

PD-ABP-138

94106

u:\aidrep\docs\results4.97\r4georg 06/12/97

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID/CAUCASUS

RESULTS REVIEW AND
RESOURCE REQUEST
GEORGIA

JUNE 1997

A

TABLE OF CONTENTS

GEORGIA RESULTS REVIEW AND RESOURCE REQUEST FY 1999

LIST OF ABBREVIATIONS

PART I

INTRODUCTION AND OVERALL COUNTRY PERFORMANCE

PART II

STRATEGIC OBJECTIVE RESULTS REVIEW

I.a. Strategic Assistance Area 1 - A Competitive Market-Oriented Economy

1. Overview and Factors Affecting Performance
2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions
 - 2.1. SO1.2 Increased Soundness of Fiscal Policies and Management Practices
 - 2.2. SO1.3 Accelerated Development and Growth of Private Enterprise
 - 2.3. SO1.4 A More Competitive and Market-Responsive Financial Sector

I.b. Strategic Assistance Area 1 Continued - SO 1.5 A More Economically Sustainable and Environmentally Sound Energy Sector

1. Overview and Factors Affecting Performance
2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions

II. Strategic Assistance Area 2 - Empowerment of Citizens Through Democratic Political Process

1. Overview and Factors Affecting Performance
2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions
 - 2.1. SO 2.1 Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making
 - 2.2. SO 2.2 Legal System that Better Support Democratic Processes and Market Reforms
 - 2.3. SO 2.3 More Effective, Responsive, and Accountable Local Government

III. Strategic Assistance Area 3 - Strengthen The Capacity To Manage The Human Dimension of the Transition

1. Overview and Factors Affecting Performance
2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions
 - 2.1. SO 3.1 Reduced Human Suffering and Crisis Impact

IV. Strategic Assistance Area 4 - Special Initiatives and Cross-Cutting Programs

1. Overview and Factors Affecting Performance
2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions
 - 2.1. SO 4.1 Special Initiatives
 - 2.2. SO 4.2 Cross-Cutting Programs

V. Partnership for Freedom

PART III

STATUS OF MANAGEMENT CONTRACT

PART IV

RESOURCE REQUEST

- I. Resource Request by Strategic Objective (SO)
- II. Prioritization of SOs
- III. Field Support Requirement from AID/W Offices
- IV. Work Force and Operating Expenses
- V. Environmental Compliance and Issues

ANNEXES

- Annex 1.** Standard Budget Tables
- Annex 2.** Global Field Support Table
- Annex 3.** Work Force Table
Operating Expense Budget Table

ABBREVIATIONS

- AIOC** - Azerbaijan International Operating Company
- CBIHA** - Coordination Bureau for International Humanitarian Assistance (Georgian Government organization)
- CEPAR** - Center for Economic Policy Analysis and Reform (Georgia)
- CEPRA** - Center for Economic Policy Research and Analysis (Armenia)
- CIS** - Commonwealth of Independent States
- CLAU** - Caucasus Logistics Advisory Unit
- CUG** - Citizens' Union of Georgia
- DOT** - U.S. Department of Treasury
- EBRD** - European Bank for Reconstruction and Development
- EC/ECHO** - European Community Humanitarian Office
- ECU** - European Currency Unit
- EPS** - Electronic Payments System
- EU** - European Union
- FMS** - Financial Management System
- FSU** - Former Soviet Union
- GANSP** - Georgia-Armenia Nutritional Supplement Project
- GDP** - Gross Domestic Product
- GIOC** - Georgia International Oil Company
- GOA** - Government of Armenia
- GOG** - Government of Georgia
- GTZ** - German aid program
- IBRD** - International Bank for Reconstruction and Development (World Bank)
- ICRC** - International Committee of the Red Cross
- IDP** - Internally Displaced Person
- IFI** - International Financial Institution
- IFRC** - International Federation of the Red Cross
- IMF** - International Monetary Fund
- IOM** - International Organization for Migration
- IR** - Intermediate Result
- MW** - megawatts
- MVD** - Georgian State Police
- NBG** - National Bank of Georgia
- NGO** - Non-governmental Organization
- NET** - NIS Exchanges and Training Project
- NIS** - New Independent States of the former Soviet Union
- OSCE** - Organization for Security and Cooperation in Europe

PAROS - Armenian Government's needs-based voluntary registration program for humanitarian assistance
PVO - Private Voluntary Organization

SCF - Save the Children Federation
SIF - Social Investment Fund
SME - Small and Medium Enterprise
S.O. - Strategic Objective
STF - Systemic Transformation Facility (IMF)
STI - State Tax Inspectorate (Armenia)
STS - State Tax Service (Georgia)

TACIS - Technical Assistance Program of the European Union for the former Soviet Union

UNDP - United Nations Development Program
UNHCR - United Nations Human Rights Commission
UNICEF - United Nations International Children's Fund
USDA - U.S. Department of Agriculture
USGS - U.S. Geological Survey

VOCA - Volunteers in Overseas Cooperative Assistance

WFP - World Food Program
WTO - World Trade Organization

E

**GEORGIA
RESULTS REVIEW AND RESOURCE REQUEST
FY 1999**

PART I

INTRODUCTION AND OVERALL COUNTRY PERFORMANCE

General

This R4 document represents an interim submission at the midpoint between the earlier, unapproved country strategy documents and a new regional strategy to be submitted to ENI/W in late winter/early spring of 1998. As such, it contains program elements outlined in the earlier strategy, as well as the introduction of some new concepts and programmatic thrusts. To the extent that these new emphases are not yet fully articulated in this document, USAID/Caucasus requests reviewers' indulgence, reflection and participation in the overall strategy development exercise which will commence in earnest in early fall with the arrival of new staff in the region.

Our thanks in particular to the R4 Swat Team of Dagnija Kreslins, Bobby Herman, Mervyn Farroe and Kevin Kelly without whose participation, energy and wisdom the preparation of this document would not have been possible in the time available.

Regional Overview

The last year has been a time of transition for USAID/Caucasus. The majority of USDH staff in the region left for new posts, and was replaced by new arrivals. With the support of ENI/W, the mission began a significant expansion, particularly in Armenia and Georgia. New building projects were identified and initiated at both sites to house an expanded USAID presence. In Azerbaijan, USAID's tiny FSN staff grew slightly, but their efforts were substantially enhanced by a more regular and intense schedule of staff travel to Azerbaijan from the regional office in Yerevan, particularly in support of humanitarian and democracy programs.

The last year saw little forward progress on peace in the stalemate between Armenia and Azerbaijan over the Armenian enclave of Nagorno-Karabakh. If anything, the situation grew warmer with Russian weapons transfers to Armenia and more frequent reports of shelling incidents on both sides of the border. With respect to Abkhazia, however, the Georgian government appears to have recommitted itself to a negotiated settlement, and is actively taking steps to encourage this result. Both conflicts require early solutions if the region is to maximize its opportunities for political and economic development over the next several years.

Georgia

Over the last year, Georgia has emerged as a regional bright spot. Following an assassination attempt on his life, President Shevardnadze succeeded in neutralizing the power of the Mkhedrioni (paramilitary warlords) and ushered in an era of Parliamentary democracy, and the beginnings of economic rebirth. A new airport greets arrivals in Tbilisi, and the road into town

from the airport is dotted with billboards advertising new guest houses and services. This favorable first impression is reinforced on Rustaveli Street, the center of town, where the Parliament building has been restored, and shops and cafes are springing up seemingly overnight.

Despite positive signs of incipient economic recovery (Georgia's GDP was estimated in a recent issue of *The Economist* to have grown as much as 9% over the past year), life in Georgia is much more difficult than in the days when Georgia was the favored vacation spot of the USSR. With minimal domestic energy resources exclusive of the Inguri power station (located inside Abkhazia), Georgia's gas debt to Turkmenistan passed \$600 million before recent debt rescheduling arrangements brought it down into the \$350 million range. Power outages are frequent and winters are cold and dark. In addition, Georgia's health care sector has collapsed to the point of being unable to cope with diphtheria and rabies epidemics, and the average Georgian loses many days of productivity due to health crises which would have been preventable in the past.

U.S. assistance to Georgia has been instrumental in Georgian democratization. U.S. NGOs such as NDI, ISAR and Internews have played key roles in the rapid maturation of Georgian political processes and the growth in civil society, including independent media. But although Georgian democracy is blooming, it is still much too soon to reduce our assistance to this sector. Huge tasks remain, particularly in legal and judicial reform, where USAID is closely engaged with a broad spectrum of other donors on legal drafting and institution building, and will support Georgian preparations for a World Bank judicial reform program over the next year. Decentralization is also a key task, made more necessary, but perhaps more politically difficult, by Georgia's heterogeneous population. A new local government emphasis is planned for initiation in FY 98.

USAID's economic restructuring program in Georgia has included an uneven mix of "top down" and "bottom up" activities. IESC, VOCA, ACDI and other economically focused efforts under the Save the Children umbrella formed the "bottom up" slice of the portfolio. ACDI's efforts to introduce new seeds, although problematic in some respects as a result of drought conditions in certain project areas, have led to a new Mission emphasis on developing a Georgian seed industry for staple crops such as maize, wheat and potatoes. This investment, new in FY 97, reflects an evolving Mission view that Georgian agriculture can be a major engine of Georgian growth in future years.

On the macro side, USAID has provided substantial, highly effective, and highly popular assistance in banker's training and the development of an electronic banking network, in partnership with the Central Bank of Georgia. Economic policy analysis and commercial law development have been provided under the CEPAR mechanism, currently staffed by Chemonics. Although this mechanism has produced some useful efforts, including the analytical paper which tipped the Georgian decision away from joining the CIS Customs Union and toward WTO accession, and effective support to the WTO accession process itself, the existing mechanism has been managerially problematic, and less well focused than the Mission would have preferred. Finally, our energy sector efforts have succeeded reasonably well in supporting Georgia's role in the Caucasus oil and gas equation, but they have not yet produced solid progress in restructuring the Georgian energy sector along more privatized and commercial lines.

Over the last year, USAID/Caucasus, working with ENI/PER, has concluded that the Mission's earlier decision to leave Georgian privatization to the EU/TACIS program needs to be rethought.

The EU/TACIS privatization program has not been particularly effective; large chunks of the formal Georgian economy remain in public sector hands. Moreover, until recently, the World Bank's efforts in Georgia did not encourage faster, or more effective privatization or capital market development.

Two weeks ago, this situation began to change dramatically. A joint ENI/PER and World Bank team visited Georgia to outline the conditions under which a future joint effort in privatization might take place. The Bank included USAID-developed conditionalities in its \$60 million SAC program; these conditions were accepted by the Georgian government. We thus believe that the right conditions now exist in Georgia for initiation of a broad market reform package, including privatization, capital market development, and related legal, tax and accounting efforts. The Mission believes that this package is key to creating an environment in which Georgia can capitalize best on its remaining state-owned assets, bring elements of the economy now within the informal sector fully into the formal economy, and create the conditions necessary for mobilizing domestic, as well as foreign investment. Accordingly, a goodly chunk of future year funding is set aside for these purposes. Should Georgia receive a significantly larger budget than is anticipated in this submission, an even higher level would be devoted to a comprehensive market reform package.

Finally, the Mission's humanitarian program in Georgia is evolving rapidly into two parts: 1) an Abkhazia support effort, designed to demonstrate continuing U.S. concern for the people of Abkhazia during the period when issues of regional autonomy are under close discussion with the Georgians, and 2) a social reform/community mobilization initiative, which will be designed over the next several months to improve the sustainability of social benefits and services by encouraging local communities to take greater responsibility for the creation, financing and implementation of key social services.

It is currently envisioned that the Abkhazia effort would be relatively short-term, i.e. maximum two years. It might be encompassed in the future by a broader resettlement and rehabilitation effort designed to support a comprehensive peace settlement in the region.

The social sector/community mobilization initiative derives from the Mission's view that the sustainability of the social sectors of Georgia and Armenia depends heavily on a change in attitude, i.e. encouraging citizens to take personal and community responsibility for social services, rather than relying on the impoverished state to provide these services as in the past. Design of this effort will also flow from the very real successes of the Save the Children community development programs in both countries, as well as from the cross-sectoral integration which can be fostered through close work with the democracy sector's emphasis on greater public participation and improved local governance.

PART II

STRATEGIC OBJECTIVE RESULTS REVIEW

I.a. STRATEGIC ASSISTANCE AREA 1 -- A COMPETITIVE MARKET-ORIENTED ECONOMY

1. Overview and Factors Affecting Program Performance

Georgia's overall performance was good in 1996 with real GDP growing about 11 percent and inflation running around 13.5 percent for the year. Georgia's growth has been one of the strongest in the CIS. Data for the first quarter of 1997 place Georgia second. Quarterly output increased steadily over the year, reinforcing the perception that the economy is in a sustained recovery. The low standard of living began to improve as inflation fell, production expanded, and the exchange rate stabilized. Total investment was about 5 % of GDP, far short of the norm of 20-25% of GDP needed to sustain long term economic growth, but much better than neighboring Armenia.

Strongest growth was in construction and trade (greater than 25 % each) while growth in industry and agriculture was low. In terms of the composition of GDP, agriculture continues to be the leading contributor at 32 percent (down from 40 percent in 1995), followed by trade (25 percent), services (16 percent), and industry (14 percent). These growth rates reflect the relative ease of establishing trading and service businesses, the strong demand for housing construction and renovation and the continuing stagnation of heavy industry and agriculture.

Government finance continues to be the most serious constraint on the economic reform process. Total tax revenues were only 6.8 percent of GDP, which is the lowest rate of any CIS country. Tax administration is very weak and riddled with corruption. Poor performance on the revenue side is offset by the Government's successful efforts to reign in expenditures, thus maintaining the budget deficit at a manageable 5.6 percent of GDP.

The credit market, while still shallow, provided important additional evidence that the economic recovery is gaining momentum. Short-term interest rates fell uniformly over all lending terms in National Bank credit auctions: 90-day rates fell from about 70 percent to about 30 percent by the end of 1996.

In the merchandise trade sector, exports grew by 29 percent in 1996; however, imports grew even faster at 46 percent, leading to an overall increase of 58 percent in the trade deficit. There are strong protectionist tendencies in the Georgian polity but so far official policy to open the economy to Western competition is prevailing. Import duties were lowered for many commodities even in the face of these domestic pressures. Georgia's foreign debt burden rose to \$1.6 billion.

On the privatization scene, small enterprises were completed using vouchers but the program has stalled for medium and large enterprises. Concerned about giving away state assets, the Government is further impeding the program by insisting upon unrealistic floor prices in cash auctions.

Overall, Georgia performed well in terms of growth and macro-economic stabilization. However, the areas of weakness, i.e. tax collections and privatization, the lack of political will, and the undercurrent of corruption, seem to be plainly evident.

2. Progress Toward Objectives, Expected Progress through FY 1999 and Management Actions.

2.1. SO 1.2 -- Increased Soundness of Fiscal Policies and Management Practices Progress Rating: 1

Performance Analysis

While for two years running USAID/Caucasus has made available funds sufficient to finance U.S. Treasury advisors in the area of national budget, tax code reform and debt management, only one resident advisor was fielded in 1996, the advisor for budget. Unlike other CIS countries, the tripartite agreement among State, Treasury and USAID does not fully apply. Whereas funds are transferred under a 632 (a) arrangement, the Embassy has declared that USAID will act as the Ambassador's agent vis-a-vis U.S. Treasury. This arrangement is quite effective with respect to administrative, logistical and support matters but has not yet been tested with respect to substantive issues. One such issue is whether U.S. Treasury should provide any assistance to the State Tax Service which the Embassy determined in mid-1996 to be too corrupt to be saved. Under IMF pressure the Embassy seems to be wavering but USAID has not been a voice in this discussion.

The UST budget advisor arrived just before Parliament had passed a new budget law in 1996 and, therefore, has been principally occupied with implementation. The advisor is effective.

The National Bank of Georgia did a good job developing credit markets in 1996. Through credit auctions, short term interest rates fell for 7, 30 and 90 day maturities while volume steadily increased. This is a good foundation for launching T-bill auctions in late 1997, and the further rationalization of the capital market for both government debt financing and commercial lending. In this regard, U.S. Treasury will field an advisor for debt management in 1997. Based upon experience in Armenia, USAID is concerned that Embassy Tbilisi is not adequately staffed to supervise such a key advisor and we are not yet clear that USAID/Caucasus is empowered to do so and, if we are, whether we have the staff and time to do it correctly.

Selected SO Level Indicators: Fiscal balance as a percent of GDP. Consolidated central government balance (on an accrual basis, including official grants). The balance was -5.8% in 1995, the 1996 target was -3.4%, and the actual was -3.5%.

Indicator: Tax revenue as a percent of GDP. Consolidated government revenue from all tax sources was 3.7% of GDP in 1995, the 1996 target was 6.7% and the actual was 6.8%. While the progression is positive the tax effort is the worst in the CIS.

IR 1.2.1 Market-oriented budget and financial systems for national and local governments.
Indicator: National government using market-oriented budget system. No progress is indicated in 1995 and 1996. A market-oriented budget is expected no earlier than 1998.

IR 1.2.1.1 Budget law operating for national government.
Indicator: Budget Law is utilized. The new government budget presents revenue by source, according to international standards, and includes a functional organizational program

classification system for expenditures which is a start. UST budget advisor contributed to IMF work on the budget classification system.

Indicator: Ministry of Finance Forecasting Unit produces three-year budget projections. No progress to date. Considerable additional effort will be required in budget forecasting; UST assistance has been intermittent and rendered useless since the Ministry's Forecasting Unit is without computers.

IR 1.2.2. Tax Codes are conducive to accelerated legitimate business activities.

Indicator: Number of key amendments to the tax code. A new Foreign Investment law contains ambiguities which may discourage foreign investment. Thus far there have been no amendments to the national tax code to lower effective rates on enterprise profits. It appears that the IMF and Government agree that very poor collections would only be exacerbated by lower marginal rates, a view to which USAID does not subscribe.

Expected progress Through FY 1999 and Management Actions

In the absence of the strong government political will, a thorough-going reform of national tax codes and radically improving tax administration and collection is unlikely. Even with the requisite political will, we doubt that the U.S. Treasury model of providing one advisor and occasional TDY support would be effective given the scale of the problem. However, USAID/Caucasus is considering the possibility of launching a comprehensive privatization and market reform program -- possibly beginning as early as late FY 1997 with performance funds. If we proceed, we would seek a discrete task order to alter the tax code to favor business formation in the formal economy and, possibly, a second element to make a sweeping effort to improve tax administration and collections. Again, the latter component would be contingent upon a demonstration of political will.

For debt management we would expect a continuing UST advisory role to develop a variety of monetary instruments and to market Government securities in a transparent, competitive fashion with the benefits of partially financing the government's fiscal deficit and giving the National Bank of Georgia tools to regulate the money supply. The UST advisor for budget will complete his work in FY 98. It remains to be seen whether work at the national level should be linked to municipal governments since first elections are not scheduled until the fall of 1997. Municipal budgeting could also be done on a task order basis under a comprehensive market reform program and linked to local government building efforts under SO 2. Finally, but beginning in FY 1998 and assuming USAID Caucasus comes closer to being adequately staffed, USAID must commit the staff resources to oversee the U.S. Treasury's technical assistance, a function entrusted to us by the Embassy but not yet fulfilled.

2.2. SO 1.3 -- Accelerated Development and Growth of Private Enterprise
Progress Rating: 2

Performance Analysis

Georgia's growth in 1996 was relatively strong, showing real growth in all sectors and without substantial inflationary effects. Georgia is successfully marketing itself as a country transportation corridor linking the Black Sea (and all of its littoral states) on the West and Azerbaijan and the Caspian Sea on the East, with its littoral members. The Georgians could also develop the idea of a North-South corridor linking Russia to Turkey, Armenia, Iran and Azerbaijan but haven't chosen to do so. With foreign direct investment pouring into Azerbaijan to exploit the production and transportation of large oil and gas reserves, Georgia could be one the most important secondary beneficiaries. The growth of supporting industries and services will be powerfully affected by two factors: the pace with which the Government's privatization program is completed and building a comprehensive legal enabling environment. USAID assistance, through its TA contractor Chemonics International, is directed to providing both economic policy and legal assistance to help Georgia construct this enabling environment in collaboration with a host of multilateral and bilateral donors. A key objective is accession to the World Trade Organization as rapidly as possible. Membership will signal the world's seal of approval on Georgia's efforts to create a market driven, transparent and efficient political economy. In March 1997 the Government finally completed its Foreign Trade memorandum, drawing upon substantial USAID technical expertise, as the first step toward satisfying WTO's requirements.

While Government investment is very low, foreign investment reached an impressive \$40 million in 1996 far exceeding our target. Given the range and number of countries represented (e.g. the top five are Israel, Ireland, USA, Korea, Germany), it appears that Georgia is beginning to exploit its place as one cross-road between two continents. Foreign direct investment could increase even more, if domestic savings picked up, signaling growing popular support for the government and faith in new, emerging market oriented institutions.

SO Level Indicator: Indicator: Private sector share of employment. The 1994 actual was 28% of total labor force, the 1996 target was 50%, and the 1996 actual was 50.7%. The target for 1997 is 60%. By 1999, we expect that 75% of employment will be in the private sector.

IR 1.3.1. Increased foreign investment.

Indicator: Foreign direct investment was \$6 million in 1995, the 1996 target was \$10 million, but the actual reached \$40 million in 1996. The target for 1997 is TBD.

IR 1.3.1.3. Increased investor confidence.

Indicator: Future country risk index. This is the level of country risk as determined by Euromoney magazine (higher # indicates better prospects). In 1995 the risk index was 26 for Georgia, making it one of the worst in the world. By March 1997 the risk index fell to 14, placing Georgia among the 5% of most risky countries in the world. The sharp drop in the index was almost wholly attributable to the size of the external debt which places Georgia as the highest per capita debtor among the republics of the former Soviet Union.

IR 1.3.3.1. Improved management and technical capacity of domestic enterprises.

Eurasia Foundation, IESC and ACIDI intervene at the micro or firm level; however, no macro economic effects can be detected.

IR 1.3.3 Increased access to credit by domestic enterprises.

Indicator: Value of commercial loans to enterprises. This is credit extended to non-state enterprises by the commercial banking sector. The total credit to enterprises including current and overdue loans in December 1995 was \$65 million, where the current loans were only \$16.8 million. In December 1996, the total loans (current and overdue) were \$53 million, where current loans reached \$43 million.

IR 1.3.4. Increased access to export markets and development of domestic markets.

Indicator: Value of exports and non-factor services. The 1995 actual was \$347 million, the 1996 target was \$389 million, and the actual was \$400 million. The 1997 target is \$400 million; the target for 1999 is \$556 million.

IR 1.3.5 Improved framework for economic policies, commercial laws and regulations for economic activities.

Indicator: Key laws regulating commercial activities developed. These include amendments to the Bankruptcy Law, the Banking Law, Securities Law, and Property Insurance Law to take into account co-insurance. While the 1996 target did not anticipate these legislative changes, they were all accomplished in 1996.

Indicator: Key economic policies related to export market access and expansion enacted. Key strategies include: establishing the WTO Compatible Tariff schedule and forging bilateral conventions with major trading partners. In 1995, 5 key policies were enacted, and by the end of 1996 there were 8 key policies enacted and three bilateral free trade agreements signed with Republic of Azerbaijan, Republic of Turkmenistan and Republic of Uzbekistan.

Expected Progress Through FY 1999 and Management Actions

USAID anticipates that, with the growing number of countries trying to join the WTO, Georgia's first working party will not occur until mid-1998 at best. Based upon experience in Armenia, we know that the WTO's requirements are rigorous and thus accession is unlikely before the turn of the century. Since accession to WTO actually means that a country has constructed a legal and regulatory framework which is strongly market-oriented for trade, providing expertise to this effort will remain a top priority for the USAID technical assistance provider. EU TACIS plays a supporting but secondary role in this collaborative effort. USAID/Caucasus will exploit WTO experience in Armenia by using the same TA provider, U. of Maryland IRIS, in Georgia beginning in FY 98. Other synergies will be derived by good coordination for legal reform and judicial under SO 2.2. Beginning in FY 1998 and continuing through the budget period, our technical assistance partner ACDI/VOCA will be implementing a comprehensive program to make Georgia self sufficient in seed production for major food and feed crops wherein there are opportunities to rebuild vertically integrated enterprises for production, processing and export. Technical assistance to small and medium size firms will also continue from our partner IESC. Finally, USAID/Caucasus is considering an expanded assistance package to help Georgia complete its privatization program and to proceed with comprehensive market reform. While initial indications of Government interest are encouraging, Georgia will have to satisfy conditionality tests to demonstrate its political will to proceed. Under this SO, we would anticipate a task order for accounting reform for enterprises, including inter alia, establishing the legal and regulatory framework for financial, managerial and tax accounting; transforming the fledgling accounting associations into a self regulatory organization; developing the institution and functions of a U.S. style Securities & Exchange Commission; drafting International Accounting Standards; building the educational capacity to train enterprise accountants in IAS and convert their books. These efforts would complement task orders under a new strategic objective (SO

1.1), for land registration and titling, and completing the privatization of medium and large enterprises through cash auctions.

2.3. SO 1.4 -- A More Competitive and Market-Responsive Financial Sector
Progress Rating: 2

Performance Analysis:

Like all other CIS countries, the Georgian banking system collapsed with the result that the vast majority of families lost life-time savings either directly in banks or through pension fund default. In Georgia, the lack of legitimacy of the government, and the explosive growth of self proclaimed banks, combined with no banking supervision, led to the failure of more than a hundred of these banks, further crushing citizens' confidence. Since 1996 the National Bank of Georgia (NBG) has taken very strong measures to bring discipline to the sector and this effort has been effective. Arguably, the NBG is one of the strongest and most market-oriented economic institutions in Georgia, after the Parliament. USAID has joined with the IMF and World Bank to further strengthen the NBG and the sector. USAID's Office of Information Resources Management (IRM) directly manages USAID investments to upgrade telecommunications for banking, installing a domestic and international real time settlements and payments system and to introduce electronic accounting. This program, bringing comprehensive electronic banking systems to Georgia, includes substantial hardware and software purchases, plus resident project management and on-site training. In addition, and in collaboration with the IMF, USAID is sponsoring -- through the new Global training project -- substantial training of NBG staff in bank examination and supervision. While this is a long-term institution building process for both the NBG and the commercial banks, we can report that the sector is stabilizing with the number of commercial banks holding at around 45 even as capitalization requirements increase and supervision becomes more rigorous. With respect to commercial banks, USAID's recently launched Bankers' training program has been very well received in Georgia, with enrollment demands exceeding available seats for every course.

If Georgia can complete its privatization of medium and large scale enterprises there will be a much larger demand for markets to trade shares and to mobilize capital. This need points to the importance of a new addition to the USAID program emphasizing capital markets development.

SO Level Indicators: Financial sector assets as a percent of GDP. Financial sector real assets defined as broad money (M2). This is measured by financial intermediation index which was 100 in 1995. In 1996, the index reached 146.7.

Indicator: Spread between deposit and borrowing rates. This is the average range of interest rates charged on three-month loans minus the average range of interest rate paid on three-month deposits by commercial banks. The actual for 1996 was 32%. The 1997 target is TBD.

IR 1.4.1. Increased technical efficiency of financial sector transactions in commercial banks.

Indicator: Volume of inter-bank payments. This is the monetary value of inter-bank payments -- domestic and foreign. The 1995 actual was \$0.86 billion, the 1996 target was \$1.4 billion, and the actual reached \$1.5 billion. The 1997 target is \$2.0 billion.

IR 1.4.1.1. Payment and settlement system established and functioning.

Indicator: Proportion of all commercial banks using the domestic electronic payments

system. By mid-1997 the 18 strongest banks (of 45) will be connected to an international settlements system (SWIFT) and handling transactions electronically.

IR 1.4.2. Increased public confidence in the banking system.

Indicator: Number of failing commercial banks decreases. Number of stable commercial banks seems to have stabilized for the present with 45 certified by the NBG. Since capital requirements will increase until the year 2000, another round of mergers, acquisitions and possible defaults is anticipated. If the NBG handles the process adroitly, public confidence may improve.

Indicator: Short, medium and long term loans for qualified entrepreneurs and firms. This is the value of commercial loans approved and disbursed for various terms. We anticipate changes in loan structure and credit in general resulting from increased donor assistance in 1997-98. These include three Trans Caucasus Funds, EBRD on-lending through four commercial banks, and World Bank Agricultural credit.

IR 1.4.3. Increased availability of financial services.

Indicator: Proportion of commercial banks offering basic financial services. The basic set of financial services includes: (1) Loans to commercial and consumer customers; (2) Deposit services to business and consumers; (3) Interest rates and fees reflect the real rate of inflation; (4) Banks involved with export/import customers offering letters of credit; (5) Terms and conditions for loans relative to the Georgian economy; and (6) Hours of operation, customer service, and general bank appearance more western oriented. No measurable increase yet but signs indicating this is imminent. There is some expansion of branch banking.

IR 1.4.3.1. Increased capacity of financial institutions to manage and lend.

Indicator: Proportion of banks in compliance with NBG prudential regulations. In 1996, 53% of commercial banks met or exceeded the NBG's prudential norms. The 1997 target is TBD.

Expected Progress Through FY 1999 and Management Actions

USAID's program to make the National Bank of Georgia the electronic platform for participating commercial banks to effect domestic and international payments and settlements will be completed in 1998; expansion of electronic accounting in the NBG and commercial banks will also be accomplished as well as other facets of electronic banking. With the continuing Bankers' Training program, commercial banks will become more strongly oriented to customer services for both depositors and borrowers. A strong electronic infrastructure coupled with attitudinal changes, but assuming rigorous Central Bank supervision of the whole sector, should combine to improve citizen confidence in the commercial bank sector and build total deposits. If this comes to pass, the legitimacy of the government will also be strengthened. A strong banking sector will also facilitate foreign direct investment, especially as it relates to the pipeline services across Georgia, and perhaps to such hoped for developments as the privatization of Poti Port on the Black Sea. Increased access to capital, with USAID financing, will have been assisted by the launch of the Trans Caucasus Enterprise Fund which should begin lending operations in FY 1998. Given the size of the initial endowment, it seems unlikely that the Fund will require an additional tranche before 2000.

Georgian interest in a second phase of market reform, following the completion of its privatization program appears to be strong. Provided political will is demonstrated by satisfying USAID conditionality, we envisage an important capital markets program beginning in late FY

97 with Performance Funds and continuing in FY 98 and FY 99. Under SO 1.4, capital markets development would include assistance for developing an independent, U.S.- style Securities and Exchange Commission (related activities would be under SO 1.3), developing the exchange trading system, developing the dealer-broker network and a self regulatory organization, helping voucher funds become financial intermediaries and establishing the capital market legal and regulatory framework. This latter element would be accomplished in collaboration with, or by the TA provider to the Center for Economic Policy Research and Analysis (CEPAR). Finally, and unless another donor comes to the fore, our new market reform program would have to include accounting conversion for the commercial banking sector.

I.b. STRATEGIC ASSISTANCE AREA 1 -- A COMPETITIVE MARKET-ORIENTED ECONOMY (continued)

SO 1.5 - A More Economically Sustainable and Environmentally Sound Energy Sector

1. Overview and Factors Affecting Program Performance

The dissolution of the Soviet Union led to economic decline and disrupted Georgia's favorable energy trading relationships. Since then, the country continues to rely mainly on hydro-electric power and natural gas imports to supply its energy needs. Gas imports at world market prices continue as a significant factor in making Georgia the highest per capita debtor among the former Soviet Republics. Moreover, internal political problems and armed strife have interfered with availability of the hydro-electric power and restricted power importation. Previously, Georgia was a modest producer of oil, but production has fallen off due to the decline of existing fields and the lack of exploration and development of new fields. Tariffs and collection rates for the electrical sector remain low. Until recently there were some signs the Georgian energy sector might have begun to emerge from a crisis mode of operation which characterized the years 1992-1995. However, the shortage of energy continues. The large hydroelectric plant that normally would meet approximately half the national requirement is down for delayed, critical repair. The thermal power plant that supplies the other half of the requirement is limited by the lack of externally supplied gas. This condition threatens political security, stagnates the transition to a market economy, and endangers public health. Collections needed to finance rehabilitation and investments are low; and reforms are slow.

Developments in the Georgian energy sector are overshadowed by the potential role that Georgia can play in the transfer of oil from the Caspian Sea to western markets. If and when this role materializes, it would have the potential to provide foreign exchange and fuel for the sector.

2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions.

Progress Rating: 1

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 1.5: A More Economically Sustainable Energy Sector			X
IR 1: Increased Private Sector Participation in Energy Sector			X
IR 1.2: An Effective and Progressive National Regulatory Commission Established		X	
IR 1.3: Legislation Enacted that Promotes Private Sector Participation			X
IR 2: Increased Economic Efficiency in Energy Sector			X
IR 2.3.3: Rehabilitation of Existing and Development of New Generation Facilities		X	

Performance Analysis

USAID assistance to the oil and gas sub-sectors has been critical in achieving the progress to date. The creation of the Georgian International Oil Corporation (GIOC) opened the way for Georgia to position itself to eventually benefit from the export of Caspian oil and gas resources. USAID technical assistance has also been instrumental in the GOG's decision to begin restructuring the electric power sector. In addition, the GOG has largely complied with conditions, supported by the World Bank and IMF, incorporated into a Memorandum of Agreement (MOA) for the delivery of 50,000 metric tons of mazout (heavy fuel oil) in FY 1996. As a result, the GOG increased residential electricity rates, reported dramatic improvements in billing and collection, and made significant steps towards sector reform by corporatizing some state-owned electric enterprises. While there has been progress, much more work needs to be done so that reform can continue to be implemented and not reversed. Aside from the independent GIOC, other oil and gas enterprises have been put under the umbrella of a new massive State Fuel and Energy Corporation, which also includes the state power utility -- Sakenergo. This was a setback, because of the need for greater decentralization in the energy sector.

IR 1: Increased Private Sector Participation in Energy Sector

Progress rating: 1

The Ministry of Real Estate has recently been charged with developing a plan for privatizing the Georgian energy facilities. A USAID provider is working closely with this ministry and the Ministry of Fuels and Energy to develop plans and procedures to carry out this mandate. Since the ministries have not yet accepted the strategic investor approach and valuations based on present value of revenues, privatization has not begun.

IR 1.2: An Effective and Progressive National Regulatory Commission Established

Progress rating: 2

USAID funded technical advisors helped draft a presidential decree (issued May 1996) that established an interim regulatory commission. The commission, however, is not independent of the Ministry of Fuels and Energy. Nevertheless, the technical assistance provider has begun training to improve its capacity in anticipation that it will be given full responsibility for regulatory oversight and tariff-setting with the passage of the electricity law in the near future. It is also unlikely that the commission will function as intended until it is independent from the ministry.

IR 1.3: Legislation Enacted that Promotes Private Sector Participation

Progress rating: 1

The USAID technical assistance provider has been instrumental in drafting energy legislation which was recently submitted to the parliament by the Ministry of Fuels and Energy. This law is needed to separate the responsibilities of the government (policy guidance) from the responsibilities of the newly established regulatory body (tariff setting and licensing) and of the enterprises (day-to-day operational and economic decisions); and secure the rights of both investors and the general public. The current energy crisis, Georgian political will and World Bank conditions for the sector loan should help move this bill to passage soon.

IR 2: Increased Economic Efficiency in Energy Sector

Progress rating: 1

Improvements have been made through USAID providers in economic efficiencies in the sector. However, further assistance is needed for legislative reform of the sector (e.g., a structural law for the regulation of oil and gas energy transport; a petroleum law dealing with exploration and production; and policies concerning corporatization/privatization of state-owned gas enterprises including Saknavtobi (exploration and production), Sakgazi (transport) and Saknavtoproduct (distribution). Internationally accepted accounting standards for newly established electricity enterprises for improved metering, billing and collections systems are also a vital need. All of these measures are needed to realize major, sustained improvements in economic efficiency.

The USAID provider assisted in the establishment of the Georgian International Oil Consortium (GIOC) which enabled Georgia to successfully complete pipeline transport negotiations with GOAZ and the AIOC. The USAID provider is now working with other donors, such as the UK to strengthen GIOC's management capabilities, particularly its accounting practices.

IR 2.3.3: Rehabilitation of Existing and Development of New Generation Facilities Completed

Progress rating: 2

The USAID provider has materially assisted in rehabilitating the country's major thermal power plant and carried out additional work to enhance results. As follow-on to feasibility work performed by USAID in 1995, other donors continued feasibility work and rehabilitated a 300 MW unit which operates at near full capacity. The provider recently completed full feasibility studies for the second 300 MW unit. The rehabilitation work has been financed by the World Bank and begins soon. The provider carried out feasibility studies to improve the water system critical to plant operations. This work is being implemented. Additionally, heating system rehabilitation was carried out by the provider for four hospitals and studies for bankable projects to re-institute heating systems in two major cities is almost completed. Finally, the provider developed a rehabilitation plan for the gas transmission company and provided gas leak detection and analysis equipment. Operation of the gas thermal power plant depends on gas availability as well as plant condition. One of the metropolitan heating projects will be supplied by renewable energy and, thus, will be independent of constrained gas supplies.

Expected Progress Through FY 1999 and Management Actions

Progress has been quite slow, but crucial, in the legislative arena to bring about the reforms needed. It is essential that the electricity law be passed soon and the energy commission assume its independent role. By the end of FY 99, USAID expects that: an independent regulatory commission will be established and performs its intended role; an implementation plan for privatization of major energy assets, as well as distribution enterprises, will be active; and laws for oil and gas exploration and production will be drafted and in the parliament for passage.

However, by FY 1999 private sector participation to sustain the sector may only have begun and we anticipate the energy environment to be as follows: the economic climate will be more favorable for investors; the system will be somewhat transparent; resistance to change will diminish; government's political will exist; the regulatory commission will be functioning; and the energy sector will be partially unbundled. Additionally, there should be noticeable increases in economic efficiency so that: tariffs can be raised; consolidation of the electrical distribution

sector can occur; and metering and collections continue to improve; but infrastructure, however, will continue to deteriorate. USAID's assistance, with few exceptions, is technical assistance in a heavily capital intensive sector and the costly capital improvements necessary will have to come from multilateral donor organizations and the private sector.

II. STRATEGIC ASSISTANCE AREA 2: EMPOWERMENT OF CITIZENS THROUGH DEMOCRATIC POLITICAL PROCESS

1. Overview and Factors Affecting Program Performance

Though Georgia still faces significant economic and external political constraints in its transition to a democratic market-oriented society, significant progress can be seen in the development of political pluralism, including a vibrant civic society, independent legislature, and increasingly independent judiciary.

USAID's strategic assistance in the area of democratic development has focused on citizen participation, legal reform, and to a lesser extent, local government development. The overall enabling environment, despite economic hardship and two secessionist conflicts, has been positive for the two former programs, less so for the latter.

In the civic sector, growth has been impressive, albeit almost solely in the capital until recent months. The "third" sector includes several dozen well-established NGOs, focused on key social, political and economic policy issues, for which they represent genuine constituency interest, and based on which they effectively advocate change with the government. At this stage, a major constraint in this sphere is financial resources. Given still limited economic growth, these NGOs may need to continue relying on international donor resources indefinitely. There appears little prospect in the near future for the growth of local charitable resources. That is, though a growing portion of the population respects and understands the work of NGOs, even if they had private resources to support that work, there is no culture of philanthropy, nor of "voluntary" contribution, given the historical Soviet significance of the concept.

Georgian citizens now also have access to a broader array of information from a wider number of non-State sources. Due to the continuing high cost of print media, most Georgians have turned to electronic media to get their news. The growth of independent television and radio in the country has been impressive within the last year. These outlets are providing increasingly professional and objective news coverage, while taking seriously the need to establish themselves as viable commercial entities. In addition, the political environment for a free press has recently seen a number of significant improvements.

The most conspicuous progress can be seen in the area of political process. The Parliament that was elected in November 1995 has proved to be arguably the most progressive and effective in the whole of the former Soviet Union. In addition to being pro-active on key legislation, and remaining independent from the executive branch in decision-making, most remarkably, this Parliament takes NGO input and public opinion seriously -- and is willing to do something about it. Dialogue between the "third" sector in Georgia and Parliamentary leadership is truly interactive and productive, in terms of legislative practice, as well as on issues with wider national policy implications.

Given that legal reform is the most difficult sector in the transition from Soviet institutions and practice to a democratic rule-of-law framework, Georgia's progress has been steady, if not particularly dramatic. The necessary legal and regulatory framework is being established on paper, but the institutions required to properly implement the framework are either not yet in place, or have a long way to go in principle and in practice.

Though the constitution does wholly establish the judiciary as an independent branch, and the nation's highest courts (Constitutional and Supreme) are flourishing in that independence, the rest of the court system is still mired in the corruption, inefficiency, and political meddling of the Soviet days. The criminal justice system is still sorely lacking, and as yet, the Procuracy and law enforcement agencies have not yet swallowed the legal limitations on their role and prerogatives in the legal process that have been put on paper.

In addition, while retraining of attorneys has begun on a grass-roots level, no indigenous institution yet exists which can provide for critical re-training of both lawyers and judges. However, political will is becoming evident in both governmental and non-governmental legal spheres for putting into place the necessary mechanisms for both re-training and re-certification, which will strengthen "honest" legal practitioners' skills and competencies, while weeding out the more corrupt and ineffective cogs in the wheels of reform.

Finally, one key sector in which Georgia is not meeting expectations in the development of democratic institutions is in the establishment of a decentralized local government system. Though a de-facto decentralization occurred during and immediately after the civil war, following President Shevardnadze's election to office in 1995, consolidation of the ruling party's power has led to the establishment of a system of regional governor appointments, which have effectively "re-centralized" the system.

The constitution of Georgia includes a clause relating to the establishment of a decentralized local government system only after the resolution of the issue of territorial integrity, i.e., the re-integration of South Ossetia and Abkhazia. However, in early 1996, the GOG determined that despite lack of a resolution on these issues, it was critical for the development of the nation as a whole, and particularly in light of conditionalities for accession to European conventions, to move forward on establishing a legal framework for a local government system, as well as scheduling as quickly as possible local government elections. Despite repeated statements of a commitment to this process, the GOG has continued to procrastinate on the issue.

USAID assistance in the above areas is helping to bring about meaningful reform. USAID still sees these areas as deserving continuing and critical attention and resources in order to deepen and broaden the change, and secure a sustainable democratic transition.

2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions

Note: Evaluating progress towards democracy and good governance (DG) strategic objectives requires a qualitative rather than a quantitative approach. Per USAID/Caucasus' first Strategic Framework for Georgia, DG indicators were established which would require significant survey data to be effective; due to limited staff and financial resources for the DG Office, no such surveys were conducted during the reporting period. Therefore, this "R4" is based on a narrative anecdotal approach, rather than reflecting verifiable progress toward specified targets.

2.1. SO 2.1 -- Increased, better informed citizens participation in political and economic decision making

Progress Rating: 2-3

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 2.1: Citizen Participation		X	
IR 2.1.1: Improved availability of and access to information		X	
IR 2.1.3: Increased public confidence in citizens' ability to affect change		X	
IR 2.1.4: Increased public confidence in the political process	X		

Performance Analysis

USAID programs targeted towards achievement of this objective have been effective, often exceeding expectations, particularly in light of the limited impact modest economic growth and infrastructure improvements have had on the majority of the population.

USAID media development programs have contributed to an increase in the quality and quantity of political and economic news available for citizens. NGO development programs have focused on deepening the skills and advocacy capacity of established organizations, and broadening the NGO base outside of the capital. This has resulted in a greater number of NGOs directly representing and advocating for constituency needs on a national level, though less impact has been seen on a local level.

While demonstrated political will is the key factor in successful reforms, USAID programs supporting political pluralism and parliamentary development have had significant impact on these political institutions on which citizens must rely to protect their interests and address their needs. This includes an increase in the number of political parties with an increased number of regional offices; it includes bringing communities together with local and national leaders to discuss issues and conflicts; and finally, it includes skills building for parliamentarians in why and how to address constituents directly, as well as why and how to open up the process of governance to a wider segment of the population.

USAID strategic planning towards this strategic objective, combined with significant political will and a generally favorable enabling environment, has resulted in expectations being met or exceeded in this area. However, the sustainability of a vital and effective civic sector must rely on the establishment of other democratic institutions, in particular, an effective and fair court and law enforcement system, in addition to the critical need for increased economic growth and prosperity. Without these two pre-conditions, it is possible that progress in this sector could be seriously eroded.

IR 2.1.1

USAID assistance programs contributing to the improved availability of and access to information have focused in large part on electronic media development, including television and Internet resources.

Support for the development of independent television in Georgia has resulted in more than 20

independent stations broadcasting around the country, more than 3/4 of which are providing their own daily or weekly news coverage. In addition, USAID assistance has supported the improvement of the legal and regulatory environment for independent broadcasters. In particular, USAID-funded providers, with other bi-lateral and multi-lateral donors, provided legal, political, and moral support to the capital city's only independent television station, Rustavi II, to fight a legal battle with a government-connected "private" enterprise intent upon revoking the station's license and designated frequency. A nine-month court case ensued, the end result leading to the full rehabilitation of the station, and resumption of broadcasting. The results of this court case have had a measurable impact on small independent stations around the country, who report that, following publicity of the verdict, previous pressure -- economic and/or political -- from local authorities has diminished or vanished altogether.

USAID assistance also led to the establishment of the first private Internet provider in Georgia. The initial grant was intended to provide the Parliament with free Internet access; MPs and staff have utilized access to on-line legal resources to contribute to key pieces of legislation, including the Law on the Constitutional Court, the Ombudsman Law, the Conflict of Interest Law, and others. In addition, Internet access has become accessible to local NGOs and individual citizens, whether through personal resources for limited access at low cost, or through grants from U.S. and other international donors. In addition, after two years, with support from USAID providers in business plan drafting, advertising development, and financial management skills, the Internet provider will be fully financially self-sustainable without USAID support, and will continue to provide free Internet access to the Parliament through December 31, 1999.

USAID has not focused any assistance programs on the print media in Georgia, due to limited resources. Though a majority of citizens receive their news through electronic media, this is due in large part to the high cost of newspapers and magazines. Given an expected increase in resources in FY1998, USAID intends to target the print media sector's financial sustainability, both through training and competitive and/or loan-based commodities assistance. In order for citizens to participate in the life of their country, they need access to objective, accurate information. In order to assure the development of indigenous resources, it will be critical that all mass media are poised to attain financial viability in a reasonably stable economy.

IR 2.1.3

USAID assistance programs in development of the "third" sector have played a significant and positive role in the rapid growth and maturity of the Georgian NGO community over the reporting period. These programs have focused on organizational, management and advocacy skills building, as well as limited financial support to bolster capacity growth.

The NGO sector in Georgia is flourishing, not only in numbers, but in popular opinion, and in respect from government representatives and leaders.

A core group of some 50-60 advocacy oriented NGOs based in the capital have advocated for change in legal and policy areas. This includes changes to the NGO Law itself, including taxation issues; environmental laws; media laws; and key pieces of legislation such as the Law on the Procuracy, Law on the Courts and the Criminal Code. NGOs in the capital have a high media and public profile, and with these strengths have pressed government officials -- including those in the executive branch with less demonstrated political will than parliamentary reformers - - to take notice and listen. In May of this year, a USAID provider hosted a five hour meeting initiated by the Speaker himself between Parliamentary leaders and nearly five hundred

representatives of indigenous NGOs to discuss the role of the "third" sector in Georgia.

The above noted USAID provider will become a fully indigenous, self-sustainable (without USG funding) organization as of early 1998. The organization will continue to provide training and informational resource support to Georgia's ever growing NGO community, with particular emphasis on regionally-based organizations.

IR 2.1.4

USAID programs supporting this intermediate result have focused on political party development and parliamentary development.

Support for political pluralism has had limited but important impact. Georgian political parties are still relatively immature, in terms of a focus on personality-based issues rather than substantive platforms, and in their geographical limitations. USAID programs have focused on building constituency outreach, internal party stability and key political and social issues. Training and consultation have resulted in improved regional outreach programs of two key opposition parties which provides citizens outside of the capital with information and thus options beside those offered by the ruling party.

Parliamentary development programs have focused on seminars and workshops for new Members of Parliament (MPs), and work with factions and individual parties on issues such as constituency relations, media relations, and committee functioning. In addition, USAID legal consultants have worked closely with key committees on a variety of legislative drafting issues, and provided expert commentary from a variety of sectors, including judicial reform, local government, and criminal legislation. USAID established a dedicated line of Internet access for the Parliament's Informatics department, the technical arm of the Parliament's Library, and has provided training of personnel in use and maintenance of the technology.

USAID is in the process of finalizing a program which will provide a much needed expansion of the Parliament's technical capacity, in terms of access to and efficient use of information and resources. This program will include a substantial provision of computer equipment, expansion of Internet access which will provide direct access for each of the permanent committees, and training in utilization of these resources, in particular, on-line legal resources. The provision of these informational resources will support Parliament's ability to proactively serve its constituents, effectively develop and pass the nation's legislation, and secure its place as a significant partner for and with democratic parliaments throughout the world

Expected Progress Through FY 1999 and Management Actions

Independent television coverage nationwide, providing professional quality news covering political and economic events and information; increase from less than 50% to 80% of the population with access to these resources;

The development of preliminary mechanisms for domestic financing of NGO activity;

Up to five political parties with established platforms and regional branches, engaging local citizens in outreach and identifying local issues; at least three political parties conducting an effective and nation-wide campaign for local elections.

2.2. SO 2.2 -- Legal Systems that Better Support Democratic Process and Market Reforms

Progress Rating: 2

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 2.2: Legal Systems that Better Support Democratic Process and Market Reforms		X	
IR 2.2.1: Enactment of effective and fair laws/regulations that protect civil and economic rights		X	
IR 2.2.3: Fair, Equal and Timely Enforcement of Laws			X

Performance Analysis

USAID programs targeted to support achievement of this strategic objective have met expectations, given the anticipated political and technical constraints.

Per SO 2.1 narrative, the legislative branch of the GOG is highly progressive and increasingly effective. Key pieces of legislation for economic and political reform have been drafted and/or passed within the reporting period, many with USAID support. However, the Georgians have made a political decision not to follow other former Soviet republics' practice of using Russian legislation as models, but instead have been using German models, particularly in the area of commercial law. While satisfying international norms, this practice leads to excessive financial and time constraints due to translation difficulties, as well as a certain degree of cultural inapplicability. USAID has thus made a determined effort to develop a strong working relationship with German legal assistance providers, both to assure that U.S. resources are not duplicative, and to provide the Georgians with a balanced approach to models and practices.

However, whatever progress is made on "paper" will not be sustainable without the mechanisms in place to properly implement these laws, including the (re)training of the relevant legal practitioners responsible, and education of the citizens affected. Judicial and legal reform is arguably the most difficult sector to achieve sustainable results in those countries burdened by a Soviet legacy of arbitrary rule. Not only laws, but behavior and mindset must be completely realigned.

USAID has only recently begun to develop a comprehensive approach to legal and judicial reform in Georgia. Though U.S. expertise is necessary and effective, it cannot on its own adequately meet the needs of a nation adjusting to a new civil law system, aiming for accession into European conventions and alliances. Therefore, USAID has focused its resources on developing joint programs with key European partners, including not only German bi-lateral donors, but the Council of Europe, in addition to traditional partners such as the World Bank. Though the task at hand for Georgians to redesign the judicial system is daunting, a multilateral approach in assisting in the process can assure effective use of U.S. resources and expertise.

IR 2.2.1

USAID efforts towards achievement of this intermediate result have been effective. Support has been given to government drafters, including parliamentary, executive branch, and judicial, as well as non-governmental advocacy groups. Key pieces of legislation, either in draft or first-reading stage include the Law on the Courts, the Law on the Procuracy, the Criminal Code, the

Anti-corruption Law, Criminal Investigations Law, and the Law on the Bar. In particular, USAID assistance on the legislative and procedural aspects of establishing a parliamentary anti-corruption committee resulted in not only the establishment of such a committee, but its active participation in the investigation of more than eight actual cases of purported government corruption.

USAID is also committed to providing appropriate (re)training materials to all Georgian legal practitioners, focused on what the new key commercial legislation means in practice. We will be funding commentaries, a common European method written by the Code's drafters, and will support their dissemination throughout the country. In addition, USAID on-going programs for continuing legal education (CLE) for attorneys and judges will focus closely on this legislation, which, due to its nature as an economic "constitution" which outlines behavior in a market economy, presents the most difficulty for more senior practitioners to whom the concepts of legal market activity are still somewhat vague, if not alien.

IR 2.2.3

USAID programs in support of this intermediate result have been limited to date, with significant impact in the area of retraining and restructuring of the legal profession, but minimal impact in the area of judicial retraining and restructuring.

USAID programs have provided technical and financial support to the Georgian Young Lawyers Association, Georgia's most progressive and only independent bar association, in the training and retraining of legal practitioners, including focus on international and new Georgian legislation and procedures. Significant impact can be seen from the advent of training to develop private law firms. Despite the fact that legislation for such activity is still not fully in place, at least three private law firms have been established in the capital by attorneys who attended USAID-sponsored seminars. These private law firms provide legal services on both commercial and human rights issues.

USAID has provided limited assistance, on a consultative and training basis, to the two highest courts, the Constitutional and Supreme Courts. Both of these courts' leadership are progressive and decidedly independent from the other government branches, as well as from most political influence. Given additional training in basic and advanced subjects such as case management, economic transition issues, human rights etc., as well as material and technical support to establish access to international legal resources and contacts (Internet, etc.), both of these courts will be able to establish themselves as effective and fair institutions which hold the public trust.

USAID programs have not yet focused on the lower courts. We have been working with, and waiting for the GOG to establish the new framework required for the judiciary as outlined in the constitution. USAID will work with other donors in coordination with a newly established GOG Judicial Commission, comprised of representatives from the legislative, executive and judicial branches, to design programs of assistance which will incorporate other key legal actors, particularly in the criminal justice system, to work towards a system which effectively and fairly adjudicates disputes within a rule-of-law framework.

Finally, though legal reform has taken place on paper in terms of reform of the criminal justice system, in practice the system in Georgia still maintains the limitations (or lack thereof) of a Soviet legacy, including the primacy of the Procuracy, and the corruption and intimidation tactics of the law enforcement agencies. Due to a lack of apparent political will within any of these

institutions, USAID has yet to engage with the leadership therein to discuss possible assistance programs. However, because of recent personnel shake-ups within the Procuracy, compounded with the critical timing for reforming the criminal justice system before or at least at pace with the development of the market economy (and most importantly privatization) in order to avoid the Russian experience, USAID will be incorporating limited numbers of reform-minded representatives from these institutions in training programs and, given appropriate circumstances, provide direct assistance on a limited basis focused on re-training issues.

Expected Progress Through FY 1999 and Management Actions

Full Civil Code, Code of Civil Procedure, Criminal Code, Code of Criminal Procedure, and Administrative Code drafted and passed, including key elements of international norms for compliance with European and WTO conventions; enforcement and education plans designed and approved by all branches of government, and key non-governmental organizations, for implementation;

Wide dissemination of newly passed legislation to legal practitioners, educational institutions, NGOs and the Media;

Establishment of an indigenous training facility with the capacity to retrain practicing judges and lawyers in new Georgian legislation and normative acts, including preparation for re-certification;

Practical limitations placed on the Procuracy in the process of criminal justice.

2.3. SO 2.3 -- More Effective, Responsive, and Accountable Local Government

Progress Rating: 1

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 2.3: More effective local government in select municipalities			X
IR 2.3.2: Free and fair local government elections held			X

Performance Analysis

Due to political constraints, USAID has provided limited assistance in this area over the reporting period, and due to continuing political constraints, these efforts have not been effective in the short term.

Per the above performance analysis section, the GOG has continuously delayed instituting a legal framework for the establishment of an effective local government system, which would implement both fiscal and political decentralization. The delay is due largely to conflicts over the issue of at which level will local government officials be appointed or elected. Different political circles favor different plans, but most relevant, the executive branch favors a system which leans heavily towards appointments. This predilection is in part attributable to the ruling party's fear of losing "control" over the regions. This fear is based on the experience of the 1995

parliamentary elections. Though only three parties, including the ruling party, a pro-government party, and one opposition party made it past the 5% threshold, at least four other parties came quite close, and had significant support in outlying regions.

Though there had been several GOG assurances that necessary legislation would pass during the Spring 1997 legislative session, and thus, local government elections could be held in the fall of this year, it appears unlikely at this time. Given current trends, local government elections are not likely to take place until at least Spring 1998.

USAID has avoided instituting any large-scale assistance programs on local government development until such time as a system is in place, and local government elections held.

IR 2.3.2

USAID has provided training programs for a variety of decision-makers in this process, including current local government leaders, executive branch and parliamentary representatives. In these trainings and subsequent consultations, USAID experts have provided models of federal and confederal systems, including North American, European and South American experiences.

In addition, USAID has provided extensive assistance to drafters of the necessary laws, i.e., the law establishing local government units, and the law regulating local government elections. However, given the current political stand-off on the future of local government, this assistance cannot be seen as having any immediate impact. However, following resolution of the stand-off, these materials and consultations will likely speed the process of enactment and implementation of the appropriate legislation.

The breadth and depth of future USAID assistance in terms of election and overall local government development will depend largely on the structures decided upon by the GOG. If the system is weighted toward elected rather than appointed offices, USAID will institute full-scale programs of assistance, based on successful models used in Central Europe. If the selected system is weighted toward appointed rather than elected offices, USAID will have to implement strategic mid-course correction measures, perhaps going so far as to remove this strategic objective from the Mission's target list.

Note: The World Bank intends to begin a program of technical assistance based on a Municipal Development Credit in the immediate future, estimated at \$20 million, despite setbacks on the political front. USAID will work as closely as possible with the World Bank, given limited human and financial resources, to prevent this program from negatively influencing the overall progress of democratic reform on the local government level, while allowing critical structural and social sector reforms to move forward.

Expected Progress Through FY 1999 and Management Actions

Legislation passed incorporating a local government system weighted toward elected rather than appointed offices;

Free and fair local government elections held;

Political and fiscal decentralization policies in place; preliminary implementation in process.

III. STRATEGIC ASSISTANCE AREA 3 -- STRENGTHEN THE CAPACITY TO MANAGE THE HUMAN DIMENSION OF THE TRANSITION

1. Overview and Factors Affecting Program Performance

During 1996, the Georgian economy grew by more than 10% compared with 1995, suggesting greater opportunities for people to secure employment, and thereby reducing the number of "socially vulnerables" requiring food and/or other humanitarian assistance. Although incomes have risen significantly since 1995, at an average of \$113 per household per month (in Tbilisi), they remain quite low. [Note: This figure likely underestimates total household income since many families are reluctant to declare income from unofficial sources, or which comes in non-monetary form that is difficult to value.] Due to sluggish revenue collection and poor targeting of available social assistance resources, the Georgian Government is still unable to provide any effective safety net for those in greatest need. Additionally, the country is dependent on expensive imported energy which has contributed to frequent energy shortages, further compounding the difficult humanitarian situation, especially in winter.

The general political-economic situation for internally displaced people (IDPs) has not changed appreciably over the past year. A total of 282,121 are officially registered with the Georgian Ministry of Refugees and Accommodation. More than 100,000 continue to live in "communal centers;" others live with host families or in private accommodations (174,916). IDPs continue to find that their employment opportunities are limited. With progress on resolving the conflicts in Abkhazia and Southern Ossetia either stalled or moving very slowly, IDPs are facing a more long-term adaptation to their current living situation.

Recent legislation that has facilitated both humanitarian and transitional activities includes: the Law on Granted Goods and Income, which provides certain tax exemptions for food and commodities brought in for humanitarian purposes and certain types of income tax for humanitarian assistance organizations; the Law on Grants, which determines general principles of awarding, receiving and applying for grants in Georgia; and several laws or decrees affecting the situation of IDPs. A Presidential Decree on Abkhazia called for the elaboration of a program for the social protection of IDPs; amendments to the Law on Veterans of War allowed for the same benefits to go to families of veterans of the Abkhazia conflict as go to the families of veterans of other wars; and a Law on IDPs defines their status, access to certain benefits and protection of their rights.

Legislation has also been passed which requires registration of all local and international organizations working in Georgia. In some cases, this has led to unfair targeting and even outright harassment of non-profit organizations, both local and international, by tax authorities who do not fully understand the tax exemptions provided by law (see above) or by bilateral agreements. There is a draft law on non-profit organizations, debate and ratification of which has been deferred indefinitely. One result of this delay is that the operating environment for indigenous NGOs is not supportive of their growth and development.

2. Progress Toward Objectives, Expected Progress through FY 1999 and Management Actions

2.1. SO 3.1 -- Reduced Human Suffering and Crisis Impact

Progress Rating: 2

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 3.1: Reduced Human Suffering		X	
IR 3.1.2: Urgent Basic Needs Met for Vulnerable Households through Intervention		X	
IR 3.1.2.1: Improved Coordination between Donors and Domestic Institutions		X	
IR 3.1.2.2: Improved Identification of Vulnerable Households		X	
IR 3.1.3: Vulnerable Households Meet Their Own Basic Needs		X	
IR 3.1.3.2: Increased Production of Selected Agricultural Products by Households		X	
IR 3.1.3.1.2: Increased Employment and Expansion of Micro and Small Enterprises	X		

Performance Analysis

The USAID/Caucasus strategy for Georgia in 1996 focused on continued provision of humanitarian assistance for the most urgent basic needs to vulnerable households at steadily decreasing levels, while simultaneously creating greater income-earning and employment opportunities through one-time infusions of cash or materials; small business development; and training and technical assistance for micro- and small businesses and farmers. USAID has also supported efforts to target more effectively the limited amounts of humanitarian assistance in order to ensure that the most vulnerable groups are reached.

The severe fiscal constraints faced by the Georgian government (GOG) have prevented purchase of all the energy required for the country's electrical needs. Further compounding the energy crisis is the fact that several of Georgia's large hydro-power stations have been idled because of regional conflict. During the winter covered by FY 1996 programming resources, USAID helped to reduce human suffering caused by the country's energy deficit by providing heavy fuel oil, which was subsequently used for electricity production. In addition, USAID was able to leverage this fuel into significant reforms implemented in the energy sector.

IR 3.1.2: Urgent Basic Human Needs Met for Vulnerable Groups Through Intervention

Progress Rating: 2

In order to meet the urgent needs of vulnerable groups, USAID provided supplemental food rations to over 130,000 beneficiaries, including pregnant and lactating women, and children under 5, in Eastern and Western Georgia, and vulnerable households in Southern Georgia. USAID also supported the complete or partial rehabilitation of 64 IDP communal centers in Western Georgia, which benefitted approximately 9,300 IDPs. Household items were provided to approximately 7,600 IDPs living in these communal centers. Additionally, food and non-food commodities

were distributed to over 1,000 IDPs by small businesses that had received USAID support. Finally, USAID provided approximately 69,000 metric tons of heavy fuel oil to Georgia during the winter of 1995/96, to provide electricity primarily for home heating.

IR 3.1.2.1: Improved Coordination Between Donors and Domestic Institutions

IR 3.1.2.2: Improved Identification of Vulnerable Groups

Progress Rating: 2

In order to improve targeting of assistance, USAID worked with the International Organization for Migration to implement a capacity building project within the Georgian government through the Georgian Coordination Bureau for International Humanitarian Aid (CBIHA). CBIHA is now responsible for tracking and categorizing all international aid that comes into Georgia for humanitarian purposes. USAID also sponsored, jointly with the European Community Humanitarian Organization and the United Nations Department of Humanitarian Affairs, a household vulnerability study in 1996 that has led to better targeting of humanitarian assistance by numerous international organizations.

IR 3.1.3: Vulnerable Households Meet Their Own Basic Needs

Progress Rating: 2

As humanitarian assistance levels have decreased, USAID has funded a growing number of "transitional" activities designed to increase income and employment and to enhance income security of vulnerable groups. This is accomplished through income generation activities, small business development and training, greater access to credit through loan guarantee programs; and by increased productivity of the agriculture sector through farmer-to-farmer technical assistance and improved access to inputs, such as fertilizer, equipment and higher quality seed. USAID has supported sustainable increases in income and employment for 17,879 households.

IR 3.1.3.2: Increased Production of Selected Agricultural Products by Households

Progress Rating: 2

Significant income generation and employment stabilization has also occurred in the agriculture sector. Specifically, approximately 8,000 households benefitted from substantially higher income (an average of \$2,100 per household during FY 96). Also, 68,000 metric tons of food (wheat, maize and soybeans) was produced by beneficiary farmers as a result of USAID-funded activity. Finally, three agricultural "production credit associations" were established and one has begun making loans to farmers.

IR 3.1.3.1.2: Increased Employment in and Expansion of Micro and Small Enterprises

Progress Rating: 3

In the micro- and small-business sector, over 240 small enterprises have received business training through World Vision International and over half of these have received some type of resource infusion of either a cash grant or in-kind grant, resulting in income and employment growth. CARE by establishing and operating a Credit Guarantee Fund (CGF) under a sub-grant with Save the Children, enabled small businesses to access short-term working capital loans through a fully private Georgian commercial bank. Since this activity's inception, the CGF has been critical for small businesses trying to access credit through the commercial banking sector. In fact, CARE's CGF represents the only line of financing available for productive and service

sector small businesses in Georgia. In 1996, 22 loans were extended under the CGF for a total of \$260,507 in credit. Loan repayment has been 100%, with no rescheduling of either monthly interest and principal payments. More importantly, the loans have resulted directly in the strengthening of 171 existing jobs and the creation of 76 entirely new jobs, thereby benefitting an estimated 1,235 individuals through more secure and increased levels of household income. The magnitude of this impact would not have been possible without the loans facilitated under the CGF.

The Fund for Democracy and Development (FDD), under a sub-grant with Save the Children, initiated a small enterprise reactivation project which was partially owned by the Georgian Blind Persons' Association, the enterprise workers, and outside investors. The enterprise received assistance in restructuring and improving its workshops related to the production and sale of metal canning lids, paper napkins, detergent and plastic sheeting. This small enterprise employs approximately 60 persons including visually impaired. A portion of revenues is appropriated to the Blind Persons' Association which has 5,000 members. FDD provided working capital to the enterprise and repayment of this loan has proceeded on schedule.

Expected Progress Through FY 1999 and Management Actions

While economic growth in Georgia is impressive (10.5% in 1996 and projected 10% in 1997), the GOG does not have the resources to provide adequate support and benefits to those in need, specifically IDPs. There will continue to be a need for international assistance for the foreseeable future. However, the estimated size of the vulnerable population is expected to decline significantly as a result of improved targeting methods. This will help to ensure that despite reduced levels of humanitarian aid, assistance will reach those most in need.

USAID/Caucasus is planning to fund an IFRC communal center rehabilitation project benefitting IDPs living in Western Georgia. The SCF Cooperative Agreement will continue to provide support for transition activities which promote self-reliance and stimulate economic recovery at the local community level through a revolving loan fund for micro-enterprise development.

A pilot Social Investment Fund (SIF) has been established, with USAID funding, to promote and finance 10 community level projects that stimulate local employment and income generation through the rehabilitation of small- to medium-scale infrastructure. Community residents are responsible for identifying, designing and implementing specific projects, as well as contributing labor, materials and funds. Priority project sites will include villages and towns in Southern Georgia and urban neighborhoods in Tbilisi where the need for rehabilitation activities are most acute and where large vulnerable populations reside. The USAID-funded SIF pilot project will enable the GOG to take on a much larger main phase of the SIF to be funded by IBRD beginning in late 1997.

In order to support the peace process, USAID will re-establish activities in Abkhazia which will concentrate on humanitarian assistance/transition projects. Initially, activities will be limited to in and around the city of Sukhumi. A recent USAID assessment has determined that psychosocial activities for youth and health activities such as basic sanitation and first aid training are in great need. In addition, the assessment concluded that the situation is favorable for moving beyond immediate relief activities and initiating income generation projects to allow vulnerable groups to meet their own needs.

Particular attention will be paid to targeting need-based resources on those segments of

communities most affected by the transition to market-based pluralistic economies. USAID will also look towards larger social sector efforts, which would include, but not be limited to, an integrated rehabilitation of the social, economic and administrative policy environment and infrastructure in ways which: 1) tangibly contribute to local economic and social stabilization through the creation of employment opportunities and individual/family income; 2) result in more cost effective, sustainable and administratively functional municipal government; 3) prioritize and effectively address social needs and targeted service availability, access and delivery; and 4) encourage community organization and active participation as an integral element of on-going municipal and national reform.

USAID/Caucasus will look to develop and implement a multisectoral approach which programmatically links a number of Caucasus strategic objectives.

IV. STRATEGIC ASSISTANCE AREA 4 -- SPECIAL INITIATIVES AND CROSS-CUTTING PROGRAMS

1. Overview and Factors Affecting Progress

The award of the flexible and broad-in-scope Global NET contract in FY 1997 provided valuable training support to all USAID's SO activities in Georgia. Mission strategic objective teams note the contribution made by training to achieve intermediate results and to enhance the country's institutional and human resources capacity for managing the transition to a free-market democracy. US-based and in-country training has been especially important in Strategic Assistance Area III where USAID is undertaking transition activities, moving from straight humanitarian aid in the direction of a full-fledged development program. In sum, training and other support activities, including the Eurasia Foundation's small grants program, have fully met program-impact expectations.

A primary factor affecting ongoing progress is our ability to access academic, governmental, non-governmental, and private business circles to permit the recruitment of currently well-positioned or promising individuals. Other lesser factors include the willingness of citizens to travel outside Georgia for longer time periods and the receptivity of government officials to integrate training initiatives identified by USAID/Caucasus into GOG programs for systemic reform.

Not less than ten percent of Georgia's discretionary funding in FY 1998 and FY 1999 will be allocated to Strategic Assistance Area IV training (21st Century Fund) to support the overall Georgia development portfolio.

2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions

2.1. SO 4.1 Special Initiatives

Hospital Partnerships

The Atlanta-Tbilisi hospital partnership has been active in Georgia in 1996. As with other NIS partnerships, it recently completed (May, 1997) the first year of a two year "graduation phase" in which funding was reduced. This partnership is managed by the American International Health Alliance (AIHA) under a cooperative agreement with USAID.

The multi-institutional Tbilisi-Atlanta partnership program consists of the Ministry of Health, Tbilisi State Medical University, and City Hospital No. 2, on the Georgia side, and the Grady Health System, Emory University, Georgia State University, and the Morehouse School of Medicine on the U.S. side. During the past program year the partnership achieved the following: initiated revision of the nursing curriculum and reform of the nursing continuing education program; upgraded the Emergency Medical Services Training Center; conducted training in maternal and child health; contributed to the establishment of a National Information Learning Training Center (NILC); helped establish publication of the Georgian Medical Journal; assisted in the advancement of biotechnology; and conducted training with the Georgian Department of Defense on the use of prosthetics and rehabilitative medicine. According to AIHA briefing materials, future plans for the partnership call for building on current successes and expanding

activities to include establishment of a National Emergency and Disaster Training Center, support for the newly-launched NILC, and further development of nursing post-graduate continuing education.

Family Planning

During FY 1997 USAID will initiate family planning activities, as a new Special Initiative, and concentrate activities on the not-for-profit community organizations working in the public health area. Some activities, especially those related to family welfare, may be linked to the proposed initiatives for social reform and community mobilization. Specifically the program will:

- enhance the marketing capacity of private sector commodity suppliers and integrate commodity procurement made by the private sector into a robust campaign for responsible parenthood and family health;
- strengthen for-profit institutions, and establish not-for-profit institutions to take the lead in advocating on behalf of innovative initiatives with schools, established social institutions, government, and the media;
- initiate a low-cost procurement program for commodities.

2.2. SO 4.2 Cross-Cutting Programs

Exchanges and Training (NET)

Using FY 1996 Carry-over and FY 1997 resources, 33 Georgians benefitted from short-term training in the United States, while 4 attended a regionally integrated local and municipal government seminar in Sofia, Bulgaria. The NET Program directly supported a number of USAID/C Georgia strategic objectives. The relevant SOs with the number of participants in parentheses are as follows: SO 1.2 (2); SO 1.4 (9); SO 2.2 (10); SO 2.3 (16).

During the reporting period, trainees completed specific programs addressing the following topics: economic indicators, agricultural credit systems, constitutional court development, and local government administration. One of last year's more notable successes involves Zurab Jirkvelishvili, Deputy Governor in Shida Kartli region. Upon his return from the NET program, Mr. Jirkvelishvili drafted a charter for the establishment of an independent municipal association, which will enable local governing bodies to speak with a more unified voice when engaging the central government in policy dialogue.

An additional 10 individuals received project-related training through USAID agreements with contractors/grantees through the Fee for Service program of the Global/Net agreement with the Academy for Educational Development.

In FY 1998, the Global/NET training program will be replaced by the Twenty-First Century Fund training program for the Caucasus.

New Training and Exchange Partnership Program: Twenty-First Century Fund (The Fund).

In FY 1997 or early FY 1998, USAID/C will initiate the Twenty-First Century Fund program, a new regional program, designed to address the immediate and longer-term education and

training needs of potential young leaders in Armenia, Georgia, and Azerbaijan; while also working with the partner nations to develop the indigenous capacity to meet these needs in the future. The Fund will serve to upgrade requisite technical/intellectual capabilities of a select group of citizens from the Caucasus and ultimately become part of the vanguard of reform in these struggling post-communist societies.

The Fund will offer pro-reform practitioners and young academics the opportunity to observe first hand and study in-depth, the institutions and practices of a democratic, modern, pluralistic society, with the aim that they will put that knowledge to work in their own countries. The Fund will focus on fostering the integral relationship between education, government, business, and other non-governmental institutions, to ensure a better understanding of their respective roles in the local community. A small group of leading U.S. institutions, committed to the region, will be chosen to act as partners in executing the Fund's programs.

Other aspects of The Fund:

- use of both short- and long-term training;
- required cost-sharing (e.g., salary support from in-country institutions, office space, international airfare) to ensure that all participating parties are committed to program goals;
- requirement that participants design strategies for implementing changes in his/her home institution upon return; and
- provide information resources through continuing education, alumni centers, and seminar series.

USAID/C expects the education and training programs under the Fund to help advance the cause of reform in discrete areas in the short-term while helping to lay the foundation for the democratic and free-market transformation of Georgia. Training a cadre of reform-minded young policy makers, civil society activists, and academics is unlikely to produce major national level impact over the next few years, but as has been the case in other regions of the world, a remarkable number of these Western-trained and educated individuals come to occupy prominent positions in government and the private sector.

However, in considering the two-year time frame envisioned in this document, the Fund should accomplish some of the following:

- * Creation of a "sentinel system" that identifies promising, pro-reform young professionals in business, government, academia, and NGO/PVO sector.
- * Establishment of a US-based training/education program.
- * Establishment of a program in a partner Georgian academic institution, the purpose of which would be to prepare students for long-term (e.g. Ph.D) training or educational opportunity in the U.S. or Europe. It could include technical assistance for curriculum development and for bringing in American faculty for semester or one-years stints.
- * Formation of an alumni association for graduates of US-based training/ education programs so that they may continue to network and draw upon their common experience.

[Note: If the Partnership for Freedom is funded at proposed levels then USAID/C intends to

initiate at least two Institutional Partnerships. There are no NET Institutional Partnerships in Georgia at this time.]

Eurasia Foundation

The Eurasia Foundation small grants program supported 50 activities in 1996 by providing seed capital to local organizations, primarily in the areas of Economic Restructuring and Democracy and Governance. This competitive grant program strengthened 7 of 8 independent television stations with an award packet consisting of technical information, equipment, and a subscription to the Internet to expand their links with the outside world. The grant program emphasizes cost recovery in order to maximize the impact of resources, and identification of potential synergies through co-funding with other donors and joint meetings between the Eurasia Foundation Boards serving Georgia and Armenia. Outstanding successes were realized in the support provided to the Georgia Young Lawyers Association (3 grants). This highly effective NGO has been invited by the Parliament, based on the strength of its demonstrated expertise, to prepare and review draft legislation. Another success story concerns the Statistics Association of Georgia which, as a result of the training and equipment it received, is now in great demand for the quality of its survey work and statistical analysis.

IV. PARTNERSHIP FOR FREEDOM

Georgia, as other Caucasus countries, is not currently planned to fully engage in the Partnership for Freedom (PFF) in FY 1998-99. However as in Armenia, the Georgia USAID portfolio has several activities which lay the groundwork for Georgia's future participation in PFF. For example, the USEA is establishing a partnership between U.S. and Georgian utilities which coincides with the spirit of the PFF program. This is a pro-bono program for U.S. utilities and is a direct cooperative effort by two operating organizations. Additionally, several activities planned in the economic restructuring and privatization arena could contribute to elimination of trade impediments/barriers, the enhancement of capital investment partnerships and democracy building. USAID's most promising PFF activity will be the FY 1998 initiation of the 21st Century Fund (training program) which will establish partnership training and exchange opportunities and initiate at least two institutional partnerships by the close of FY 1999.

PART III

STATUS OF MANAGEMENT CONTRACT

See Armenia R4, Part III - Status of the Management Contract, for an overall discussion of USAID/C management and programmatic issues.

The USAID/C Georgia satellite office will also be actively engaged in preparing a new Georgia Strategy Plan that reflects the regional perspective and most current development situation. The document will also include a discussion of Georgia vis-a-vis Abkhazia and USAID's plan for relocation, resettlement, and support of Georgians to the Abkhazia region; a clearer definition and program plan for privatization and expansion of DG activities to include local and municipal governance.

In the past year, USAID/C focused its attention on increasing staff levels, upgrading staff capabilities and enhancing administrative systems. Given the recent discussions to significantly increase overall funding for Georgia in FY 1998, USAID/C is reevaluating staff levels and management capacity so that the Georgia office is able to effectively handle the increased workload.

PART IV

RESOURCE REQUEST

I. Resource Request by Strategic Objective (SO)

See Appendix A

II. Prioritization of SOs

As USAID/C intends to prepare a Caucasus Regional Strategic Plan and individual country plans this coming year, USAID/C has prioritized the SOs based on the analysis of assumptions and results presented in this R4. The SO prioritization presented below is preliminary and may change as strategies are finalized.

- 1) SO 4.2 (Cross-cutting-Training) - USAID/C will give the highest priority to implementing the new 21st Century Fund.
- 2) SO 2.1/SO 2.2 - Though in terms of overall funding, democracy and governance programs are not the largest, SO 2.1 is ranked extremely high. For any USAID strategy to succeed in Georgia continued efforts should be directed to establishing a pluralistic society which embraces democratic principles, to developing a broad-spectrum NGO community which effectively advocates for social, economic and political benefits, and a functioning representational parliament and judicial system.
- 3) SO 1.3/new SO 1.1 - In the new Caucasus Regional Strategy special emphasis will be given to privatization and how it can affect regional cooperation in the areas of trade, transport and communications.
- 4) SO 1.4 - Nascent progress and relatively positive projections in this SO, warrant USAID continued involvement in financial sector and capital markets reform/restructuring. As this SO is closely related to accomplishment of the Caucasus Regional Strategy it is ranked fourth.
- 5) SO 1.5 - Energy, energy, energy extremely important in Georgia - gas pipelines, tariffs, privatization, and regulation. Successes linked to Caucasus Regional Strategy.
- 6) SO 3.1 - Given the magnitude of the IDP and refugee population (approx. 700,000) living throughout Georgia who continue to need humanitarian assistance. Programs under this SO include possible new activities due to peace negotiation with Abkhazia and the potential return of Georgians to the Abkhaze Region.
- 7) New SOs (2.3,3.2,3.3) are not ranked.

III. Field Support Requirement from AID/W Offices

USAID/Caucasus will complete development assistance strategies for 3 countries during the Fall of 1997. For this reason, and because the anticipated augmentation of permanent staff levels will not have occurred, the Mission contemplates the need for at least four to six temporary assignments of experts, for approximately six weeks each. These services will be sought from technical support offices of the ENI and Global Bureaus.

IV. Work Force and Operating Expenses

The current year has been marked by multiple changes within the mission. Within the first two months of FY 1997 the entire senior management staff changed, and an Office of Financial Management was established. Also, USAID/W (in conjunction with the new regional management team in Armenia) agreed to fund the refurbishing of an annex in the US Embassy compound in Armenia for use by USAID/C, and to relocate the USAID/C satellite office in Tbilisi, Georgia to a non-condemned building and to examine expanding USAID/C occupied space in Baku.

The unusual situation of having three new office configurations, with the additional costs of filling USDH positions (delayed in one case due to a State/USAID tandem couple), combined with the ICASS issues, has skewed numbers in an interesting manner. Please note that to the best extent possible, the requests for FY98 and the targeted level for FY99 for the three USAID/Caucasus budgets are straight lined.

An overwhelming issue for USAID/Caucasus is that as this understaffed mission moves into an intensified implementation phase, more staff (local and offshore) are required. After the May 1997 Management Review Team visit to the region, USAID/C was advised that future staffing levels and workforce requirements will be adjusted.

The summary tables in Annex #3 show current and projected OE requirements by major cost categories as of May 2, 1997 and workforce requirements as of June 9, 1997. Please note that the OE requirements were based on lower workforce levels. The estimated additional costs for the new levels is approximately \$1.6 million in FY 1998 and drops to a lower increased amount in FY 1999. These additional costs have not been incorporated below due to uncertainty of when adequate office space will be available for new staff or when the additional costs will actually be incurred.

In Georgia, FY 1997 started with an announcement that the current USAID/C occupied building had been condemned as dangerous. The Country Coordinator immediately began a search for office space that would be both acceptable to USAID's needs and the Embassy's requirement that USAID be located close to the Chancery. Half a floor (four small apartments) in a directly adjacent building to the Chancery was identified and rented. The space, New Office Building - Tbilisi (NOB/T) requires significant renovations which a USPSC NOB/Y Supervisor will oversee. The overall renovation costs were estimates based on consultation with our colleagues (US and local). It is estimated that the cost of the renovations should not exceed \$285,000.

Due to the strained political relations between Armenia and Azerbaijan, all USAID activity between the two goes via Georgia. Combined with that is the fact that in order to get to

Azerbaijan from Armenia requires an overnight stay in Georgia. This "hub" status creates an almost overwhelming burden on the satellite office in terms of administrative management (country clearance, transportation, tax free clearances, etc). This situation is being addressed in a satellite office management review and will, hopefully, be fully resolved. USAID/C intends to staff Georgia to a level that it can implement and oversee the USAID program, to a large extent, independent of Armenia. However, administrative and program support services (Controller, EXO, Legal, etc) will be provided through the USAID/C Armenia office.

V. Environmental Compliance and Issues

In FY 1997-99 USAID's Georgia program does not anticipate any authorization of capital construction, no requirement for environmental assessments is expected. Any new activities are likely to consist of technical assistance efforts qualifying for a Categorical Exclusion.

FY 1997 -- FY 1999
COUNTRY RESOURCE REQUEST BY SOs
GEORGIA

Last revision date:
13-June-97

PFF#	Proj.# Comp.	SOs	ACTIVITY	FY 97 Plan 13-June-97	FY 98 Plan	FY 99 Plan	FY 99 Plan (-6%)	FY 99 Plan (-20%)
		1.1	Increased transfer of state-owned assets to the private sector	\$0	\$2,300,000	\$2,600,000	\$2,444,000	\$2,080,000
		1.2	Increased soundness of fiscal policies and fiscal management practices	\$0	\$0	\$0	\$0	\$0
		1.3	Accelerated development and growth of private enterprises	\$4,323,950	\$5,400,000	\$5,400,000	\$5,076,000	\$4,320,000
		1.4	A more competitive and market-responsive private financial sector	\$1,846,050	\$3,300,000	\$3,600,000	\$3,384,000	\$2,880,000
		1.5	A more economically sustainable and environmentally sound sector	\$4,000,000	\$5,000,000	\$5,000,000	\$4,700,000	\$4,000,000
		2.1	Increased, better informed citizens' participation in political and economic decision making	\$1,900,000	\$3,370,000	\$3,750,000	\$3,525,000	\$3,000,000
		2.2	Legal systems that better support democratic process and market reform	\$900,000	\$1,800,000	\$1,800,000	\$1,692,000	\$1,440,000
		2.3	More effective, responsive and accountable local government	\$0	\$700,000	\$800,000	\$752,000	\$640,000
		3.1	Human suffering and negative consequences of crises are reduced	\$6,330,000	\$3,500,000	\$3,200,000	\$3,008,000	\$2,560,000
		3.2	Improved sustainability of social benefits and services	\$0	\$2,000,000	\$1,900,000	\$1,786,000	\$1,520,000
		3.3	Reduced environmental risks to public health	\$0	\$330,000	\$300,000	\$282,000	\$240,000
		4.1	Special initiatives	\$1,900,000	\$2,500,000	\$1,700,000	\$1,598,000	\$1,360,000
		4.2	Cross-cutting programs	\$350,000	\$2,500,000	\$2,500,000	\$2,350,000	\$2,000,000
TOTAL				\$21,550,000	\$32,700,000	\$32,550,000	\$30,597,000	\$26,040,000

STRATEGIC ASSISTANCE AREA 1: A COMPETITIVE MARKET-ORIENTED ECONOMY

TIE	5.7	SO 1.1	Increased transfer of state-owned assets to the private sector Privatization - IQCs and/or Contract TBD		\$2,300,000	\$2,600,000	\$2,444,000	\$2,080,000
SUBTOTAL FOR SO1.1				\$0	\$2,300,000	\$2,600,000	\$2,444,000	\$2,080,000
		SO 1.2	Increased soundness of fiscal policies and fiscal management practices Fiscal Mgt. - IQCs and/or Contract - TBD		\$0	\$0	\$0	\$0
SUBTOTAL FOR SO1.2				\$0	\$0	\$0	\$0	\$0
		SO 1.3	Accelerated development and growth of private enterprises					
TIE	5.7	1.3.	Small and New Business - IESC	\$450,000	\$400,000	\$400,000	\$376,000	\$320,000
TIE	6.3	1.3.	Agribusiness Support - ACDI /VOCA	\$350,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
TIE	9.3	1.3.	Market Environment - Economic Policy (CEPAR, Chemonics)	\$979,000	\$0	\$0	\$0	\$0
TIE	9.3	1.3.	Market Environment - Economic Policy	\$544,950	\$1,000,000	\$1,000,000	\$940,000	\$800,000
EF	11.5	1.3.	Medium Business Loans - Transcaucasus Fund	\$2,000,000	\$3,000,000	\$3,000,000	\$2,820,000	\$2,400,000
SUBTOTAL FOR SO1.3				\$4,323,950	\$5,400,000	\$5,400,000	\$5,076,000	\$4,320,000
		SO 1.4	A more competitive and market-responsive private financial sector					
TIE	9.2	1.4	Financial Sector Reform - Bankers Training (KPMG)	\$960,000	\$900,000	\$900,000	\$846,000	\$720,000
TIE	9.2	1.4	Financial Sector Reform - Electronical Banking System (IRM)	\$850,000	\$500,000	\$400,000	\$376,000	\$320,000
TIE	9.2	1.4	Financial Sector Reform - TBD		\$1,500,000	\$1,900,000	\$1,786,000	\$1,520,000
TIE	9.4	1.4	Admin: Tech Support/Field Mgt./PD&S	\$36,050	\$400,000	\$400,000	\$376,000	\$320,000
SUBTOTAL FOR SO1.4				\$1,846,050	\$3,300,000	\$3,600,000	\$3,384,000	\$2,880,000
		SO 1.5	A more economically sustainable and environmentally sound sector					
TIE	2.1	1.5	Production Delivery Systems - Low cost power (B&R)	\$638,000	\$500,000	\$500,000	\$470,000	\$400,000
TIE	2.2	1.5	Pricing/Policy/Reforms - Power Sector Reform (HB)	\$2,082,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
TIE	2.5	1.5	Energy Privatization/Restructuring - Oil and Gaz Sector Reform (HB)	\$1,180,000	\$3,000,000	\$3,000,000	\$2,820,000	\$2,400,000
TIE	2.6	1.5	Admin: Tech Support/Field Mgt./PD&S	\$100,000	\$500,000	\$500,000	\$470,000	\$400,000
SUBTOTAL FOR SO1.5				\$4,000,000	\$5,000,000	\$5,000,000	\$4,700,000	\$4,000,000

STRATEGIC ASSISTANCE AREA 2: EMPOWERMENT OF CITIZENS THROUGH DEMOCRATIC POLITICAL PROCESSES

		SO 2.1	Incr., better inf. citizens' participation in political and econ. decision making					
PRT	7.1	2.1	Political/Civic Orgs - Political Process (NDI)	\$400,000	\$600,000	\$600,000	\$564,000	\$480,000
PRT	7.1	2.1	Political/Civic Orgs - Parliamentary Restructure/Training (NAPA)	\$550,000	\$500,000	\$500,000	\$470,000	\$400,000
PRT	7.1	2.1	Political/Civic Orgs - TBD		\$800,000	\$1,000,000	\$940,000	\$800,000
PRT	7.2	2.1	Independent Media - Independent TV Media Development (INTERNEWS)	\$375,000	\$550,000	\$650,000	\$611,000	\$520,000
PRT	7.5	2.1	PVO/NGO Program - NGO Development (ISAR)	\$350,000	\$550,000	\$600,000	\$564,000	\$480,000
PRT	7.7	2.1	Admin: Tech Support/Field Mgt./PD&S	\$225,000	\$370,000	\$400,000	\$376,000	\$320,000
SUBTOTAL FOR SO2.1				\$1,900,000	\$3,370,000	\$3,750,000	\$3,525,000	\$3,000,000
		SO 2.2	Legal systems that better support democratic process and market reform					
PRT	7.4	2.2	Rule of Law - RoL IQC	\$350,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
PRT	7.4	2.2	Rule of Law - ABA/CEELI	\$550,000	\$800,000	\$800,000	\$752,000	\$640,000
SUBTOTAL FOR SO2.2				\$900,000	\$1,800,000	\$1,800,000	\$1,692,000	\$1,440,000
		SO 2.3	More effective, responsive and accountable local government					
PRT		2.3	Local, Municipal Government - TBD		\$700,000	\$800,000	\$752,000	\$640,000
SUBTOTAL FOR SO2.3				\$0	\$700,000	\$800,000	\$752,000	\$640,000

PF#	Proj# Comp.	SOs	ACTMITY	FY 97 Plan 13-June-97	FY 98 Plan	FY 99 Plan	FY 99 Plan (-6%)	FY 99 Plan (-20%)
STRATEGIC ASSISTANCE AREA 3: STRENGTHEN THE CAPACITY TO MANAGE THE HUMAN DIMENSION OF THE TRANSITION								
SO 3.1 Human suffering and negative consequences of crises are reduced								
???	1.1	3.1	Vulner Groups Feeding - Food Assistance (IFRC)	\$925,000	\$0	\$0	\$0	\$0
???	1.1	3.1	Vulner Groups Feeding - 1994 Title II Resolution Admn. (WFP)	\$75,000	\$0	\$0	\$0	\$0
???	1.2	3.1	PVO Cauco/Compr. Human - SCF Umbrella CA	\$2,100,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
???	1.6	3.1	Multilat. Human Asst. - Logistics Support (WFP/CLAU)	\$230,000	\$0	\$0	\$0	\$0
ID/WQ	1.6	3.1	Multilat. Human Asst. - Health (UNICEF)	\$581,000	\$0	\$0	\$0	\$0
ID/WQ	1.6	3.1	Multilat. Human Asst. - Immun. Social Mobilization (IFRC)	\$9,000	\$0	\$0	\$0	\$0
???	1.7	3.1	Multilateral Human Asst. - TBD (based on appeals)		\$1,000,000	\$1,000,000	\$940,000	\$800,000
???	1.7	3.1	Other Emergencies - Abkhazia Psychosocial (UMCOR)	\$350,000	\$0	\$0	\$0	\$0
???	1.7	3.1	Other Emergencies - Abkhazia Quick Income Impact (QIIP) - RFA	\$750,000	\$0	\$0	\$0	\$0
ID/WQ	1.7	3.1	Other Emergencies - Abkhazia Sanitation - RFA	\$500,000	\$500,000	\$300,000	\$282,000	\$240,000
???	1.7	3.1	Other Emergencies - Abkhazia - RFA	\$400,000	\$600,000	\$500,000	\$470,000	\$400,000
???	1.9	3.1	Admin: Tech Support/Field Mgt./PD&S	\$410,000	\$400,000	\$400,000	\$376,000	\$320,000
SUBTOTAL FOR SO3.1				\$6,330,000	\$3,500,000	\$3,200,000	\$3,008,000	\$2,560,000
SO 3.2 Improved sustainability of social benefits and services								
???	1.7	3.2	PVO Social Reform/Community Mobilization		\$2,000,000	\$1,900,000	\$1,786,000	\$1,520,000
SUBTOTAL FOR SO3.2				\$0	\$2,000,000	\$1,900,000	\$1,786,000	\$1,520,000
SO 3.3 Reduced environmental risks to public health								
???	1.7	3.3	Regional Environmental & Health Programs		\$330,000	\$300,000	\$282,000	\$240,000
SUBTOTAL FOR SO3.3				\$0	\$330,000	\$300,000	\$282,000	\$240,000
STRATEGIC ASSISTANCE AREA 4: CROSS-CUTTING PROGRAMS AND SPECIAL INITIATIVES								
P/2	4.3	4.1	Medical Partnerships - AIHA	\$300,000	\$500,000	(\$300,000)	\$0	\$0
FP	4.4	4.1	Women's Health (Family Planning) - TBD	\$700,000	\$0	\$0	\$0	\$0
		4.1	Infectious Diseases (child survival)		(\$400,000)	\$0	\$0	\$0
		4.1	Health Directives		\$700,000	\$658,000	\$560,000	\$560,000
EUR	10	4.1	EUAF Standard Grant	\$900,000	\$2,000,000	\$1,000,000	\$940,000	\$800,000
						\$0	\$0	\$0
Exch	12	4.2	Buy-in Global Trng. Contract - Admin. (AED)	\$350,000	\$2,500,000	\$2,500,000	\$2,350,000	\$2,000,000
SUBTOTAL FOR SO4				\$2,250,000	\$5,000,000	\$4,200,000	\$3,948,000	\$3,360,000
PERFORMANCE FUND & TRANSFERS/ALLOCATIONS								
PF		XXX	Performance Fund	\$0	\$0	\$0	\$0	\$0
		XXX	Transfers or Allocations					
T/A		1.2	Treasury IAA	\$950,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
T/A		1.1	USIA Training and Exchanges - Partnerships	\$1,310,000	\$500,000	\$750,000	\$705,000	\$600,000
T/A			USIA Training and Exchanges - Exchange		\$2,700,000	\$2,700,000	\$2,538,000	\$2,160,000
T/A			Law Enforcement		\$2,000,000	\$2,000,000	\$1,860,000	\$1,600,000
T/A			EXIM Trade and Investment Support		\$3,000,000	\$3,000,000	\$2,820,000	\$2,400,000
T/A		3.1	Humanitarian Transport - S/NIS/C	\$1,600,000			\$0	\$0
T/A		1.1	USDA Cochran Fellowships	\$120,000			\$0	\$0
T/A		2.2	US Department of Justice	\$230,000			\$0	\$0
T/A		1.1	Parking Fine Withholding	\$10,000			\$0	\$0
SUBTOTAL FOR PERFORMANCE FUND & TRANSFERS/ALLOCATIONS				\$4,220,000	\$9,200,000	\$9,450,000	\$8,883,000	\$7,560,000
TOTAL (Georgia)				\$25,770,000	\$41,900,000	\$42,000,000	\$36,284,000	\$30,880,000

PFF CODES:

- FP Family Planning
- EUR Eurasia Foundation
- EF Enterprise Fund
- PRT Project Related Training
- FE Foundation Endowments
- ID/WQ Infectious Disease/Water Qual.
- TIE Trade Impediment Elimination
- IFI IFI Loan Support
- Exch Exchanges
- P/2 Partnerships 2/
- PF Performance Fund
- T/A Transfers Allocations

PROJECT SUMMARY				FY 97 Plan 13-June-97	FY 98 Plan	FY 99 Plan	FY 99 Plan (-6%)	FY 99 Plan (-20%)
			110-0001 Special Initiatives	\$6,330,000	\$5,830,000	\$5,490,000	\$5,076,000	\$4,320,000
			110-0002 Energy	\$4,000,000	\$5,000,000	\$5,000,000	\$4,700,000	\$4,000,000
			110-0003 Environment	\$0	\$0	\$0	\$0	\$0
			110-0004 Health Care	\$1,000,000	\$500,000	\$700,000	\$658,000	\$560,000
			110-0005 Private Sector	\$450,000	\$2,700,000	\$3,000,000	\$2,820,000	\$2,400,000
			110-0006 Food Systems	\$350,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
			110-0007 Democratic Reform	\$2,800,000	\$5,870,000	\$6,350,000	\$5,959,000	\$5,080,000
			110-0008 Housing	\$0	\$0	\$0	\$0	\$0
			110-0009 Economic Restructuring	\$3,370,000	\$4,300,000	\$4,800,000	\$4,524,000	\$3,680,000
			110-0010 Eurasia Foundation	\$900,000	\$2,000,000	\$1,000,000	\$940,000	\$800,000
			110-0011 Enterprise Funds	\$2,000,000	\$3,000,000	\$3,000,000	\$2,820,000	\$2,400,000
			110-0012 Exchanges & Training	\$350,000	\$2,500,000	\$2,500,000	\$2,350,000	\$2,000,000
			Transfers	\$4,220,000	\$9,200,000	\$9,450,000	\$8,883,000	\$7,560,000
			Performance Funds	\$0	\$0	\$0	\$0	\$0
TOTAL COUNTRY				\$25,770,000	\$41,900,000	\$42,000,000	\$39,480,000	\$33,600,000

GLOBAL FIELD SUPPORT REQUIREMENTS - USAID/C

GEORGIA

Request From	Action Officer	Global Program	Global Proj. No.	Funding Amount (\$000)		Account	Sector Directorate	Strategic Objective
				1998	1999			
ENI/DGSR	Wallace	AVSC	936-3068	\$300	\$300	FSA	POP	4.1 Special Initiatives
ENI/DGSR	Wallace	JHPIEGO	936-3045	\$400	\$400	FSA	POP	4.1 Special Initiatives
ENI/DGSR	Liefert	Impl. Policy Change II	963-5470	\$700	-0-	FSA	D/G	2.3 Local Government
ENI/DGSR	Liefert	Admin. of Justice	598-0669	\$400	\$300	FSA	D/G	2.2 Rule of Law

u:\cnoren\123data\r4gblcrt

**Annex 3. Work Force Table,
Operating Expense Budget Table**

The summary tables below shows current and projected OE requirements by major cost categories as of May 2, 1997 and workforce requirements as of June 9, 1997. Please note that the OE requirements were based on the original, smaller workforce levels. The estimated additional costs for the new levels is approximately \$1.6 million for the first year dropping to a lower additional amount. These additional costs have not been incorporated below due to uncertainty of when there will be space available for new people or when the additional costs will actually be incurred.

Operating Expense (\$ 000)

	FY97	FY98	FY99 Requested	FY99 Targeted
Armenia	2,951.9	2,885.5	3,226.8	2,050.7
Azerbaijan	155.8	460.1	423.9	382.0
Georgia	618.5	801.3	886.0	670.0
Total	3,726.2	4,146.9	4,536.7	3,102.7

Georgia Staffing

	USDH	OE/Int	OE/loc	Prog	Total
FY 1997	1		4	8	13
FY 1998	1		4	8	13
FY 1999	1		5	8	13
Request	3		6	18	27

Due to the difficulties in travel between Azerbaijan and Armenia, Georgia acts as a travel "hub" and interlocutor for connecting to the USAID/C Azerbaijan satellite office. This, in addition to a large program portfolio, creates additional difficulties. With this in mind, USAID/C intends to staff Georgia to a level so that it can operate the program, to a large extent, independent of Armenia. However, administrative and program support services (Controller, EXO, Legal, etc) will be provided via the USAID/C Armenia office.

Armenia Staffing

	USDH	OE/Int	OE/loc	Prog	Total
FY 1997	14	4	27	22	67
FY 1998	14	3	27	45	88
FY 1999	14	2	27	45	88
Request	15	3	39	30	87

Please note that current occupied levels are well below the workforce level above. The above staffing levels include much needed support staff that will come aboard over the next six months. This will allow USAID/C - Armenia to function as a full regional mission without relying on multiple other missions for support. These levels will also allow Armenia to better implement and monitor the highly politically sensitive Armenian Program as it moves into a heavy implementation phase.

Azerbaijan Staffing

	USDH	OE/Int	OE/loc	Prog	Total
FY 1997			2	4	6
FY 1998	1		2	4	7
FY 1999	1		4	4	9
Request	1		4	7	12

The 907 restrictions, and the potential lifting of some of the restrictions, make it difficult for USAID to appropriately plan the workforce levels. However, it is hoped that a country coordinator will be in place in early FY98. This will allow USAID to better monitor and implement the current program.