieter Montag-Girmes of the Russian Privatization Center, 26 July 1995.)
61. Interview with Andrei Schleifer, 5 September 1996.
62. Information provided by USAID’s Deidre Clifford, 22 September 1996.
63. Interview with Walter Coles, 6 June 1996.
64. Interview with Cecilia Ciepiela, 5 August 1996.
66. Interview with Thomas A. Dine, 16 August 1996.
67. Confidential federal sources.
70. Ibid.
71. Interview with Cecilia Ciepiela, 5 August 1996.
73. Interview with a representative of Price Waterhouse, 18 July 1996.
74. Interview with Dennis Mitchem of Arthur Andersen, 19 August 1996.
75. Interview with Cecilia Ciepiela, 5 August 1996.
76. Interview with Dennis Mitchem, 18 August 1996.
77. Interview with Dennis Mitchem, 19 August 1996.
78. Ibid.
80. Ibid.
82. Interview with Walter Coles, 11 September 1996.
83. Interview with Matthew Mosner of USAID, 26 August 1996; and with Sergei Shishkin of ILBE, 28 August 1996.
84. Interview with Sergei Shishkin, 28 August 1996.
85. Interviews with Deirdre Clifford, 11 June and 27 June 1996.
86. Interview with Sergei Shishkin, 28 August 1996.
87. Information confirmed in a conversation with Keith Henderson of USAID, 6 September 1996.
88. A number of irregularities have been suggested in ILBE’s payments to employees. Because ILBE is not an approved organization for the receipt of USAID funds, some contractors have been asked to make payments directly to “the President and Fellows of Harvard College, HIID.” For example, one U.S. contractor was asked to pay a Russian an annual salary of $125,000; records show that daily rates frequently changed without explanation, ranging from about $250 to about $450 per day. These irregular proposed payments have led to speculation that some of the funds that show up on payrolls are actually being used for other people or purposes.
89. Information confirmed by USAID’s Keith Henderson, 6 September 1996.
90. Interviews with Matthew Mosner, 14 August and 26 August 1996.
91. Ibid.
92. Interviews with Deirdre Clifford, 11 June and 27 June 1996.
94. The author placed numerous calls to Jonathan Hay in Moscow to obtain a response
to these issues during the weeks of 5 August and 12 August 1996. Hay was reportedly in
the office but did not take or return any calls.
95. Interview with Deirdre Clifford, 24 July 1996.
96. Ibid.
97. Interviews with William B. Taylor, deputy coordinator of NIS assistance, 9 August
1996; and Thomas A. Dine, 16 August 1996.
98. Interview with Thomas A. Dine, 16 August 1996.
100. “Clearing” is an operation by which transactions are matched, monitored, and exe-
cuted through a central nonaligned organization, by mutual offsetting of the elements of these
transactions. This system of having a nonaligned executor is a necessary ingredient of a
sophisticated financial system without which players in the market would have to move cash
or physical documents among a matrix of parties.
101. Based on figures provided by USAID’s Deirdre Clifford, 11 June 1996.
102. According to Cash Union President Konstantin Merzlikin, in an interview of 2
August 1995, Jonathan Hay of HIID and some consultants working in the GKI came to
Merzlikin to solicit his help in organizing a Moscow CSO. Consistent with this is what a
USAID-paid consultant on the project, Jonathan Bulkley, said in a 12 June 1996 interview:
that St. Petersburg member Dmitry Vasiliev, head of the Federal Commission, together
with USAID, selected Cash Union.
103. Interview with Walter Coles, 4 June 1996.
106. Calculated from figures published by the U.S. Department of State, Office of the
Coordinator of U.S. Assistance to the NIS (1996b), with input by Deputy Coordinator of
NIS Assistance William B. Taylor as to which categories consist largely of technical assis-
tance (interview of 9 August 1996).
107. Interview with Laurier Mailoux, 13 August 1996.
110. Interviews with William B. Taylor, 9 August 1996; and with Thomas A. Dine, 16
August 1996.
111. In answer to the question, “Have any members of the steering committee promot-
ed the project,” USAID’s Dine said that he had. Interview with Thomas A. Dine, 16 August
1996.
112. The Department of Treasury was especially “involved” in the HIID-Ukraine pro-
ject, according to Stanley R. Nevin, the procurement officer who signed the Harvard Coop-
113. Wedel (1992, 1994a, 1994b, 1995) illustrates this point with regard to privatization
aid to Central and Eastern Europe. The limits of encouraging reform merely by setting
benchmarks and sending consultants also was underscored by Eastern European repre-
sentatives of recipient countries in a conference co-organized by the author and co-spon-
sored by the Woodrow Wilson International Center for Scholars and the Friedrich Ebert
Stiftung, bringing together donors and recipients (Harper and Wedel 1995).
115. A number of U.S. officials (e.g., Deputy Aid Coordinator Taylor, interview 9
August 1996; and the deputy chief of mission of the U.S. Embassy in Moscow, interview,
25 July 1995) have emphasized that Russians are very positive on exchanges, ranging from
high school to scholarly and professional programs. A conference bringing together donors
and recipients (co-organized by the author and co-sponsored by the Woodrow Wilson
International Center for Scholars and the Friedrich Ebert Stiftung) concluded that, in the
long run, aid programs emphasizing exchanges were likely to be the most helpful (Har-
per and Wedel 1995).
REFERENCES


