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UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID/CAUCASUS  
YEREVAN, ARMENIA

RESULTS REVIEW AND  
RESOURCE REQUEST

APRIL 1996

FOR THE PERIOD OCTOBER 1, 1996 - SEPTEMBER 30, 1998

# TABLE OF CONTENTS

## USAID/ ARMENIA RESULTS REVIEW AND RESOURCE REQUEST FY 1996

List of Abbreviations

### PART I

Factors Affecting Program Performance  
(Included in Strategic Plan)

### PART II

#### STRATEGIC OBJECTIVE RESULTS REVIEWS

1.2, Increased Soundness of Fiscal Policies and Mangement Practices

- a. Results Framework..... (page no.)
- b. Results Framework Narrative.....
- c. Performance Assessment Table.....
- d. Narrative Analysis of Performance (include USAID contribution and expected progress) ..

1.3, Accelerated Development and Growth of Privat Enterprise

- a. Results Framework..... (page no.)
- b. Results Framework Narrative.....
- c. Performance Assessment Table.....
- d. Narrative Analysis of Performance (include USAID contribution and expected progress) ..

1.4, A More competitive and Market-Responsive Financial Sector

- a. Results Framework..... (page no.)
- b. Results Framework Narrative.....
- c. Performance Assessment Table.....
- d. Narrative Analysis of Performance (include USAID contribution and expected progress) ..

**1.5, A More Economically Sound and Environmentally Sustainable Energy System**

- a. Results Framework..... (page no.)
  - b. Results Framework Narrative.....
  - c. Performance Assessment Table.....
  - d. Narrative Analysis of Performance (include USAID contribution and expected progress)..

**2.1, Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making**

- a. Results Framework..... (page no.)
- b. Results Framework Narrative.....
- c. Performance Assessment Table.....
- d. Narrative Analysis of Performance (include USAID contribution and expected progress)..

**2.2, Legal Systems that Better Support Democratic Processes and Market Reforms**

- a. Results Framework..... (page no.)
- b. Results Framework Narrative.....
- c. Performance Assessment Table.....
- d. Narrative Analysis of Performance (include USAID contribution and expected progress)..

**3.1, Reduced Human Suffering and Crisis Impact**

- a. Results Framework..... (page no.)
- b. Results Framework Narrative.....
- c. Performance Assessment Table.....
- d. Narrative Analysis of Performance (include USAID contribution and expected progress)..

**PART III**

**Status of Management Contract**

- A. Special Management Issues.....
- B. 22 CFR 216 Environmental Analysis Issues...(see para below)
- C. New Partnership Initiatives Summary.....

## **PART IV**

### **Resource Request**

- A. Annex I (table - Program Funding Source).....
- B. Annex II (table - Funding request by Strategic Objective).
- C. Table - Funding request by Project
- D. Life-of-Objective Funding Levels
- E. Program Management Requirements
- F. Annex III (Field Support by Global Bureau)
- G. Composition of Strategic Objective Teams

## ABBREVIATIONS

AIOC - Azerbaijan International Operating Company  
CBIHA - Coordination Bureau for Interational 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 Persons

IFI - International Financial Institution  
IFRC - International Federation of the Red Cross  
IMF - International Monetary Fund  
IOM - International Organization for Migration  
IR - Intermediate Results

ITIC -  
NBG - National Bank of Georgia  
NGO - Nongovernmental Organizations  
NET - NIS Exchanges and Training Project  
NIS - New Independent States of the former Soviet Union

MW - megawatts  
MVD - Georgian State Police  
OSCE - Organization for Security and Cooperation in Europe  
PAROS - Armenian Government's needs-based voluntary registration program for humanitarian assistance  
PVO - Private Voluntary Organization

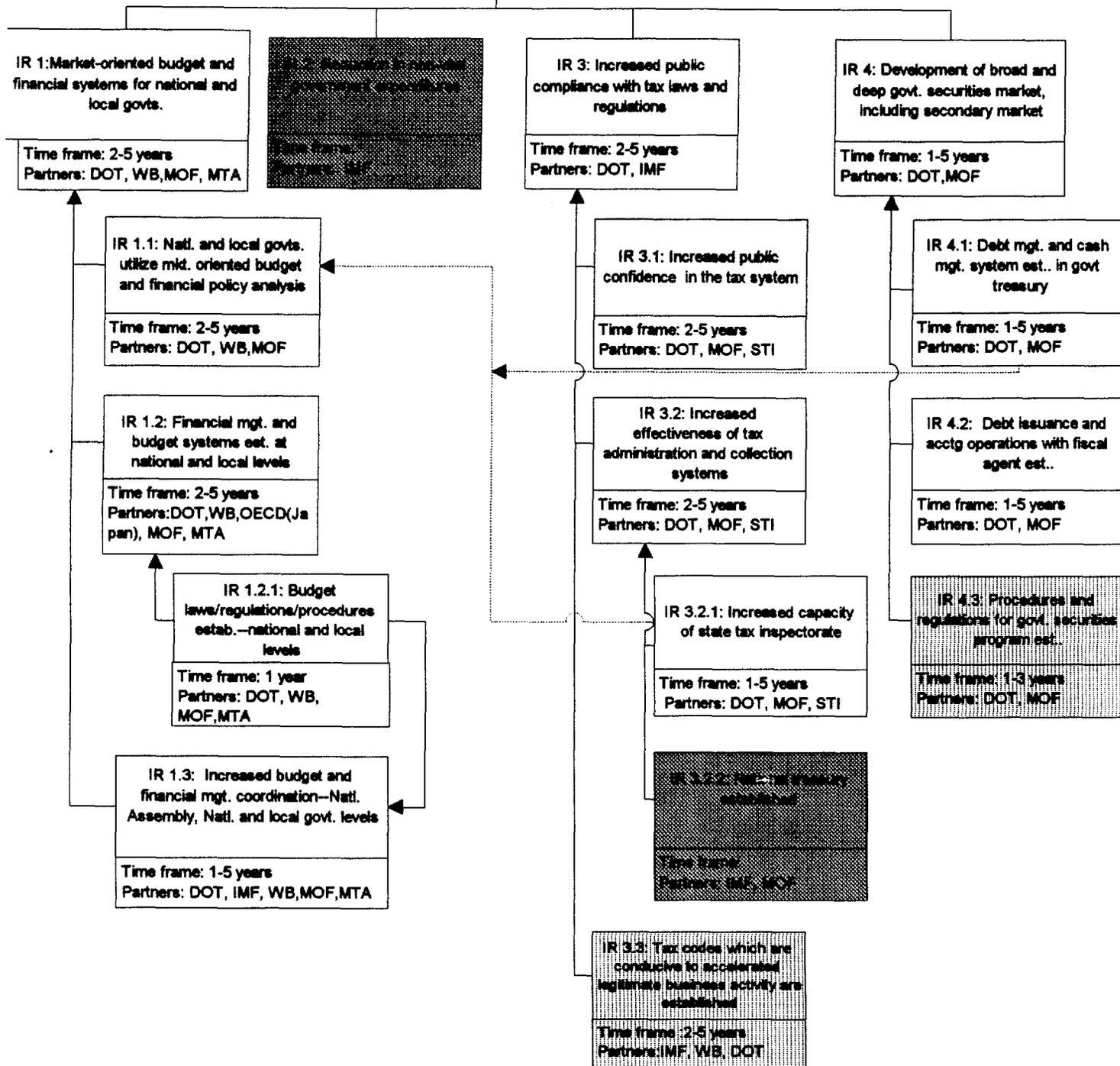
SCF - Save the Children Federation  
SIF - Social Investment Fund  
SME - Small and Medium Enterprise  
S.O. - Strategic Objective  
STF - Systemic Transformation Facility (IMF)

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 Programme  
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

**Strategic Objective 1.2**  
 Increased soundness of fiscal policies  
 and management practices  
 Time frame: 2-5 years

 No USAID Resources  
 No USAID or Partner Support  
 (projected as potential area of  
 future USAID involvement)



**Critical Assumptions**

- 1) Relationship between USAID and U.S. Treasury remains collaborative and productive
- 2) Servicing of external debt does not constrain sound fiscal management

## PART II

### STRATEGIC OBJECTIVE RESULTS REVIEWS

**Strategic Objective 1.2: Increased soundness of fiscal policies and management practices<sup>1</sup>**

#### RESULTS FRAMEWORK NARRATIVE RATIONAL

##### A. Transition Hypothesis

While macroeconomic stability has secured an immediate future for Armenia, improved fiscal management is necessary to encourage investment in private enterprise and to permit the Government to make capital improvements and provide needed services. The hypothesis guiding USAID/Armenia's activities in the area of fiscal reform is that if the Government can generate sufficient revenue and restrict expenditures to essential services and capital expenditures, then public and investor confidence will hasten the access to new technology and investment which Armenia needs to launch export-driven growth.

##### B. Critical Assumptions

USAID/Armenia's strategic approach to the achievement of SO 1.2 is based on several critical assumptions. Perhaps most important is that servicing Armenia's external debt will not force the Government to follow inflationary and unsustainable fiscal practices, e.g., unsecured loans to state-owned enterprises. Additionally, and particularly critical to the effectiveness of USAID's program in support of this strategic objective, is the assumption that Armenia's citizens will comply with fairly administered tax laws and regulations. The relationship between USAID and the U.S. Treasury must remain collaborative and productive (as it has been to date). It is important to note also that SO 1.2 is supported by two intermediate results for which IMF programs are solely responsible. These results, focusing on the establishment of a national treasury and the continued reduction in non-vital government expenditures, are essential if Strategic Objective 1.2 is to be realized.

##### C. Causal Linkages

The results framework for Strategic Objective 1.2 reflects four principal intermediate results

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<sup>1</sup>

The SO Team interpreted the statement of Strategic Objective 1.2 in fairly broad terms, moving beyond policies and practices to focus on the results of improvement in these areas, i.e., increased government revenues and moving towards a balanced budget. Although this is an interpretation which reflects a level of impact "higher" than a literal translation of the SO statement might suggest, it is completely consistent with ENI Bureau guidance materials (refer to the discussion of SO 1.2 in the ENI Strategic Framework memo of February 15, as well as the illustrative indicators list from the ENI pilot project).

necessary to the achievement of the SO. The first intermediate result, *Improved, transparent, executive-based national budget process is implemented*, points to the current lack of “an internationally-accepted, market-oriented national budget law.” The Strategic Objective Team believes that until a transparent and executive-based budget process is operational, the GOA will not have adequate guidelines or incentives to make productive and appropriate budget decisions and to manage towards a balanced budget. Intermediate Result 1 is, in turn, supported by a set of intermediate results which focus on increasing the capacity within the Ministry of Finance to conduct budget and policy analysis; the development and use of new financial management systems and budget models; and, increasing the coordination between the legislative and executive branches in the budget process.

Intermediate Result 2 highlights the need for the GOA to continue its reduction of non-vital-expenditures, such as cross subsidies to state-owned enterprises. Pursued through IMF programs and resources, IR 2 was identified as causally supporting the strategic objective because the reduction in unnecessary disbursements will permit the GOA to more efficiently target its expenditures. The SO Team did not develop “lower” level intermediate results for IR 2 (IMF conditionality currently drives the reduction in deficit spending; the Team therefore felt it was unnecessary to define any “lower” level IRs.)

*Increased public compliance with tax laws and regulations*, Intermediate Result 3, and *Increased public participation in the government securities market*, Intermediate Result 4, both reflect the need to increase governmental revenues in order to facilitate responsible fiscal management. Without an increase in revenues, the government will not only be unable to direct funds to the many and varied economic and social needs that are extant in Armenia today, it will also be subject to greater pressures (political and otherwise) that distort the process of developing and implementing a budget. IR 3 is directly supported by two intermediate results that address major constraints to tax compliance: lack of public confidence in the tax system and an ineffective tax administration and collection system. While Mission programs address both of these intermediate results, considerable focus is placed on tax administration, particularly in terms of systems for file and pay income tax and property tax. Though neither USAID nor any of its partners are currently active in the area, the tax code reform is identified as a third supporting intermediate result that is critical to increasing public compliance with tax laws.

Intermediate Result 4 is causally supported by three intermediate results, two of which are promoted via USAID resources. The first of these, IR 4.1, aims to increase the capacity of the MOF to manage the government securities program, permitting an expansion of the program as evidenced by an increase in the types and number of government bonds offered. Intermediate Result 4.2 reflects the need to develop and implement a complete and transparent set of regulations and procedures for operating the securities program, thereby encouraging greater public participation. The final intermediate result in the set recognizes the necessity of increasing public access to information concerning the government securities

program, both in terms of relevant regulations and basic financial information. Currently, no partner or USAID activities are in place to support this IR. However, USAID sees this as a potential area of future involvement.

**PART II: PERFORMANCE ASSESSMENT**

**Table 1 - Performance Data**  
**Baseline, Targets and Actual Results**

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

RESULT LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.2	Increased soundness of fiscal policies and management practices	1. Budget deficit as a % of GDP	Definition: N/A  Unit: % of GDP	95	10.0% (IMF, 1996)	8.0%	-	7.0%	-	6.0%	-	5.0%	-	4.0%	-
		2. Tax revenue as a % of GDP	Definition: N/A  Unit: % of GDP	95	11.0% (IMF, 1996)	12.0%	-	12.0%	-	12.0%	-	12%	-	12.0%	-
		3. % of natl. budget decentralized to local govt.	Definition: N/A  Unit: % of government expenditure.	95	\$300 million U.S.	10.0%	--	12.0%	-	14.0%	-	16.0%	-	18.0%	-
			Definition:  Unit:												

IR 1	Market-oriented budget and financial systems for national and local governments	1. Market-oriented budget and financial systems operating at national and local levels of govt.	<p>Definition: National and local budget and financial systems operate according to internationally accepted standards for market economies Budget regulations describe the overall budget cycle, annual schedule and penalties for non-compliance</p> <p>Unit: Date approved.</p>	95	—										
		2. President gives annual budget and fiscal report to Natl. Assembly.	<p>Definition: Budget includes revenue and expenditure programs, employment, production and capital financing plans</p> <p>Unit: Date completed.</p>	95	N/A										
		3. Local govts. present budgets and capital financing plans	<p>Definition: Information is presented to govt. and public on expenditures, revenues and capital financing plans</p> <p>Unit: Date completed</p>	95	N/A										
IR 1.1	National and local govts. utilize market-oriented budget financial policy analysis	1. National and local govts. conduct market-oriented budget, financial and fiscal policy analysis	<p>Definition: Laws, policies and regulations</p> <p>Unit: No. of each</p>	95	N/A										

		2. Capacity developed in national and local govts. to plan and manage budget and revenue policy analysis	Definition: Training provided in budget, financial and fiscal policy analysis to natl and local govts and Natl Assembly Unit: # of training activities	95	N/A										
IR 1.2	Financial mgt. and budget systems established at the national and local govt. levels that are transparent and mkt.-oriented	1. Enabling decrees, regulations and procedures for national and local govt. budgets and financing that comply with codified international practices.	Definition: N/A Unit: Date new systems are implemented.	95	N/A										
		2. Budget model developed and being used by MOF analysts	Definition: Financial system is developed to plan and track budget expenditures. Unit: Date model system is implemented.	95	--										
		3. Municipal services delivered and financed through local revenues increases	Definition: Basic services include water, sewage and housing; revenue sharing increases Unit: # of services in municipalities; local financing as % of total financing												

12

IR 1.2.1	National budget law and enabling legislation established for natl and local govts.	1. National budget laws/regulations/procedures enacted and gazetted	<p>Definition: Budget laws regulations identify role and responsibilities for the planning, implementation and compliance of the budget.</p> <p>Unit: Date law is approved.</p>	95	--										
		2. Budget regulations, procedures for financial and budgetary process	<p>Definition: N/A</p> <p>Unit: Date enacted.</p>	95	--										
IR 1.3	Increased budget and financial mgt. coordination--Natl. Assembly, Natl. and local govt. levels	1. Schedule deadlines met in national budget law.	<p>Definition: Meetings are held between the two branches to determine roles and responsibilities.</p> <p>Unit: Date initial meeting issues paper approved.</p>												
IR 3	Increased public compliance with tax laws and regulations	1. Taxpayers filing and paying taxes according to tax regulations and procedures increases	<p>Definition: Personal, property, business, and value-added taxes paid thru file-and-pay returns</p> <p>Unit: # of tax returns</p>												
		2. Revenues from taxes increase	<p>Definition: Tax revenues as % of national and local revenues</p> <p>Unit: Monetary</p>												

IR 3.1	Increased public confidence in the tax system	1. Completed tax returns increase	Definition: N/A  Unit: # of tax returns processed.															
		3. Taxpayers file on time	Definition: # or % of delinquent tax payers  Unit: Delinquent taxpayers															
IR 3.2	Increased effectiveness of tax administration and collection systems	1. Increased number of properties added to the tax rolls	Definition: # or % of properties  Unit: Properties															
		2. Increased number of properties assessed at market value.	Definition: # or % of properties assessed  Unit: Properties															
		3. STI audit systems identify fraudulent returns	Definition: N/A  Unit: # of fraudulent tax returns.															
IR 3.2.1	Increased capacity of the state tax inspectorate	1. STI personnel perform with functional responsibilities	Definition: # or % of STI personnel performing duties with clear functional responsibilities  Unit: STI staff members															
		2. STI converts tax filer systems to automated data and management systems	Definition: % of STI offices or systems using automated data and management systems.  Unit: Automated data and management systems															

		3. STI staff, particularly revenue agents, perform duties according to professional and ethical standards	<p>Definition: Code of ethics developed, implemented and enforced</p> <p>Unit: Date code of ethics implemented.</p>												
		4. Training is provided to STI for increasing the effectiveness of its existing tax auditing, collection, tax-payer service and enforcement systems.	<p>Definition: Training on tax administration</p> <p>Unit: # and content of tax administration courses</p>												
IR 3.3	Tax codes are conducive to accelerated, legitimate business activity	1. US taxpayers permitted to file for foreign income tax credit	<p>Definition: IRS letter of ruling permitting foreign income tax credit for foreign tax payers.</p> <p>Unit: Date IRS ruling approved.</p>												
		2. Other foreign taxpayers permitted to file for foreign income tax credit	<p>Definition: letter of ruling permitting foreign income tax credit for foreign tax payers.</p> <p>Unit: Date tax codes approved</p>												

		3. Tax code rates and structure increases registered business activity	<p>Definition:</p> <p><b>**Marginal income tax rate @ 20%; enterprise tax rate @ 20%;</b></p> <p><b>**firms allowed to deduct all wages;</b></p> <p><b>**firms allowed to use same accelerated depreciation method;</b></p> <p><b>**pension fund tax contribution reduced;</b></p> <p><b>**pension benefits reflect contributions;</b></p> <p><b>**top excise tax rates lowered to 50%;</b></p> <p><b>**excise tax rate schedules for import and domestically produced products are unified;</b></p> <p><b>**Agricultural income tax based on profit, not land use</b></p> <p>Unit: Tax codes and schedules</p>																
		4. Tariff schedules facilitate open, competitive markets	<p>Definition: Tariff rates range from 0-10% with ave. rate of 5%</p> <p>Unit: Tariff schedules</p>																
IR 4	Development of a broad and deep market for government securities, including development of secondary market	1. Increased public participation in government securities market	<p>Definition: buyers of government securities - primary market; buyers of government securities - primary market.</p> <p>Unit: # of buyers or volume of securities offered, purchased and resold</p>																

		2. Design of short and long term security instruments	Definition: # of types of government bonds available for purchase  Unit: Number and type															
IR 4.1	Debt management and cash management system established within MOF's "treasury".	1. Increased capacity of MOF to create, manage and expand government debt management and cash management systems	Definition: Systems implemented and operating efficiently  Unit: Number and type															
IR 4.2	Debt issuance and accounting operations with fiscal agent established	1. Increased capacity of MOF to create, manage and expand government securities program	Definition: # of auctions conducted on a scheduled with full-accgt systems  Unit: # and type of government bonds available for purchase with full accounting and share registry system															
4.3	Procedures and regulations for a government securities program established	1. Increased capacity of MOF to create and enforce a legal and policy framework for issuance of government obligations	Definition: # of key laws and regulations drafted/enacted/implemented (refer to policy matrix)  Unit: # of key regulations approved.															
		2. Increased capacity of MOF to create and utilize a statistical data base for analysis of bond sales and issue public reports	Definition: Training programs to establish and utilize statistical data base for analysis and reporting  Unit: # and content of training activities															

## 1.2 NARRATIVE ASSESSMENT OF PERFORMANCE

### Overall Progress:

During 1992-93, Armenia incurred high fiscal deficits and experienced hyperinflation as a member of the disintegrating ruble zone. The Government introduced the *dram* in November 1993, tightened government spending and strengthened the Central Bank's independent control over money supply and prudential norms for commercial banks. The balance of payments support provided through the IMF's Structural Transformation Facility (STF), the World Bank's Institutional Rehabilitation Credit and humanitarian assistance from USAID, the European Union and other donors throughout the past three years has permitted fiscal policy imposed by the IFIs to be implemented and sustained. The *dram* has emerged as one of the stable currencies in the NIS, with about 5 percent annual fluctuation against the dollar in the past 12 months; the dram is fully convertible and there has been a small, real appreciation in its value against the dollar. In 1995 and 1996 the Government continued to liberalize prices, charge user-fees, downsize the civil service and push ahead with the privatization of state owned enterprises. Average monthly inflation fell from over 28 percent in 1994 to 1.9 percent for the first 11 months of 1995. The fiscal deficit fell from 56 percent of GDP in 1993 to 16 percent in 1994 and is expected to be under 9 percent in 1995, principally due to sharp cuts in expenditures.

In spite of the dramatic improvements due to tight fiscal and monetary policy, the fiscal situation remains weak. There is no market-oriented budget process or understanding of budget planning at the national level, particularly in the National Assembly; the problem is exacerbated at the level of local government where new administrative districts have been formed to assume responsibility for local services and capital development. There is no national treasury function, which impedes effective fiscal planning and cash management. Although Armenia has a liberal trade regime to support private enterprise, tax codes and regulations are not liberal enough to attract foreign investment. Even if the tax codes were more conducive to private enterprise the administration of the State Tax Inspectorate is weak. Citizens are not complying with present tax laws to pay personal and business income taxes, and there is too much dependence on a value-added tax which accounts for almost three-fourths of all tax revenue. The State Tax Inspectorate (STI) can not carry-out tax collection and audit functions efficiently and revenue agents engage in extortion because they are poorly trained and paid. Until citizens pay taxes, essential investment in infrastructure and services will go unmet and dependence on external financing must continue. The development of a broad and deep government securities market, including secondary markets is a high priority to restore confidence in the government's ability to finance essential public investment. Finally, the lack of accurate fiscal data which is available to the public underscores the tentative progress made towards transparent fiscal planning and restoration of public and investor confidence in the Republic's economic future.

### ENI's Significant contributions:

USAID funds two resident US Treasury Advisors--one for to enact the national and local budget process and one for government securities programs, including debt and cash management systems for the national treasury.

The Treasury Advisor for Budget has worked with the Ministry of Finance to develop a draft national budget law that is modeled after a US state budget system. The draft budget law also meets the international budget standards of the IMF. The Ministry of Finance and the National Assembly plan to enact the national budget law. USAID, the World Bank, the new Ministry of Territorial Administration and the National Assembly completed recently a National Forum on Local Self-Government that focused on decentralized fiscal relations between national and local governments in Armenia. Two major tasks remain: to develop and formalize the fiscal relationships between national and local levels of government within the national budget law; and, to begin the large job of developing competence to carry-out the budget process and abide with the schedule and fiscal limits of the budget law. USAID and Treasury provided US training for key budget personnel in the Ministry of Finance and the National Assembly who must develop and implement the budget system for national and local governments.

The Treasury Advisor for Government Securities assisted the Ministry of Finance and the Central bank to conduct the first public auctions of short term "T-Bills" to finance Government expenditures. The short term interest rates approximate market rates. To date, primary investors are mainly institutional. Secondary markets have not been created, although work has begun to introduce a registry to facilitate secondary marketing of T-Bills. The Treasury Advisor is assisting the Ministry of Finance design and implement a Debt Management Unit that will track all government debt and debt-service obligations. This Unit will work with the Debt Issuance Unit (i.e., government securities) to set quarterly limits for external and domestic public debt and to determine the timing and volume of treasury bill sales.

### **Expected Progress by 1997**

- *Personal, property and commercial tax collections increase by 10% by the end of 1997. Tax revenue increases can be attributed to the development of legal property registration and valuation based on the unified cadastre system and improvement in the administration of the national tax system.*
- *An improved system of annual budgeting (revenue and expenditure) leads to greater efficiency in the targeting of public expenditure and a reduction in the budget deficit, to a level of not more than 7% of GDP by the end of 1997.*
- *Expenditures for local government as a part of the national budget increase from 10% to 12% by the end of 1997, directly attributable to a decentralized, transparent budget process.*

- *By 12/97 enabling legislation will be enacted to achieve (a) a market in government securities; (b) competitive pricing of rents and municipal services within the public and private sectors; and (c) improved tax administration that increases revenues of the State Tax Inspectorate due to the development of a non-filer tax return, tax payer service programs, improved system of audits and the higher standards of conduct of STI agents.*

### ***Expected Program Impact by 2000***

*Continuing these activities to the year 2000, the Government will have the capacity to significantly increase budgetary inflows through tax collection and the sale of government securities and will totally eliminate subsidies to state-owned enterprises. The new budget law will lessen the effect of politics on the budget because there will be a transparent system which assigns responsibilities and authorities to national and local governments and increases transparent accountability over all expenditures. Armenia will be better able to track and service its external debt because of its internationally accepted budget system and plan for development. The new national budget system will be based on accrual accounting methods and provide instructions on deficit and surpluses, delegation authorities and responsibilities and provide penalties (fines and imprisonment) for malfeasance at national and local levels of government. National budgeting will be "fund account oriented," i.e., in addition to general funds, trust funds, or other budget funds will be established to finance special development projects (e.g., highways).*

*With the establishment of new national budgeting and treasury functions and the on-going accounting conversion, USAID and the IFIs will finance the installation of an automated accounting system in key ministries and industries. This will complete the initial phase of planned fiscal reform. The next phase will be the reform of the national property system with assistance being provided by USAID and the World Bank. Once both phases are completed the government will have reorganized and streamlined along functional lines, achieving significant fiscal reform.*

*An increasing number of citizens will file and pay their personal and business income taxes creating sufficient revenue to meet debt servicing, capital developments and public services. Most important, Armenia will have sufficient revenue to provide quality education for all of its citizens, including continuing education for its workforce and basic education for its children.*

Strategic Objective 1.3  
 Accelerated development and  
 growth of private enterprise  
 Timeframe: 2-5 years

IR from the results framework  
 of another strategic objective

IR1: Expanded export and  
 domestic markets  
 Timeframe: 2-5 years  
 Partners: EU/TACIS, IMF,  
 IBRD, USDA, UST, USPC

IR 1.1: Increased foreign  
 investment  
 Timeframe: 1-5 years  
 Partners: EU/TACIS (BCC),  
 Enterprise Fund

IR 1.2: Increased transfer of  
 competitive technology  
 Timeframe: 1-5 years  
 Partners: EU/TACIS

IR 1.3: Increased access to  
 credit by domestic enterprises  
 Timeframe: 1-5 years  
 Partners: EU/TACIS, IBRD,  
 USDA, USPC

IR 1.4: Increased access to  
 export and domestic markets  
 and contacts  
 Timeframe: 1-5 years  
 Partners: EU/TACIS, USDA,  
 UST

IR 1.1.1: Increased availability  
 of a full range of financial  
 services  
 (from the RF for SO 1.4)  
 Timeframe: 2-5 years  
 Partners: EU/TACIS, IBRD,  
 IMF, EBRD

IR 1.1.2: Improved and more  
 relevant skills for an increased  
 portion of the work force  
 Timeframe: 1-5 years  
 Partners: AUA, YSU

IR 1.1.3: Increased investor  
 confidence  
 Timeframe: 1-5 years  
 Partners: EU/TACIS (BCC)

IR 1.2.1: Improved linkages  
 for applied research and  
 development  
 Timeframe: 4-5 years  
 Partners:

IR 1.3.1: Establishment and  
 expansion of legal, real  
 property registration  
 Timeframe: 2-5 years  
 Partners: EU, EBRD

IR 1.3.2: Improved  
 management and technical  
 capacity of domestic  
 enterprises  
 Timeframe: 1-5 years  
 Partners: EU/TACIS/AFSMA,  
 USDA, USPC

IR 1.4.1: Increased access to  
 market information and  
 contacts  
 Timeframe: 1-5 years  
 Partners: EU/TACIS, USDA,  
 USTR

IR 1.1.3.1: Improved framework  
 for economic policies, commercial  
 laws and regulations and criminal  
 codes for economic activities  
 Timeframes: 1-5 years  
 Partners: EU/TACIS, IBRD, IMF

IR 1.3.1.1.1: Increased  
 indigenous capacity to  
 conduct policy and data  
 analysis  
 Timeframe: 1-5 years  
 Partners: EU/TACIS, IBRD,  
 IMF

IR 1.3.1.1.2: Increased  
 indigenous capacity to draft  
 commercial laws, regulations  
 and criminal codes; and, to  
 adjudicate commercial disputes  
 Timeframe: 1-5 years  
 Partners: EU/TACIS, IBRD, IMF

IR 1.3.1.1.3: Increased ability  
 of indigenous business  
 associations to provide  
 advocacy and policy-related  
 support services  
 Timeframe: 2-5 years  
 Partners: USDA, EU/TACIS

**Critical Assumptions**

- 1) National education system trains a highly productive labor force for markets
- 2) Increased and reliable access to energy (from SO 1.5) and other productive inputs
- 3) Growth in entrepreneurial spirit and know how

## **Strategic Objective 1.3: Accelerated development and growth of private enterprise<sup>2</sup>**

### **RESULTS FRAMEWORK NARRATIVE RATIONALE**

#### **A. Transition Hypothesis**

Economic transformation and growth in Armenia can only be achieved with a rapid expansion of private enterprise. The hypothesis underlying USAID's strategic approach towards the achievement of Strategic Objective 1.3, is if private enterprise is supported with competitive technology, capital and access to markets, then Armenia's highly educated, but largely undertrained or inappropriately trained workforce can compete in export and domestic markets. The transfer of technology and management that follows from increased investment will in turn drive an increase in productivity. A concerted effort to expand both domestic and export markets, when coupled with productivity gains, will drive the rapid expansion of private enterprise.

#### **B. Critical Assumptions**

The strategic approach being pursued by USAID in working towards SO 1.3 is founded on three critical assumptions. First, that Armenia has a comparative advantage over other labor markets because workers may be inappropriately trained, but they have a superior basic education, many scientific and technical skills and their wages are very competitive with other emerging market countries. Second, that the Nagorno-Karabach conflict and the energy and economic blockades will disappear in the next 1-2 years. Third, that Armenians can, and want to be, competitive and productive. Finally, Armenia will invest heavily in basic education to keep its labor force productive.

#### **C. Causal Linkages**

The SO Team inserted an over-arching Intermediate Result (IR 1), expanded export and domestic markets based on its determination that Armenia's best opportunity to achieve a robust market economy within the five year framework must be to quickly gain access to export markets. Although domestic markets were also deemed important, the population and purchasing power of Armenia's citizens are not sufficient in the medium term to catalyze a market economy. Achievement of Strategic Objective 1.3 is supported by four principal intermediate results. The expansion of markets is in turn causally supported by the remaining four principal intermediate results.

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<sup>2</sup> The statement of Strategic Objective 1.3 has been slightly modified by the SO Team at USAID/Armenia, from "private enterprises" to "private enterprise." This modification reflects USAID/Armenia's focus on the private enterprise sector, broadly speaking, rather than on assisting specific/individual private enterprises.

Armenia's first priority will be to make it easy to *import new, competitive technology* into the country (IR 1. 2). This is the model that other countries with transition economies used when they found themselves with highly educated workers and no markets or production. In Armenia, the Government has selected six priority sectors for export market growth: financial services (banking, insurance, trade finance, commodity and currency trading); precision engineering and electronics; agriculture and agroindustry (high value horticultural products, wine, cognac and mineral water and projects to improve agricultural output); infrastructure and utilities (energy, transport and communication); extractive and chemical industries (including mining and processing of metals, minerals and construction materials; chemical and pharmaceutical production; and, textile garment manufacturing. As Armenian-based enterprises become more competitive, they will grow and new enterprises will form, both to compete with the growing enterprises and to meet their increased demand for inputs and services. IR 1.2 is supported by one intermediate result that aims to establish and expand 'external institutional linkages in the areas of applied science, high technology, commerce, finance and agriculture, in order to improve the prospects for technology transfer.

Competitive technology requires financing from two sources--foreign investors who can also provide new technology and domestic investors who pledge collateral and cash for new enterprise to support and expand the economy. Foreign investment also brings with it existing links to external markets, a very important consideration in Armenia. Finally, by serving as models, enterprises supported by foreign investment also contribute to improvements in the management and technical capacity of domestic enterprises (this relationship is presented as a secondary causal linkage in the results framework). Three "lower" level intermediate results contribute to the achievement of IR 1.1. These focus respectively on, increasing the availability of financial services and products (an IR from the results framework for SO 1.4); improving the skills of the existing work force, and; increasing investor confidence. Progress towards these three intermediate results, together representing one of the two emphasis areas of the Mission's program in support of private enterprise, will result in an increase in the level of foreign investment flowing into Armenia. One additional intermediate result has a very strong causal relationship to progress towards increasing foreign investment - Intermediate Result 1.1.3.1, *Improved framework for economic policies, commercial laws and regulations and criminal codes for economic activities*. To establish an improved enabling environment, the policy, legal and regulatory framework is probably the most important aspect, providing the key component necessary for increasing investor confidence and, eventually, investment. It is important to note that an improved legal, policy and regulatory framework is broadly fundamental to USAID's strategic approach in support of SO 1.3 in that it is directly causally related to a number of intermediate results.

Intermediate Result 1.3, *Increased access to credit by domestic enterprises*, recognizes the need to provide capital to indigenous entrepreneurs to facilitate initial investment and operating expenses. Greater access to credit will allow for the creation and expansion of enterprises by allowing entrepreneurs to tap constrained or latent demand in the domestic

market (i.e., by supplying products or services which are currently not available domestically, or are available only in short supply, but for which substantial demand would exist if the products or services were made available). IR 1.3 is causally supported by a set of three intermediate results, two of which reflect an important area of USAID activity - reform of the property registration process. Real estate is the largest physical asset in Armenia and is severely undervalued. The establishment and expansion of a legal system for the registration of real property will permit the development of a real estate market. This will in turn allow for the valuation of property and the establishment of formal, collateral-based lending programs, thus contributing to an increase in the credit accessible to domestic entrepreneurs.

The final principal intermediate result supporting Strategic Objective 1.3 is *Increased access to export and domestic markets*. Improved access to markets, for example through membership in the World Trade Organization, increases the opportunities for private enterprise in Armenia to compete and to expand and diversify the markets to which they sell their products and services. This may involve finding new markets or reconnecting Armenia with its traditional marketing partners in the former Soviet Union.

IR 1.1.2	Improved skills for more workers.	1. # of graduates from AUA MBA programs	Definition: University graduates. (AUA source).  Unit: # of graduates.	95	49										
		2. Assessment of increased skill levels.	Definition: Skills in financial services, precision engineering, ag. And ag.-industry, infrast. and utilities, extractive and chemical industries.  Unit: Yes/No												
		2. # of graduates from applied business extension programs	Definition: Extension program graduates.  Unit: # of graduates	95	252										
		3. # of graduates from high tech. Vocational schools.	Definition: High school or voc. School graduates  Unit: # of graduates.												
IR 1.1.3.1	Improved economic policy and commercial legal and regulatory framework	1. # of key laws (set of laws to be defined) drafted/read/enacted/implemented -refer to policy matrix <sup>4</sup>	Definition: Laws regulating commercial activities.  Unit: # of laws enacted.												
		2. Key economic policies re to export market access and expansion enacted <sup>5</sup>													

of

<b>IR 1.1.3.1.1</b>	<b>Increased indigenous capacity to conduct policy and data analysis</b>	<b>1. National economic development plan is linked to the national budget process</b>	<b>Definition: Plan is implemented according to national budget.</b>  <b>Unit: Yes/No</b>												
		<b>2. MOE and MOF develop and use macroeconomic model to develop the national economic development plan</b>	<b>Definition: Macroeconomic model developed thru CEPRA.</b>  <b>Unit: Yes/No</b>												
		<b>3. Policy papers and reports used to make budget, policy and management decisions.</b>	<b>Definition: # of policy papers and reports utilized in planning process.</b>  <b>Unit: # of management and budget decisions made based on papers and reports.</b>												
		<b>4. New skills and knowledge taught thru workshops and seminars.</b>	<b>Definition: # of workshops and seminars.</b>  <b>Unit: # of workshops and seminars.</b>												
		<b>5. Economic statistical data collection and analysis by Govt. improves</b>	<b>Definition: State Dept. of Statistics develops new data collection methods and systems which are utilized by the Govt.</b>  <b>Unit: # new data collection methods or data systems.</b>												

		6. Policies changed based on new information.	Definition: # of policies improved based on research findings  Unit: # of policies changed.																	
		6. Model is utilized to forecast national income accounts.	Definition: CEPRA developed macroeconomic model for national income accounts  Unit: Yes/No																	
IR 1.3.1.1.2	Increased indigenous capacity to draft commercial laws and regulations and to resolve commercial disputes	1. Economic courts established and functioning	Definition: # of economic courts established and functioning  Unit: # of courts established to address commercial disputes.																	
		2. New codified commercial laws ratified as a percent of total laws	Definition: N/A  Unit: % increase in commercial laws.																	
		3. Commercial disputes adjudicated or arbitrated	Definition: commercial disputes adjudicated, mediated or arbitrated thru Govt. structure  Unit: # of commercial disputes adjudicated.																	

28

		4. Extension courses/curricula focusing on commercial law and dispute settlement teach lawyers, judges and others commercial laws, regulations and adjudication/arbitration of commercial disputes	Definition: # of formal extension courses/curricula focusing on commercial law and dispute settlement. (AUA courses taught by visiting legal instructor)  Unit: # of courses available.	1996	1														
		5. USAID and partners provide technical assistance and short term training for commercial law and arbitration to improve skill and knowledge of lawyers, judges and others.	Definition: # of training activities conducted by USAID and partners.  Unit: # of training activities.																
IR 1.3.1.1.3	Increased ability of indigenous business associations to provide advocacy and professional support services	1. Business associations increase	Definition: Business associations  Unit: # of business associations.																
		2. Membership in business associations increases	Definition: N/A  Unit: # of business association members.																
		3. Institute of Real Estate Studies established at YSU offering certificate program for housing sector in core curriculum	Definition: Core curriculum/activities include real estate brokerage, maintenance, insurance and housing association management  Unit: % of core curriculum taught																

29

IR 1.2	Increased transfer of technology	1. Increase in patents and licenses registered by foreigners in the six industrial sectors.	<p>Definition: # of patents and licenses registered by foreigners in the six industrial sectors.</p> <p>Unit: # of patents and licenses registered by foreigners.</p>												
		2. Utilization of new technology.	<p>Definition: Use of new technology to increase the efficiency of new or existing production systems.</p> <p>Unit: % of companies surveyed using new technology.</p>												
IR 1.2.1	Improved linkages for applied research and development	1. Research results are used to increase production capacity of enterprise.	<p>Definition: # of enterprises conducting R&amp;D.</p> <p>Unit: # of enterprises</p>												
		2. Value of signed contracts for joint R&D activities	<p>Definition: Monetary amt. Enterprises pay another institution to conduct R&amp;D.</p> <p>Unit: Monetary value of research contracts.</p>												

*de*

		3. R&D exchanges and activities in six targeted sectors increase	<p>Definition: Information exchange between R&amp;D and enterprises via workshops, conferences, field site visits.</p> <p>Unit: # of information exchanges conducted by enterprises.</p>												
IR 1.3	Increased access to credit by domestic enterprises	1. Commercial loans to domestic enterprises increases	<p>Definition: N/A. (IMF, 1996)</p> <p>Unit: Monetary value of loans obtained by domestic enterprises; # of loans obtained by domestic enterprises.</p>	95	12.73 US Mil.	39.32	-	31.6	-	36.7	-	41.6	-	50.0	-
IR 1.3.1	Establishment and expansion of legal real property registration	1. Properties registered increases	<p>Definition: # of properties registered under unified cadastral survey</p> <p>Unit: # of properties registered.; % of properties registered.</p>												
IR 1.3.2	Improved management and technical capacity of domestic enterprises	1. Loan applications made by private domestic enterprises to licensed commercial banks increases	<p>Definition: # of loan applications made by private domestic enterprises</p> <p>Unit: # of loan applications.</p>												
		2. Loans approved by domestic enterprises increases	<p>Definition: # of loans approved by domestic enterprises</p> <p>Unit: # of loans approved.</p>												

		3. Housing sector support services transferred from public to private sector	<p>Definition: Housing sector support services include housing management, maintenance and repair, brokerage and insurance</p> <p>Unit: # of housing units serviced by private sector</p>																
IR 1.4	Increased access to export and domestic markets	1. Membership in the World Trade Organization	<p>Definition: N/A</p> <p>Unit: Yes/No</p>																
		2. Formal expressions of interest from foreign buyers increases	<p>Definition: MOUs; contracts; consignments</p> <p>Unit: # of expressions of interest made to Embassies and Ministries.</p>																
		3. Industry-financed promotions in six targeted sectors increases	<p>Definition: industry-financed promotions</p> <p>Unit: # of industry-financed promotions.</p>																
IR 1.4.1	Increased access to market information	1. Information services for six targeted sectors increases	<p>Definition: Number of information services for six targeted sectors increases</p> <p>Unit: # of information services by sector.</p>																

1. Volume of production will be measured by tracking, for example, orders, construction starts, inventory drawdowns, etc.; this information should be included in the definition for the indicator

2. Joint venture and direct investment opportunities tracked by the S.O. team and priorities of the govt. include: financial services (banking, insurance, trade finance, commodity and currency trading); precision engineering (electronics); agriculture and agroindustry (including food production and processing, particularly fruit, wine, cognac and mineral water, and projects to improve agricultural output); infrastructure and utilities (energy, transport and communication); extractive and chemical industries (including mining and processing of metals, minerals and construction materials; chemical and pharmaceutical production from local and imported feed-stocks); and, textile and garment manufacturing.

3.SO Team is exploring the possibility of procuring net capital inflow data disaggregated by investment and consumption.

4. The current priority regarding the economic policy, legal and regulatory framework (PLR) includes the following commercial laws which are included in the draft Civil Code: Contracts and their enforcement; types of legal entities, e.g., definition of persons and companies; types of property and ownership rights; and, mortgage and security. Other laws may include commercial laws relevant to trade and investment, e.g., intellectual property.

5.Key economic policies for export markets include: protection of intellectual property rights; tariff rates and structures; sector studies. Economic policy analyses for initial 1-3 years will focus on economic policy analysis required for accession to the World Trade Organization.

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

RESULT LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	1996		1997		1998		1999		2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.3	Accelerated development and growth of private enterprise	1. Private sector share of income in Yerevan increases	Definition: Share of income from private sector in Yerevan.  Unit: % change income attributed to private sector in Yerevan. (CEPRA survey since 1/96.)	95	57%	60%	-	60%	-	70%	-	75%	-	80%	-
		2. Private sector share of employment increases	Definition: Share of private sector to public sector employment.. (IMF, 1996).  Unit: % change in private sector employment.	95	30%	35%	-	40%	-	45%	-	50%	-	55%	-
IR 1	Expanded export and domestic markets	1. Value of exports, in real terms increases	Definition: Value of exports. (CEPRA projects 15% increase per year).  Unit: Monetary amt.	95	196.8 US Mil.	226.	-	259.	-	296	-	340	-	394	-
		2. Value of private sector exports, in real terms increases <sup>1</sup>	Definition: Monetary value of exports. (IMF, 1996).  Unit: Monetary amt.	95	30%	40%	-	50%	-	60%	-	65%	-	70%	-

		3. Value of VAT for selected commodities and/or subsectors increases	Definition: Monetary amt. added. (6% increase per year projected). (IMF, 1996).  Unit: Monetary amt.	95	32.8 US Mil.	34.0	-	36	-	38	-	40	-	42	-
IR 1.1	Increased foreign investment	1. Net annual increase of foreign Armenian partnerships and companies formed <sup>2</sup>	Definition: Foreign and Armenian partnerships and companies formed. (CEPRA data for 1995 figure dated 11/95)  Unit: # of agreements and founding documents for companies.	95	125	150	-	160	-	170	-	180	-	190	-
		2. Value of capital goods imports increases <sup>3</sup>	Definition: Monetary value of imported goods. (Ministry of Finance).  Unit: Monetary amt.	94	462,500. US Mil.										
		3. Business licenses issued increases.	Definition: Licenses issued by govt.  Unit: # of licenses.												
IR1. 1.1	Increased availability of a full range of financial services	1. Financial institutions offer a selected set of financial services (NOTE: refer to IR 3 for SO 1.4)	Definition: Services include credit, saving accts., currency exchange, bank to bank monetary transfers.  Unit: % of banks offering services.												

### **1.3 NARRATIVE ASSESSMENT OF PERFORMANCE:**

#### **Overall Progress:**

Armenia's economy suffered, as did other FSU countries, after independence in 1991. Hyperinflation, loss of markets, depressed industrial output with consequential unemployment and underemployment of about 80 percent, collapse of government services sectors and no viable banks, the Nagorno-Karabkh war and a trade, transport and energy blockade by Azerbaijan and Turkey wreaked havoc with the economy and society. Beginning in January, 1994 balance of payments support to the Government provided by the IMF and the World Bank, including massive humanitarian assistance provided by the United States and other donors, helped to ensure macroeconomic stability and institutional reform became possible. One foresighted reform was the equitable distribution of more than 60 percent of Armenia's arable land and most of the farm machinery and livestock to the country's citizens even before independence in 1991. Although agriculture is close to subsistence levels, agriculture accounts for about 56 percent of GDP and employs 80 percent of Armenia's rural citizens. Housing stock was also privatized early on, and this has provided USAID a basis for legal reform of commercial law and the development of viable financial institutions based on collateralized lending.

While macroeconomic performance has improved and stabilized, microeconomic performance has not. Production has declined to less than 20 percent of the levels before independence and up to three-fourths of private sector transactions occur in the informal economy. There is no doubt that new businesses are starting up and there is an increase in personal wealth--but about 10 percent of the citizens of Yerevan, for example, control about 48 percent of the city's wealth, making Yerevan's income distribution equivalent to Malaysia and Argentina. Armenia's archaic trading mentality is working well, however, Armenians are trading unused industrial plant facilities for consumer goods which has resulted in short-term profit taking. This may be the best use of worn-out, energy-inefficient capital plants, however profits and savings from the informal private sector are not finding their way into banks for further investment in legitimate business activity.

The absence of a commercial legal and regulatory framework and a viable commercial financial sector remain as large impediments to accelerated growth and development of private enterprise. The discussion of financial markets is covered in SO 1.4. While the framework for commercial legal reform is included in Armenia's draft Civil Code, the basic laws which govern business and commercial transactions will need to be developed quickly to encourage domestic reinvestment in legitimate business activity and corollary foreign investment. Commensurate with commercial laws and regulations is the need to adjudicate commercial disputes.

The Ministry of Economy established recently a "trade point" which is designed to assist foreign investors and domestic firms with products and services. Much more market

information and trade development and promotion is needed to put new markets within reach of Armenian entrepreneurs.

### **USAID's Significant Contributions:**

The expansion of export markets and corollary domestic markets is the primary focus of all USAID technical assistance under this Strategic Objective. In October 1993, USAID began a business development program that provided business management education and association-building that was dropped from the program in early 1995. USAID soon discovered that it was a wasted effort to try to jump-start a market economy in the absence of markets, especially financial ones. USAID began a three-pronged approach in early 1994, about the time that the IMF and World Bank reform conditionalities began to take hold to stabilize the macroeconomy. In, 1995, USAID opened Armenia's first commercial lending facility; loans were disbursed to small and medium businesses at market rates for the first time in recent history. This small and medium enterprise lending program works through viable commercial Armenian banks, which also strengthens the ability of the partner banks to market other lending programs. To develop the basis for collateralized lending, USAID assisted new apartment owners to organize associations and pay for housing maintenance and repairs through fees. The registration of new housing associations and building maintenance firms has proceeded rapidly. The enactment of Armenia's first market-oriented real property law in January 1995 provides the basis of legal ownership, rights and responsibilities. Now, USAID and the World Bank have begun efforts to develop a property registration program which will strengthen lending as owners pledge collateral for business loans.

USAID enlisted the support of its technical assistance PVOs, the Peace Corps and the USAID-funded USDA extension program to focus on markets and to support collateralized lending. Now, the major focus of technical assistance is to increase the number of credit-worthy entrepreneurs and small business loans. This refocus on credit-worthiness (vs. providing general business "advice") has contributed to greater clarity of purpose as we dialogue with PVOs, government and business leaders.

### ***Expected progress by 1997:***

- *Technical assistance leads to the adoption of economic policies which establish an investment climate that favors Armenian produced goods and services, utilizing the country's highly-skilled labor force. By 12/97 the Government will choose to build or repair infrastructure which favor its export policies, enact and enforce fairly internationally-accepted business laws and regulations, and effectively solicit foreign investment and technology, concentrating on industries and services where domestic resources have a comparative advantage. Private firms begin to compete successfully in export markets by 12/97 with an anticipated 15% annual increase each year thereafter.*
- *Commercial laws, regulations and procedures that includes but is not limited to sales*

*contracts, commercial paper, bank deposits, letters of credit and documents of title, definition of persons and companies, mortgage and security are enacted by 12/97.*

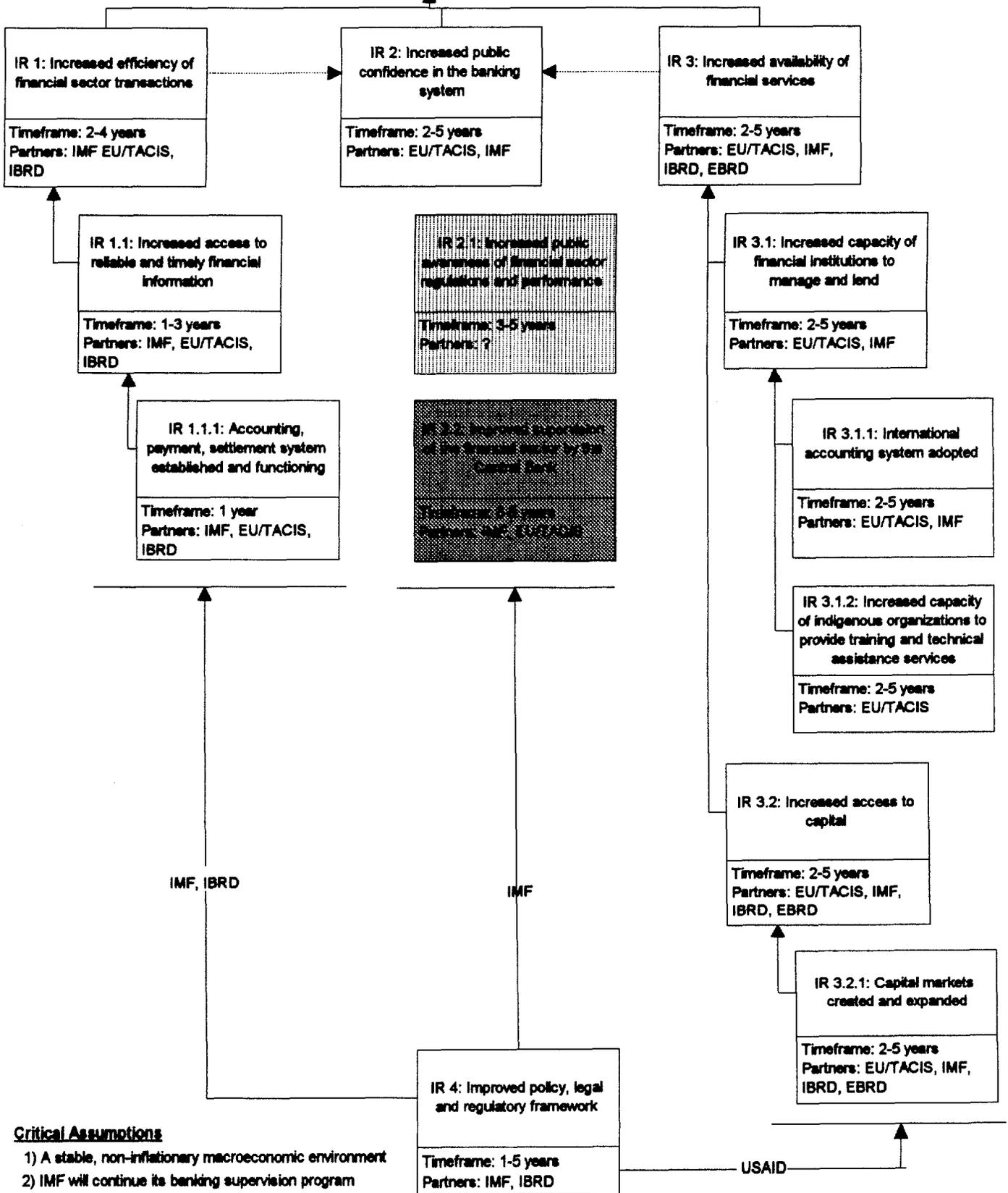
- *Enabling legislation will be enacted and the institutional capacity to register land and real property will be established. By 12/97 an effective property tax administration and a real estate market will operate as evidenced by a system that officially records title transfers. Commercial banks will use deeds as collateral for lending. The property registration system will support both the initial land allocation process and on-going real estate market operations. The information in the system will be readily accessible to the public; registration of properties should be prompt; and, modest fees will be charged for the service. The enactment of legislation requiring the certification of real estate brokers by professional peers and/or licensure with associated training programs, will occur by 9/97. The licensing of building contractors will take place by 9/97.*

#### ***Expected Program Impact by 2000***

- *The Government's policies and institutions will begin to reflect the realities of the external markets in which Armenia must compete, setting the stage for the rapid import of new technology to put its skilled labor force back to work.*
- *Armenia having gained accession to the World Trade Organization in early 1997 will then be in a position to establish a favorable trade regime with western markets possessing technology it needs for the production of high technology, financial services, light manufacturing and the export of high-value horticultural products. USAID's trade and investment program will assist U.S. and Armenian firms by continuing to reform and/or deepen the policy, legal and regulatory framework in a manner that will continue to promote and sustain the growth of the export sector. The program will also assist both government and the private sector to establish external institutional linkages in the areas of applied science, high technology, commerce, finance and agriculture in order to enhance an export led growth strategy.*
- *Armenia will direct its spending on capital projects to rehabilitate infrastructure to stimulate economic activity which supports its comparative advantages.*
- *The development of a formal real estate market will convince citizens and government that markets work: home and land owners will begin to trust a system that guarantees rights to the use of property; banks will increase lending because they can collateralize loans and foreclose; loan reflows will increase investor confidence and external investment; and, Government will increasingly generate revenues from property taxes based on a system of tax laws and procedures that are applied fairly.*

**Strategic Objective 1.4**  
A more competitive and  
market-responsive financial sector  
Timeframe: 2-5 years

 No USAID Resources  
 No USAID or Partner Resources  
(projected as potential area of  
future USAID involvement)



**Critical Assumptions**

- 1) A stable, non-inflationary macroeconomic environment
- 2) IMF will continue its banking supervision program

## **Strategic Objective 1.4: A more competitive and market-responsive financial sector**

### **RESULTS FRAMEWORK NARRATIVE RATIONALE**

#### A. Transition Hypothesis

Economic expansion and income growth are critically dependent upon the mobilization of savings and the ability of financial institutions to function as efficient intermediaries between savers and investors. The SO Team believes that an efficient financial sector that offers a full range of financial services can attract increased levels of both domestic and foreign investment. Investment that moves through intermediary financial institutions will lead to more rapid transfer of technology, increased productivity and eventual sustained economic growth. USAID's efforts in support of Strategic Objective 1.4 are based on the hypothesis that if there is an increase in the efficiency and viability of private and market-responsive financial institutions, then there will be a growth in public confidence in the banking system and an expansion of credit for legitimate business development and availability of financial services and products--both are needed if Armenia's financial sector is to facilitate an expanding economy.

#### B. Critical Assumptions

Two critical assumptions underlie the achievement of Strategic Objective 1.4: that a stable non-inflationary macroeconomic environment persists in Armenia; and that the IMF will continue its banking supervision program. Both assumptions contribute to public confidence and the availability of financial services and products. The second assumption, that, is more narrowly related to the potential for increasing public confidence in the banking sector. The IMF's bank supervision program has particular significance as it is the only current activity, supported either by USAID or its partners in this area, that addresses the critical public confidence constraint. USAID is considering a range of potential future activities that would also aim to increase public confidence, e.g., assistance to provide public education on banking functions in a market economy, publication of fiduciary financial statements and professional standards for commercial bank officers and managers.

#### C. Causal Linkages

As outlined in the preceding discussion, three intermediate results directly support the achievement of Strategic Objective 1.4. The first of these, *Increased efficiency of financial sector transactions*, reflects both the technical and economic inefficiencies which exist in Armenia's financial sector today. In order for the financial sector to be "market-responsive," it must be able to settle transactions and make payments to customers in a timely and accurate manner. Two intermediate results contribute to progress towards more efficient financial transactions: improved access to reliable and timely information and the

installation of a state-of-the-art electronic payment system, a centerpiece of USAID/Armenia's financial sector portfolio.

Intermediate Result 2, *Increased public confidence in the banking sector*, points to a result that is relevant to the achievement of many of USAID's strategic objectives. Within the context of SO 1.4, public confidence is crucial because without it, revenue will not flow into financial institutions or into the sector as a whole. Whether it be in the form of savings (including remittances), loan reflows, etc., money must consistently flow into the financial sector if the sector to become deeper and broader and thus better able to serve the needs of a growing economy. Perhaps the primary determinant of the rate at which savings flow into financial institutions is public confidence. Directly contributing to IR 2 are three "lower" level intermediate results, none of which are supported by USAID resources. Perhaps the most important of the three is IR 2.2, which focuses on improving supervision of the financial sector. As stated previously, USAID is considering medium-term options for addressing additional components of the public confidence equation.

A financial sector cannot be competitive or market responsive if it does not offer an adequate number and variety of financial services and products. Intermediate Result 3, *Increased availability of financial services and products*, explicitly captures the need to expand the range of services available to enterprises, investors and depositors. Without a threshold level of investment, borrowing and savings options, potential actors will not enter the financial marketplace. Intermediate Results 3.1 and 3.2 address the two major obstacles which currently limit the availability of financial services. IR 3.1 aims to increase the capacity of financial institutions to manage and lend, while IR 3.2 focuses on increasing capital flows into the sector through the creation and expansion of capital markets.

A fourth intermediate result, though it does not have a direct causal relationship with the SO, is equally as critical to the achievement of the SO 1.4, *Improved policy, legal and regulatory framework*. Intermediate Result 4, contributes to the achievement of intermediate results in all three "stems" of the results framework and forms the foundation upon which the Mission's strategic approach to financial sector strengthening is built. New banking laws which may require USAID and other donor assistance include financial disclosure (sunshine laws), share registries, collateral, prudential normatives and secured transactions.

		2. Financial institutions meet or exceed threshold of prudential normatives of CBA	Definition: # (or %) of financial institutions which meet or exceed threshold of prudential normatives  Unit: #/% of financial institutions												
IR 3.1.1	International accounting standards adopted	1. Govt. decree estab. Natl Acctg Board (NAB) to set acctg stds and acctg. profession.	Definition: Decree enacted  Unit: yes/no												
		2. Estab. natl. acctg stds.	Definition: International acctg stds  Unit: % stds. enacted	95	--	25%		50%		65%		75%			
		3. Continuing education program implemented through AUA by Natl. Acctg. Board	Definition: Core courses developed, tested and taught  Unit: % of core curriculum implemented	95	--	25%		50%		75%		100%			
		4. Audit stds. estab.	Definition: Audit stds issued by NAB  Unit: % stds. enacted	95		25%		50%		75%		100%			
		5. Commercial banks convert acctg. stds to intl... acctg stds.	Definition: International acctg stds fully implemented in commercial bank operations  Unit: % of banks implementing stds.	96	--			10%		50%		75%		100%	

		6. Commercial banks produce and publish audited financial statements in accordance with international standards	Definition: # of commercial banks which produce and publish audited financial statements in accordance with international standards  Unit: # of banks															
IR 3.1.2	Increased capacity of indigenous organizations to provide training and technical assistance services	1. Estab. of continuing education program providing training in basic and advanced bank operations and management (defined by a threshold core curriculum)	Definition: Core curriculum: Cost accounting, financial analysis, business management, purchasing, pricing and marketing.  Unit: % of core curriculum implemented through continuing education															
		2. Increase in bank officers certified in specific core banking service and management skills by profession	Definition: # of banking officers and others certified in specific core banking service and management skills  Unit: # of persons	95	0													
IR 3.2	Increased access to capital	1. Off-shore funds in commercial Armenia banks increases	Definition: Value of off-shore funds in commercial Armenia banks increases  Unit: Monetary amount															
		2. Aggregate value of investment funds and loans increases	Definition: Year-end aggregate value of investment funds and loans increases  Unit: Monetary value of net assets															

IR 3.2.1	Capital markets created and expanded	1. Market-oriented investment funds increase	Definition: # of investment funds in operation  Unit: # of investment funds											
		2. Types of investment funds available to investors increase.	Definition: # and types of investment funds available to investors.  Unit: # investment funds available											
IR 4	Improved policy, legal and regulatory framework	3. Banking laws support competitive private financial markets	Definition: Laws to be monitored: financial disclosure, (sunshine), share registries, collateral, prudential normatives, secured transactions  Unit: Laws enacted.											
Comments/Notes:														

**PART II: PERFORMANCE ASSESSMENT**

**Table 1 - Performance Data**  
**Baseline, Targets and Actual Results**

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

RESULT LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1996		1997		1998		1999		2000		
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
SO 1.4	A more competitive and market-responsive financial sector	1. Value of financial sector assets (or services) increases	Definition: Liquid and fixed assets and gross revenues from financial services  Unit: Monetary value													
		2. Financial sector assets as a % of GDP increase	Definition: Financial sector assets as a % of GDP  Unit: % of GDP.													
		3. Increase in company shares traded on domestic stock exchanges	Definition: # of shares traded on domestic stock exchanges  Unit: # of share .	95	0											
		4. Local areas with sufficient access to financial/banking services	Definition: Local areas with sufficient access to financial/banking services at affordable fees or interest rates  Unit: # of districts.													

		5. Banks operating in compliance with capitalization and prudential normative requirements of the CBA.	<p>Definition: # of banks operating in compliance with capitalization and prudential normative requirements.</p> <p>Unit: # of banks; and as % of total licensed banks</p>																
IR 1	Increased efficiency of financial sector transactions	1. Average number of days to clear commercial bank transactions decreases	<p>Definition: Average number of days to clear commercial bank transactions; EPS</p> <p>Unit: # of days</p>																
		2. Commercial banks use the electronic payments system (EPS)	<p>Definition: Fee revenues collected by CBA from commercial banks use of the EPS for accounting, payments and settlement of commercial accounts (EPS)</p> <p>Unit: Annual fees</p>																
		3. Commercial banks use the EPS for overnight capital markets	<p>Definition: EPS of the CBA for commercial banks</p> <p>Unit: # of commercial banks</p>																
IR 1.1	Increased access to reliable and timely financial information	1. Financial information is available through the EPS for commercial banks	<p>Definition: Requests for financial information available through the EPS</p> <p>Unit: # of requests or description of services available/services used</p>																

4

IR 1.1.1	Accounting, payment, settlement system established and functioning	1. Commercial banks use the EPS	Definition: # of subscribers (financial institutions) linked to the EPS  Unit: # of subscribers												
		2. Volume of inter-bank payments increases	Definition: Volume of inter-bank payments--domestic and foreign  Unit: Monetary amount												
IR 2	Increased public confidence in the banking system	1. Deposits in commercial banks--personal and commercial increases	Definition: Value of deposits in commercial banks--personal and commercial.  Unit: Monetary amount												
		2. Commercial bank accounts - commercial and personal--increases.	Definition: bank accounts - commercial and personal.  Unit: # and monetary amount												
		3 Annual interest rates for deposits reflect market rates.	Definition: Ave. annual interest rates for short, medium and long term lending by licensed commercial banks  Unit: Interest rate	95	<0										

		4. Commercial lending at affordable interest rates increases	<p>Definition: Est. value of total commercial lending at affordable interest rates</p> <p>Unit: Monetary amount</p>												
		5. Short, medium and long term loans available for qualified entrepreneurs and firms	<p>Definition: # of commercial loans approved and dispersed-(less than one year; greater than one year and less than three; greater than 3 years equal to or less than five.)</p> <p>Unit: # of loans</p>												
		6. Interest paid out by commercial banks increases	<p>Definition: Total est. value of interest paid out by commercial banks</p> <p>Unit: Monetary amount</p>												
IR 3	Increased availability of financial services	1. Commercial banks offer basic financial services	<p>Definition: # of banks offering basic set (to be defined) of financial services</p> <p>Unit: % of basic services available.</p>	95	0										
IR 3.1	Increased capacity of financial institutions to manage and lend	1. banks meet basic international banking management standards.	<p>Definition: % of licensed banks which meet basic international banking standards.</p> <p>Unit: % of banks</p>	95	10%										

## **1.4 NARRATIVE ASSESSMENT OF PERFORMANCE:**

### **Overall Progress:**

There is presently very little confidence in the banking system. During 1993 and 1994, several "Ponzi" schemes resulted in depositor runs, and about two-thirds of all commercial banks were dissolved by the Central Bank. More than two-thirds of all commercial banks in Armenia have less than \$1 million dollars in capital assets. The Central Bank of Armenia (CBA) is the most important Government financial institution working towards economic restructuring at this time. The CBA has been completely restructured: enthusiastic, knowledgeable officers enforce existing bank laws and regulations and continue to nudge weak banks out of business. The installation of a modern electronic payments system will become the basis to communicate accounting, payments and settlement decisions among domestic banks and to corresponding banks overseas. There is hope that the electronic payments system which will operate throughout Armenia by the end of 1996 will become the model of the FSU and could be used to train other country's banking sectors.

However, reform in the commercial banking sector is minimal at this time. Commercial banks are undercapitalized and their officers are undertrained. A large portion of commercial banks' assets are fictional or underperforming. The IMF and the World Bank have placed priority on strengthening banks' capital base by revising loan-loss regulations for write-offs and stopping dividend payments from unrealized gains or from banks that do not meet prudential requirements. Work continues to improve the legal framework for banks, however, financial legal reform is not well-coordinated between the Government and the National Assembly, exacerbated by the general lack of knowledge about market-oriented bank laws and regulations.

Real interest rates for commercial loans remain high (30-40 %/month) and short term, and commercial banks still require 100 percent or more in highly-liquid assets as collateral. Hence, the informal sector continues to be the lender of choice. However, real interest rates should decline in the next three to five years as monetary policy tools and legal reforms begin to take effect and commercial bank officers increasingly learn market-oriented bank management and lending procedures. Banks, depositors and lenders will soon need a system of economic courts to provide lenders, savers and borrowers with legal recourse. Finally, the commercial banks must convert to international accounting systems to comply with central bank prudential requirements, conduct financial transactions with foreign corresponding financial institutions and carry-on domestic banking operations in a more accountable and transparent manner.

Midland Bank of Hong Kong opened a commercial branch in Yerevan in early 1996--savings deposits for the first week exceeded \$600,000, mostly from small depositors. Therefore, it appears that gaining public confidence is possible if western banking services

are offered. Midland will focus on financial services (e.g., savings deposits, ATM); and lending will commence in the future.

**ENI's Significant Contributions:**

USAID, the European Union and the World Bank have cooperated to design and implement a modern electronic payments system for the Central Bank and the commercial banks. The payments system should be fully operational within Yerevan's commercial banks by mid-1996 and throughout Armenia by the end of 1996.

A USAID-funded grantee opened Armenia's first commercial lending facility in Armenia in August 1995 for small and medium-sized enterprises. To date approximately 20 loans worth \$400,000 have been made to manufacturers and agroprocessing firms. USAID's program works through two commercial banks, thus strengthening management skills and providing lending experience to bank officers; additional banks will be added as loan reflows permit expansion.

A USAID-funded contractor began implementation of the conversion of the Soviet-era accounting system to an internationally accepted accounting system in 1996. Under its program, USAID and the Ministry of Finance will design, install and test accounting practices and supporting automation systems and rules which comply with codified international practices. USAID's program will cooperate with the IMF's accounting system which is being installed concurrently in the Central Bank. Accounting conversion training will include selected state-owned and privatized enterprises to provide a full range of clients and further testing of the accounting model and training materials.

USAID began a commercial bankers' training program in 1994. This bankers' training program was premature in that the market-oriented reform instituted by the CBA was not in full-effect and the amount of investment capital to lend was virtually nil. In 1996 USAID will redesign its bankers' training program to focus on commercial lending and other financial services to be provided by commercial banks, now that the Central Bank can provide the necessary prudential support and control of the commercial banking sector.

***Expected Progress by 1997:***

- *Value of financial sector assets (or services) will increase 5-10% by 12/96; the value of off-shore financial investment as a total of all financial sector investment funds will increase by 10% by 12/96.*
- *All commercial banks within the EPS network will meet by 12/96 the requirement to clear commercial transactions utilizing the EPS; three working days is the Government target, but this may not be possible until 1998. 50% of commercial banks subscribing to the EPS will request and utilize financial markets information available through the*



system by 12/96. 25% of commercial banks subscribing to the EPS will use the system for overnight capital markets.

- *The commercial banks involved in training on accounting conversion will adopt internationally accepted accounting system by 9/97; and, the GOA will fully adopt the IMF Chart of Accounts by 1/97.*
- *Fifty percent of all commercial banks who receive training and other technical assistance will offer basic western banking services including savings instruments and risk lending at affordable market rates by 12/97.*
- *Two-thirds of all commercial banks having participated in the training on the new systems of portfolio management and lending procedures will be in compliance with Central Bank prudential requirements by 12/97.*

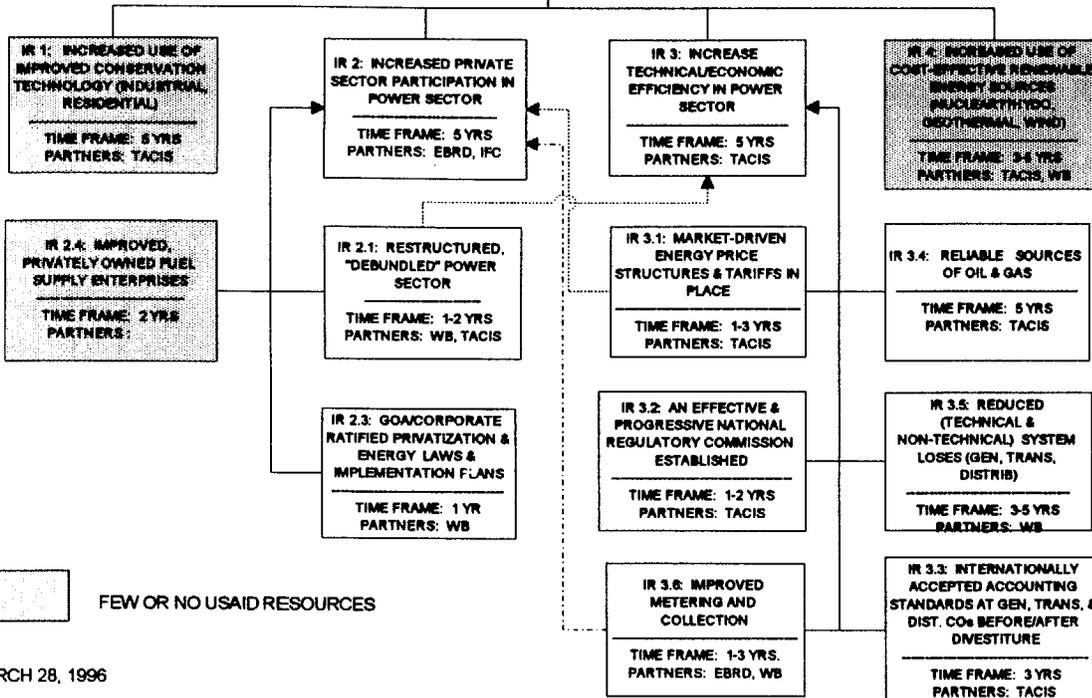
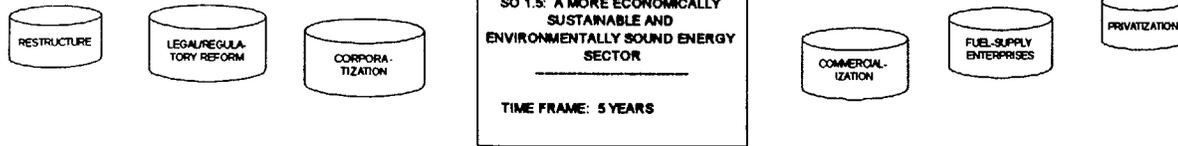
*Several targets for 1997 are ambitious and could be extended into FY98. With additional funds available for banker training a more extensive training program could be implemented. In addition, subsequent to the implementation of the accounting conversion and banker training, USAID could address bank regulation, tax issues, and training of regulators, thus leading to more viable, efficient commercial bank operations.*

#### **Expected Program Impact by 2000.**

*It is expected that USAID activities in support of competitive financial markets will have contributed to improving the enabling environment for the growth of private enterprise. Access to credit by domestic enterprises at affordable market rates and a full range of financial services and products at competitive prices will result in increased confidence in the commercial banking sector and increased investment in industry, agriculture and business oriented services.*

*After 9/97, USAID plans to expand its bankers' training program and will also seek to attract western banks to establish operations in Armenia. As private investment increases USAID will develop a trade and investment program to assist Armenian businesses import technology and management from the United States to enhance their productivity and competitiveness in external markets. Increasingly, foreign businessmen residing in Armenia will become the major source of both technical assistance and capital to enhance Armenia's comparative advantage in both production and external trade.*

ARMENIA SO 1.5: ENERGY



CONSTRAINTS AND PROBLEMS

SYSTEMIC

1. ABSENCE OF IN-COUNTRY SOURCES OF FOSSIL FUELS (POWER SYSTEM AND LONG-TERM COST STRUCTURE?);
2. LIMITED AND/OR PROBLEMATIC ALTERNATIVE ENERGY SOURCES (ENVIRONMENTAL IMPACT AND HIGHER COST STRUCTURE OF ALTERNATIVES?);
3. LACK OF ECONOMIC DEMAND DUE TO DEINDUSTRIALIZATION (COUNTRY C BELOW GENERATION CAPACITY BUT CAPITAL ASSETS RAPIDLY DETERIORATE);
4. COST-INCOME DISTORTION (LEGACY OF SOVIET SYSTEM NOW WELL ENG...)

RELATED TO CURRENT CRISIS

1. CUSTOMER NON-PAYMENT;
2. POWER RATIONING;
3. "UNOFFICIAL" DISTRIBUTION PRIORITY POWER ABUSE, I.E. "LEFT U...";
4. TARIFFS;
5. LACK OF METERING;
6. MANAGEMENT SKILL BASE.

PARTNERS

ARMENERGO  
ARMGAS  
MINISTRY OF ENERGY  
MINISTRY OF ECONOMY  
MINISTRY OF FINANCE  
OFFICE OF PRIME MINISTER

WORLD BANK  
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT  
EJ/TACIS

FEW OR NO USAID RESOURCES

MARCH 28, 1996

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**Strategic Objective 1.5: A More Economically Sustainable and Environmentally Sound Energy Sector**

**RESULTS FRAMEWORK NARRATIVE RATIONALE**

A. Transition Hypothesis

While the Armenian power sector is past the crisis mode of operation that characterized 1992-1994, it is now entering into an important phase of developing and implementing short- to mid-term energy policy. The Mission believes that the restructuring steps being taken by the Ministry of Energy should continue to be supported by USAID and its implementing contractors. The hypothesis guiding USAID's activities in the energy sector emphasizes the need to support its commercialization and privatization efforts while simultaneously providing the Ministry with the hardware and systems for improving its technical and economic efficiency focusing on increasing the collection of revenues.

B. Critical Assumptions

USAID's approach to achieving SO 1.5 is based on one assumption. It is that the energy sector is fundamentally capital intensive and USAID's financial resources can only offer limited support for commodity procurements. USAID needs to focus primarily on providing technical assistance (T.A.) in areas mutually agreed with the Ministry of Energy or on leveraging loans/grants from other multilateral organizations such as the World Bank and EBRD. It is important to note however that USAID's ability to fund even partial commodity assistance is important because: a) it is appreciated by the Armenian government; b) it often provides critical as well as valuable task jump-starts (e.g. funds for meters); and c) this type of assistance differentiates USAID from other organizations only providing T.A. (such as EU/TACIS for example).

C. Causal Linkages

The results framework for Strategic Objective 1.5 reflects four principal intermediate results necessary to the achievement of the SO. The first intermediate result, *Increased Use of Improved Conservation Technology*, addresses the problem of inefficient use of energy in industry, commerce, and residences due to poor maintenance, outdated technology, and relatively low tariffs combined with poor collection rates. Intermediate Result 1 is further supported by a set of intermediate results which will result in the enactment of a Energy Efficiency Law; reductions in energy use based on the elasticity of higher electricity prices, the results of a model task which will monitor the results of installing energy saving equipment and measures in 6 selected industrial sites. USAID funded the analysis and procurement of the equipment and is working closely with an EU/TACIS contractor in monitoring the results. USAID is working closely with the World Bank and the Ministry of Energy to gradually incorporate different elements (O&M, debts, etc.) in calculating tariffs.

Such changes will result in recovering perhaps 60-70 percent of operating costs at the retail and wholesale levels.

Intermediate Result 2, *Increased Private Participation in the Power Sector*, highlights the need for the Ministry of Energy to obtain new sources of capital investment, management know-how and to decrease state subsidies to the ailing power sector. Privatization can assist in catalyzing this and will require *two other intermediate results: a restructured, "unbundled" power sector and ratified laws related to privatization and other actions in the energy sector*. The Ministry of Energy has already completed the first phase of restructuring by splitting Armenergo into generation, transmission, and distribution companies. Additional support is needed to complete and consolidate this process. An enacted energy law will provide the framework for additional subsector laws, provide a basis to boost investor confidence, and commit the GOA to establishing an independent regulatory agency. At this time, USAID is not providing resources to *improve privately owned fuel supply enterprises* although it may be an area of interest in the future.

*Increased Technical/Economic Efficiency in the Power Sector*, Intermediate Result 3, reflects the need to seriously review and address technical and economic issues affecting reliable service. It is based on six intermediate results: *market driven energy tariffs in place; an effective and progressive regulatory agency; reliable sources of oil, gas, and other fuels; reduced technical and non-technical system losses; improved metering and collections; and implementing internationally accepted accounting standards in the generation, transmission, and distribution companies*.

*Increased Use of Cost Effective Renewable Energy Sources* is Intermediate Result 4. It focuses on the need to increase the energy mix in Armenia with environmentally safe renewable energy sources. USAID is providing engineering and financial technical assistance in preparing detailed data on hydro power plants most likely to qualify for multilateral loans from the EBRD and World Bank. USAID sees this as an area for increased future development.

ARMENIA SO 1.5 - Energy

PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

RESU LT LEVE L	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BESELINE DATA		TARGETS AND ACTUAL RESULTS									
						1996		1997		1998		1999		2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 1	Increased use of improved conservation technology	1. Enactment of draft energy efficiency law.	Definition: Passage of law  Unit: yes/no	1996	yes/no	n/a	n/a	yes		n/a	n/a	n/a	n/a	n/a	n/a

		<b>2. Model conservation program showing positive results</b>		1995	yes	1996	Draft	12/96	-								
		<b>Industrial Cite the companies</b>															
		<b>Wetherazation</b>															
		<b>3. Reduction based on elasticity of price</b>	<b>Definition:</b>  reduction In consumption of electricity over 1995  <b>Unit:</b>  %	1994	Val.of Prod/unit Fuel	1996	n/a			Prod/i nit fuel (1)							

IR 2	Increased private sector participation in power sector	1. Increased number of independent power producers (IPPs)	Definition: Increase in IPPs compared with 1995  Unit: %	1995  1995	1,400  1	n/a	n/a  0	1,350  1							
		2. Increased spin-offs of partial divestitures.	Definition: Increase of SOEs partially divested using 1995 as base year  Unit: %	1995	0	10		19							
		3. Increased spin-offs of full divestitures.	Definition: Increase of SOEs fully divested using 1996 as a base year Unit: %	1996	0	n/a	n/a	33							
IR 2.1	Restructured "debundled" power sector	1. Generation companies to be formally transformed into Joint Stock Companies (JSC)	Definition: Increase in Gen companies which became JSCs using 1996 as a base year  Unit: %												
		2. Distribution facilities to be consolidated and transformed into JSC.	Definition: Increase in distr companies which became JSCs using 1995 as a base year  Unit: %	1996	54	10									

IR 2.3	Ratified privatization & energy laws & implementation plans	1. Enactment of draft energy law.	Definition: enactment of law  Unit: yes/no	1995	yes	yes									
		2. A GOA commitment to support law reflected in an MOU committing resources to implementation	Definition: MOU  Unit: yes/no	1996	yes	n/a	n/a	yes							
IR 2.4	Improved corporate fuel supply enterprises	1. Armgasprom to be restructured into transmission and distribution companies	Definition: Formation of 2 companies (trans, distribution)  Unit: number of companies formed	1996	n/a	n/a	2								
		2. Increased spin-offs of partial divestitures at Armgasprom.	Definition: increase in number of spin-offs over 1996  Unit: %	1996	0	n/a	n/a	3*							
		3. Increased spin-offs of full divestitures at Armgasprom.	Definition: Number of spin-offs over 1996	1996	1,100MW	1,150		1,300							
IR 3	Increase technical and economic efficiency in the power sector.	1. Increased % in operational capacity of generation	Definition: increase in capacity using 1995 as a base year  Unit: %												
		2. Increased generation per unit cost of fuel.	Definition:  Unit: %												

IR 3.1	Market-driven energy price structure & tariffs in place	1. Increase % recovery of operating costs as a result of tariff reforms	Definition: increase in recovery of operating costs over 1996 (base year)  Unit: %	1996	%	(O&M )									
IR 3.2	Effective & progressive national regulatory commission	1. Formal establishment of a regulatory commission.	Definition: decree enacted  Unit: yes/no												
		2. MOU identifying resources and time frame for implementation of regulatory commission.	Definition: MOU signed  Unit: yes/no												
IR 3.3	Internationally accepted accounting standards at gen, transm., & dist. co's before and after divestiture.	1. Increase % of gen. & dist. co's adopting IAAS.	Definition: percent of population adopting acctg standards  Unit: % of total gen/distr												
IR 3.4	Reliable sources of oil & gas	2. Increased capacity of independently financed/purchased fuel resources	Definition: Increase in dollar value compared with 1996  Unit: %												
IR 3.5	Reduced tech. & non-tech. losses	1. Reduced % of system losses.	Definition: change in losses using 1995 as a base year  Unit: %												

IR 3.6	Improved metering collection	1. Increased collection of receivables	Definition: reduction in A/R using 1995 as a base year  Unit: %									
		2. Increased number of installed meters.	Definition: increase in meters installed using 1995 as a base year  Unit: %									
IR 4	Increased use of cost effective renewable energy resources (nuclear, hydro, geothermal, wind)	1. Increased % of energy from renewable energy.	Definition: change in volume (quantity) imported/produced locally using 1995 as a base year  Unit: %									
		Enactment of draft alternative energy law	Definition: law enacted  Unit: yes/no									
		Comments/Notes:										

## **1.5 NARRATIVE ASSESSMENT OF PERFORMANCE:**

### **Overall Progress:**

The Ministry of Energy has begun restructuring the energy sector. Armenergo, the state-owned electric utility, has been divided into generating, transmission, and distribution companies. The GOA expects that these companies will eventually be partially or fully divested. Plans are also underway to restructure Armgas into two state enterprises (transmission and distribution). The restructuring will be an on-going process with plans for spinning off non-power production enterprises (design, construction, etc.) into private joint stock companies. It is planned that in the next 5 years the power companies will also be candidates for privatization. A major problem has been the shortage of funds for purchasing fuel, plant maintenance and plant rehabilitation. While some rehabilitation needs will be met by upcoming World Bank loans, part of the solution to this problem is to increase tariffs and dramatically improve metering and collection functions. Continued assistance in the restructuring and privatization of the energy sector will be provided by USAID as the Ministry of Energy implements its restructuring plan.

### **ENI's Significant Contributions:**

To date, USAID's energy program has assisted the Ministry of Energy in achieving some major accomplishments in the restructuring of the energy sector. Armenergo, the power utility previously responsible for electricity generation, transmission, and distribution has been effectively broken up. Its current responsibilities involve primarily transmission, dispatching, and some limited power generation. Approximately 51 distribution companies have been established as separate state enterprises and it is expected that in 1997, these firms will be consolidated into ten joint stock companies open for partial or full privatization. The same is planned for the two to three generation companies. USAID's 1997 program will build on these accomplishments and continue in assisting the Ministry of Energy in its reform efforts.

### ***Expected Progress by 1997***

- *The USAID energy program is expected to leverage other donor support and the GOA's own activities in order to achieve by the end of 1997 a 10-15 percent increase in overall industrial efficiency, a 5-10 percent increase in energy production, and a 15-20 percent decrease in energy consumption at the generation, transmission, and distribution level.*
- *1-2 new mini-hydro plants will have been privately financed by 9/97, thus establishing a framework for private power projects. An existing thermal or hydro power plant and selected distribution companies will have been privatized by 9/97.*

- *With assistance from USAID, the draft energy law will be passed by Parliament by June 1996. Power purchase agreements will be developed and in use between the generating, transmission, and distribution companies. Additional legislation, such as a petroleum law, will be drafted and presented to Parliament by 9/97. An effective and progressive national regulatory commission will be established by the end of 1997.*
- *Selected generating, transmission, and distribution companies will continue the process of restructuring begun in 1996 and will have begun training in accounting conversion using internationally accepted accounting system by 9/97.*
- *Electric bill collections, using USAID financed metering and billing systems, will have risen from an average of 30% in 1995 to an average of 70% by mid-1997. Continue tariff reform which will increase recovery of O&M, including debt and depreciation.*
- *Commodities and technical assistance in support of industrial/residential energy conservation and the creation of an energy services sector should, assuming no decline in GNP, decrease the energy intensity of the economy to about 1,400 kgoe/capita. Assuming an end to the embargo and regional conflicts, current power generation should increase from 17-18 million kwh/day to approximately 22 million kwh/day. The Gumush Hydro Power Plant (HPP) and the Kanaker HPP rehabilitation projects along with a few smaller HPP projects supported by USAID will provide approximately 2.5 million kwh/day.*
- *With respect to technical system losses, there are now about 20-30% technical and non-technical losses at the generation, transmission, and distribution levels attributable largely to the absence of maintenance and electricity theft. The enhancement of generation capacity and the rehabilitation of both transmission and distribution systems, improved collection systems will increase system stability and thereby decrease technical losses to about twelve to fifteen percent. USAID will be instrumental in improving metering and collections in the power sector.*
- *Following initial privatization efforts, it is anticipated that assistance from the World Bank and USAID should result in the implementation of at least 1-2 independent private power (IPP) projects. Also the State Electric Utility, Armenergo, will be reorganized with certain generation, transmission and distribution facilities partially or fully divested. Training for conversion to internationally accepted accounting standards will have been completed at selected power generation, transmission, and distribution companies.*

***Expected Program impact to the Year 2000:***

*USAID, in coordination with TACIS, should provide technical assistance, software, and hardware in such areas as methodologies of calculating tariff rates, conducting depreciation studies, and in the development of a viable local capital market which can be tapped for*

*energy sector investment. Such assistance will be required since it is anticipated that tariff based revenues combined with international assistance will not be adequate to fund all necessary rehabilitation and new project requirements. This will be the case if the GOA intends to close the Medzamor nuclear power plant and replace the lost capacity with new power plants.*

*USAID should continue to offer assistance to the Ministry of Energy to achieve the goals above as well as to encourage additional privatization in the gas and electric sector. Although up to 175 MW of private power projects should be on-line by 2000, the Ministry of Energy will require additional assistance to develop a transparent method for the privatization of existing thermal and hydro plants.*

*Continuing technical assistance in developing contracts and a broad legal framework will be especially beneficial for new joint stock companies and should help to promote foreign investment. A transitional regulatory body should be moving towards increased independence from the Ministry of Energy and Ministry of Economy by 9/98. Furthermore a scope of work for a pre-loan analysis of the district heating system which remains salvageable should be completed by 9/98. The results of this pre-loan analysis should enable the GOA to receive credit from the World Bank or the EBRD.*

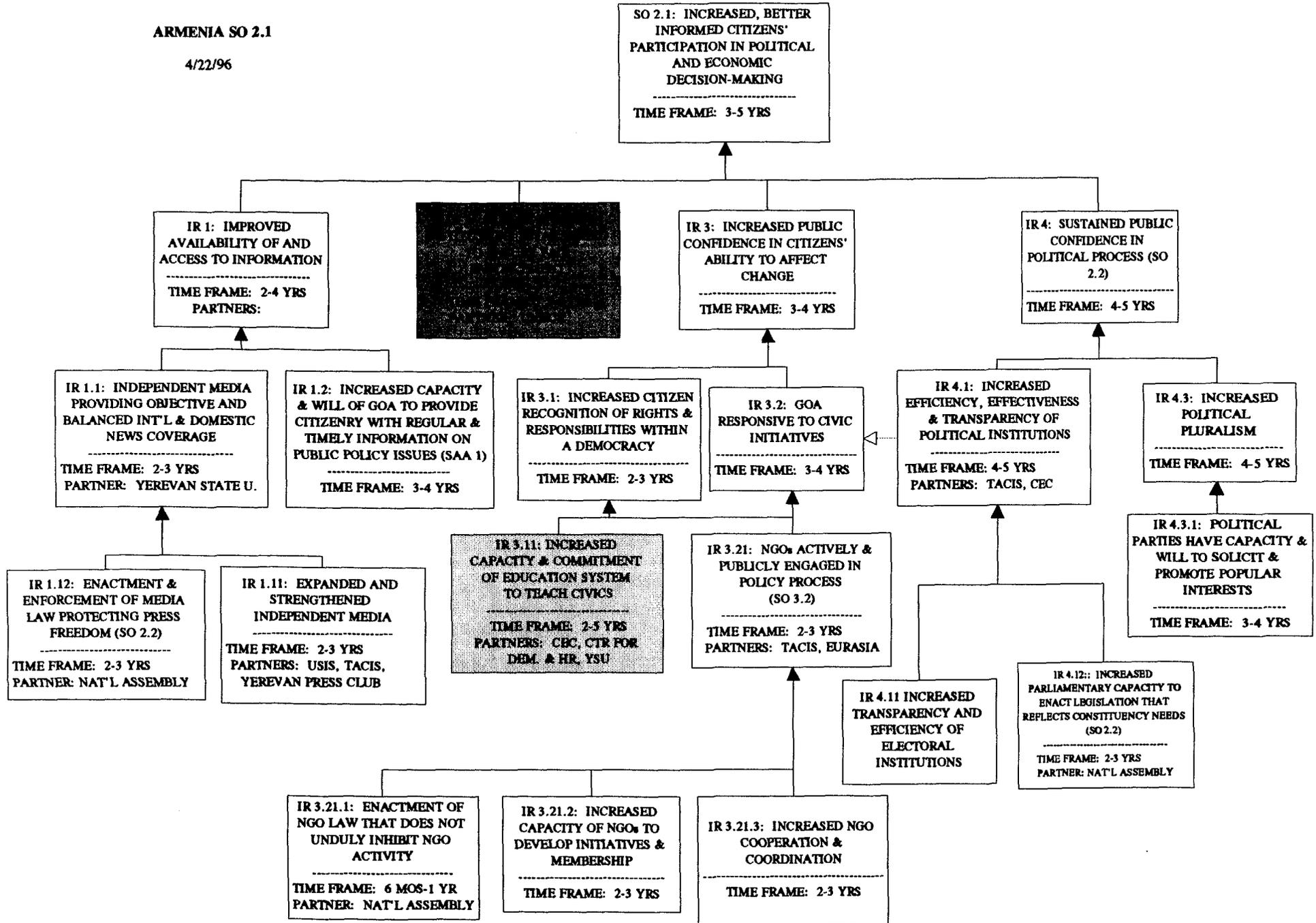
*The major state owned energy enterprises (Armenergo, Armgas, etc.) will have divested some of their non-energy units, and distribution companies and will have completed restructuring efforts by 9/98. The financial system at the power and gas companies should also be functioning according to international accounting standards. In addition, a modernized national billing and collection system is expected to be in place by FY 2000.*

*With regard to indigenous sources of energy, the USGS will have completed its coal exploratory program with the resulting data made available to public and private developers. USAID's support in the oil sector, including the seismic analysis and a petroleum law, will set the stage for a promotional campaign targeted to foreign oil companies if reserves are large enough. Armenia should also focus on developing its alternative energy resources especially solar water heating which can decrease thermal and electric loads as well as provide an environmentally preferable method of heating water.*

ARMENIA SO 2.1

4/22/96

64



**Strategic Objective 2.1: Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making**

**RESULTS FRAMEWORK NARRATIVE RATIONALE**

**A. Transition Hypothesis**

Increased access to information, the establishment and enforcement of civil and economic rights, a stronger belief on the part of citizens in the efficacy of social action, and greater confidence in political institutions will produce more informed popular participation in the policy-making process.

**B. Critical Assumptions**

- . There is no worsening of the broad enabling environment for political organization/mobilization and press freedom.
- . The National Assembly can play a meaningful role in the political process, not withstanding its constitutionally circumscribed authority.
- . There is no further significant erosion in overall economic conditions, which historically has tended to retard the growth of civil society and citizen participation in decision-making.

**C. Causal Linkages**

The legacy of Soviet autocratic rule has left the vast majority of the population cynical about and indifferent to politics. The problem of passivity is compounded by the Armenian Government's authoritarian tendencies, comparatively weak parliament and judicial branch, and protracted economic difficulties which generally steer citizens' attention away from the public realm. Strengthening Armenia's fragile democratic process depends in part on the capacity of intermediaries, primarily political parties and non-governmental organizations, to aggregate and promote citizen interests and thereby provide both a vehicle for popular participation and a stronger belief in the utility of such action.

The challenge confronting the Mission in this sphere is a long-term one that involves overcoming widespread skepticism about the basic integrity and effectiveness of state institutions as well as deep seated doubts about ordinary citizens' ability to effect change in policies which touch their lives. There is a Catch-22 here: citizens are unlikely to become involved in the political process in significant numbers until they sense that government institutions are willing and able to be responsive to their needs, but these same institutions are unlikely to be responsive until there is organized pressure from below. The creation of

mechanisms for eliciting public input which then influences policy decisions ultimately will be necessary to achieve the SO Greater transparency can also be expected to contribute to more public confidence in the political process.

Significant progress toward accomplishing the SO depends on two other conditions being met. First, improved access to and availability of information is essential if Armenian citizens are going to become knowledgeable participants in the policy-making process. This, in turn, requires a robust and professional independent media and a commitment on the part of the executive and legislative branches to make readily available to the public critical information on laws and regulations, budget matters etc. Non-governmental organizations, especially with those with analytical and research capacity, also can play a role in informing citizens and elevating the level of public discourse.

Lastly, growing citizen participation in political and economic decision-making is contingent on the enactment and fair and effective enforcement of laws guaranteeing citizens full civil and political rights. Inadequate enforcement not only raises the potential risk of political involvement to unacceptably high levels, it also erodes public confidence in the rule of law and the political system more generally. Any of these developments threaten to weaken further Armenia's fledgling democracy.

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA									
				YEAR	VALUE	1997		1998		1999		2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 2.1	INCREASED, BETTER INFORMED CITIZENS' PARTICIPATION IN POLITICAL AND ECONOMIC DECISION-MAKING	1. Active NGOs working on public policy issues	Definition:  Unit: number	1996	3	5		7		10		10	
		2. Percent of citizens who listen to, watch or read independent news programs daily	Definition:  Unit: % of citizens	1996	1%	5%		10%		15%		20%	
IR 1	IMPROVED AVAILABILITY OF AND ACCESS TO INFORMATION	1. CITIZENS WHO FEEL THERE IS ADEQUATE INFORMATION PUBLICLY AVAILABLE ON POLITICAL AND ECONOMIC ISSUES	Definition:  Unit: % OF CITIZENS	1996	Political: .5% Economic: 10%	Political: 10% Economic: 20%	Political: 20% Economic: 30%	Political: 30% Economic: 40%	Political: 40% Economic: 50%	Political: 50% Economic: 60%	Political: 60% Economic: 70%	Political: 70% Economic: 80%	Political: 80% Economic: 90%
		2. Publications available at accessible prices	Definition: Decrease in average price of newspaper as percentage of minimum monthly wage (Note: US is approximately .1%)  Unit: %	1996	5 1/2%	5%		4%		3%		1%	

IR 1.1	INDEPENDENT MEDIA PROVIDING OBJECTIVE AND BALANCED DOMESTIC AND INTERNATIONAL NEWS COVERAGE	1. ACTIVE INDEPENDENT MEDIA ASSOCIATIONS, STATIONS, NEWSPAPERS	Definition:  Unit: NUMBER	1996	11	15		15		20		25
		2. BALANCED NEWS COVERAGE	Definition: CONTENT ANALYSIS OF COVERAGE  Unit: % SELECTED STATIONS/ PUBLICATIONS	1996	NOT AVAILA BLE	20%		30%		30%		40%
		3. EXISTENCE OF SELF-SUSTAINABLE INDEPENDENT PRINTING PRESSES	Definition:  Unit: NUMBER	1996	0	0		1		2		3
IR 1.2	INCREASED CAPACITY AND WILL OF GOA TO PROVIDE CITIZENRY WITH REGULAR AND TIMELY INFORMATION ON PUBLIC POLICY ISSUES	1. PUBLICATIONS MADE AVAILABLE TO CITIZENS	Definition: BUDGETS; LEGISLATIVE AGENDA; NEW LAWS IN DRAFT; NEWLY PASSED LAWS; REGISTER OF HOW DEPUTIES VOTED  Unit: TYPE, YES/NO	1996	NOT AVAILA BLE							

		2. PERCENT OF BILLS PASSED BY PARLIAMENT THAT ARE PUBLISHED OR EXPLAINED IN THE MEDIA	Definition:  Unit: %	1996	5%	15%		20%		25%			
		3. RESULTS OF COMMITTEE ACTIONS PUBLICIZED	Definition:  Unit: %	1996	0%	3%		5%		8%			
		2. EFFECTIVELY FUNCTIONING PRESS OFFICES	Definition:  Unit: NUMBER	1996	1								
IR 1.11	ENACTMENT AND ENFORCEMENT OF MEDIA LAW PROTECTING PRESS FREEDOM	1. LAW PASSED	Definition:  Unit: YES/NO	1996	NEW DRAFT IN COMMITTEE	ANOTHER DRAFT WITH MEDIA COMMUNITY INPUT IN COMMITTEE		PASSED					
		2. DEGREE OF PRESS FREEDOM	Definition: INFORMAL SURVEY OF SELECTED TV AND PRINT JOURNALISTS  Unit: SCALE OF 1-10	1996	NOT AVAILA BLE								

IR 1.12	EXPANDED AND STRENGTHENED INDEPENDENT MEDIA	1. NUMBER OF JOURNALISTS/MEDIA OUTLETS WHO HAVE RECEIVED PROFESSIONAL TRAINING, EQUIPMENT	Definition:  Unit: NUMBER	1996	NOT YET AVAILABLE (BEING COMPUTED)							
IR 3	INCREASED PUBLIC CONFIDENCE IN CITIZENS' ABILITY TO EFFECT CHANGE	1. OPENLY PUBLICIZED GOV'T POLICY CHANGES AT CENTRAL/ LOCAL LEVELS WHERE CITIZENS AND/OR NGOS WERE ACTIVELY ENGAGED	Definition:  Unit: NUMBER & TYPE	1996	1: NGO LAW	3	5		7		10	
IR 3.1	INCREASED CITIZEN RECOGNITION OF RIGHTS AND RESPONSIBILITIES WITHIN A DEMOCRACY	1. CITIZENS WHO ARE A) AWARE OF THEIR BASIC RIGHTS UNDER THE CONSTITUTION B) AWARE OF BASIC CRIMINAL STATUTES	Definition:  Unit: %	1996								
IR 3.2	GOA RESPONSIVE TO CIVIC INITIATIVES	1. PERCENT OF LAWS PASSED BY NATIONAL ASSEMBLY IN WHICH CIVIC ORGANIZATIONS HAVE HAD ROLE IN DRAFTING	Definition:  Unit:		0.5%	5%		8%		12%		

		2. PERCENT OF BILLS INTRODUCED BY DEPUTIES AFTER CONSULTATIONS WITH NGOS	Definition: Unit:		.5%	5%		10%		15%			
		2. PERCENT OF BILLS IN WHICH NGOS TESTIFY IN COMMITTEE HEARINGS	Definition: Unit:		0%	2%		5%		8%			
IR 3.21	NGOS ACTIVELY & PUBLICLY ENGAGED IN POLICY PROCESS	1. NGO INITIATIVES (ETC.) SUBMITTED GOVERNMENT/PRI VATE INSTITUTIONS	Definition: Unit: NUMBER OF										
		2. FORA IN WHICH ENGAGE STATE INSTITUTIONS IN POLICY DEBATE	Definition: Unit: NUMBER AND TYPES										
IR 3.21.1	ENACTMENT OF NGO LAW THAT DOES NOT UNDULY INHIBIT NGO ACTIVITY	1. Law passed which is supported by NGO community	Definition: Unit: yes/no	1996	2nd draft with some NGO input in NA committee	3rd draft which NGO comm. supports in committee		Law passed					
IR 3.21.2	INCREASED CAPACITY OF NGOS TO DEVELOP INITIATIVES & MEMBERSHIP	1. PERCENT INCREASE OF MEMBERSHIP OF SELECTED NGOS	Definition: Unit: %	1996	30	5%		4%		3%		3%	
IR 3.21.3	INCREASED NGO COOPERATION & COORDINATION	1. NUMBER OF JOINT NGO MEETINGS HELD	Definition: Unit: NUMBER	1996 through 2nd quarter	3	10		15		20		30	

1

		1. NUMBER OF JOINT NGO INITIATIVES	Definition: Unit: NUMBER	1995-1996	5	5	10	15	20		
IR 4	SUSTAINED PUBLIC CONFIDENCE IN POLITICAL PROCESSES	1. PERCENT OF POPULATION WHO BELIEVE THE GOVERNMENT IS REPRESENTING THEIR INTERESTS	Definition: Unit:		0%	0%	5%	10%			
		2. VOTER TURNOUT RATE	Definition: Unit:	1995	???	1996 %		???			
IR 4.1	INCREASED EFFICIENCY, EFFECTIVENESS AND TRANSPARENCY OF POLITICAL INSTITUTIONS	1. NUMBER OF PUBLIC HEARINGS OR PUBLIC MEETINGS HELD BY PARLIAMENTARY COMMITTEES	Definition: Unit:		0	5	10	20			
		2. PERCENT OF BILLS ORIGINATING IN COMMITTEES	Definition: Unit:		2%	5%	7%	10%			
IR 4.11	INCREASED PARLIAMENTARY CAPACITY TO ENACT LEGISLATION THAT REFLECTS CONSTITUENCY NEEDS	1. PERCENT OF MAJORITARIAN-ELECTED DEPUTIES OF THE NATIONAL ASSEMBLY WHO HAVE AN OFFICE IN THEIR CONSTITUENCY	Definition: Unit:		0%	10%	15%	18%			

12

IR 4.11	INCREASED TRANSPARENCY AND EFFICIENCY OF ELECTORAL INSTITUTIONS	1. NUMBER OF PEOPLE PARTICIPATING IN NONPARTISAN DOMESTIC MONITORING TRAINING	Definition:  Unit:	1995	1700	1996 2000							
		2. NUMBER OF PEOPLE PARTICIPATING IN A NONPARTISAN DOMESTIC MONITORING EFFORT	Definition:  Unit:	1995	800	1996 1500							
IR 4.3	INCREASED POLITICAL PLURALISM	1. NUMBER OF REGISTERED OPPOSITION PARTIES	Definition:  Unit: NUMBER	1996									
		2. PERCENT OF OPPOSITION DEPUTIES IN NA	Definition:  Unit: % OF 190	1996	5%	5%		5-7%		30%		30%	
IR 4.3.1	POLITICAL PARTIES HAVE CAPACITY AND WILL TO SOLICIT AND PROMOTE POPULAR INTERESTS	1. PARTIES WITH PLATFORMS BASED ON REGIONAL, ISSUE- BASED OR OTHER TARGETING STRATEGIES	Definition:  Unit: NUMBER	1996	1	3		4		4		5	
		2. FACTIONS AND PARTIES SET UP REGIONAL OFFICES AND HOLD REGIONAL MEETINGS	Definition:  Unit: % OF PARTIES WITH ACTIVE REGIONAL OFFICES	1996	10%	30%		50%		60%		80%	

13

		3. FACTIONS TAKE INCREASED ADVANTAGE OF THE PARLIAMENTARY FORUM TO ADVANCE CONSTITUENT OR FACTION INTERESTS	Definition:  Unit: # OF SPEECHES ON FLOOR OF NA	1996	5	30		40		50		60	
IR 4.3.1.1	LAW ENACTED PROTECTING RIGHTS OF POLITICAL PARTIES TO FORM AND OPERATE FREE OF GOV'T INTERFERENCE	1. LAW PASSED	Definition:  Unit:	1996	N/A	DISCUSSION AMONG POLITICAL PARTIES		PROPOSED DRAFT TO NATIONAL ASSEMBLY		DRAFT PLACED ON LEGISLATIVE AGENDA		DRAFT CONSIDERED ON FLOOR OF NA	

24

## **2.1 NARRATIVE ASSESSMENT OF PERFORMANCE:**

### **Overall Progress:**

As noted in the Problem Analysis of the Strategic Plan, the period leading up to the July 1995 parliamentary elections and constitutional referendum, and the elections themselves, indicated a marked turn from the progressive path to democratic institutions that Armenia had been on prior to December of 1994. Many elements of Armenia's burgeoning civic society suffered setbacks, including political parties, the NGO community, and independent media. However, signs of recovery of a strong, albeit unfocused, civic society have been visible in the last six months.

The National Assembly itself, mindful of the constraints noted above, has been making small but impressive strides towards functioning as an independent legislature. Although the vast majority of elected deputies are of the ruling ANM Party, or an affiliate through faction, there is one avowedly opposition faction, and groups of "non-affiliated" deputies (those who were elected on the majoritarian ballot, rather than party list) who have begun to speak with an independent voice on areas of legislation or legislative practice of particular interest. Deputies appear both interested in developing relationships with their constituencies, and in learning more about western parliamentary practices, particularly as relates to committee structures and hearings. Though the current legislative agenda is unrealistically ambitious, and not particularly well prioritized, deputies are taking their roles as legislators seriously, and are open and eager for western advice and expertise.

Despite the constraints noted in the Problem Analysis, the development of an active non-governmental sector in Armenia is slowly coming to fruition. Humanitarian assistance NGOs are making efforts to better coordinate their activities, and are showing an interest in the larger issues of democratic reform. There are currently only a handful of strong advocacy-oriented NGOs, such as the human rights organization Avangard, and the equally active, if slightly less progressive, Young Lawyers' Union. However, as the political environment has cooled somewhat since the December 1995 shutdown of the Dashnak party, civic organizations have begun to recognize the role they might actively play in a democratic society. Contact with more advanced NGO entities and communities - both post-Soviet and western - has proven to be a boost to Armenia's non-governmental sector, in allowing glimpses of the potential for civic participation in the country's struggle towards democratic transition. Though much will be required to nurture and sustain the growth of an NGO sector motivated and capable of playing a role in public policy debate, a foundation, albeit weak, is in place.

The political "cool-off" of the last six months has been particularly positive for the independent media sector: existing independent print and television outlets have been producing openly critical pronouncements of government activities, and both existing and new outlets (particularly television) have begun to recognize the role of investigative

journalism in a democracy. Though skills for this type of activity, both technical and creative, are still limited, the desire to provide quality western-style news coverage exists, and appears to be growing. The only current government impediment to this type of growth is not censorship or threats thereof, but the government monopoly on the technical needs of media, i.e. printing press, television and radio frequencies, etc. Though this is still a serious obstacle, the government has made promises to privatize media technology within a year's time.

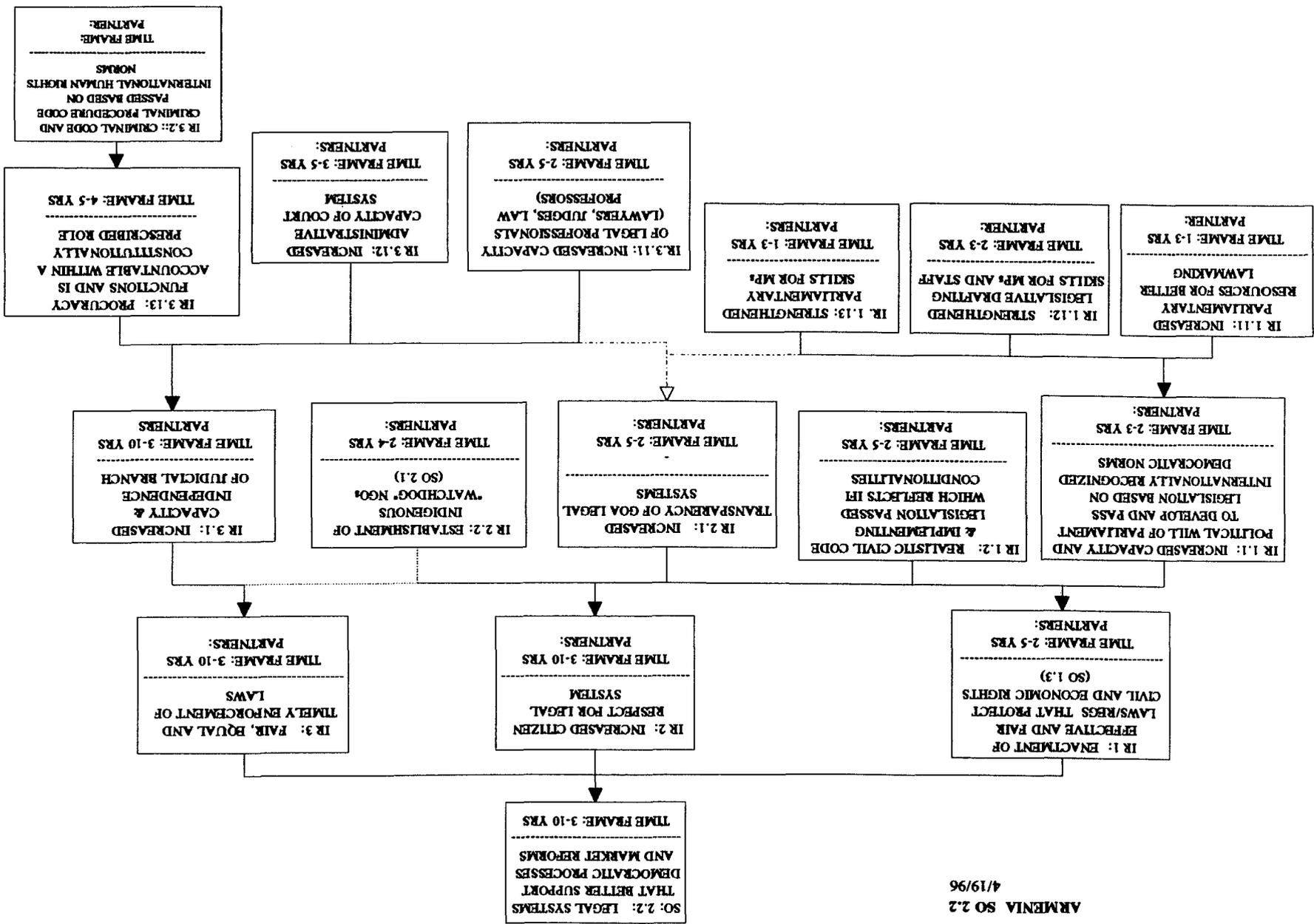
### **ENI's Significant Contributions**

Work with independent television stations throughout Armenia over the last six months has led to the development of an independent television network, a stronger understanding and capacity for objective professional journalism, technical improvements, improved managerial skills and focus on financial sustainability, and broad discussion of the importance of cooperation and journalistic ethics.

Work with NGOs over the past six months has focused on capacity building, including advocacy and democratically-oriented NGOs. A core group of NGOs has been encouraged and strengthened in their pursuit of democratic reform initiatives, and have actively lobbied the GOA on several occasions related to legislation and decrees which might suppress civic participation, with some success in particular on work to revise the new NGO law. (SO 3.2)

Parliamentary development work over the last three months has been aimed at enhancing the capacity and transparency of the National Assembly. In addition to developing working dialogues with NA factions, a series of workshops have been developed, focused on constituency relations, effective coalition building, and the importance and utility of public hearings.

Work over the last three months with drafters of revised electoral laws has had impressive results: by first reading in the National Assembly, 4 out of 10 recommendations for improvement of transparency/efficiency/fairness within the electoral process have been incorporated into the new presidential and municipal electoral laws.



ARMENIA SO 2.2  
4/19/96

**Strategic Objective 2.2: Legal Systems that Better Support Democratic Processes and Market Reforms**

**RESULTS FRAMEWORK NARRATIVE RATIONALE**

**A. Transition Hypothesis**

Enactment of effective and fair laws and regulations that protect civil and economic rights, fair, equal and timely enforcement of those laws and regulations, and citizen respect for those laws and the legal institutions which uphold them, will produce legal systems that better support democratic processes and market reforms.

**B. Critical Assumptions**

- There is no further significant erosion in overall economic conditions: such a downturn would 1) limit the numbers and attention of reformers and concerned citizens in the legal reform process, and 2) make unlikely significant increases in foreign investment and domestic entrepreneurialism crucial for continued and sustained commercial legal reform.
- There is no resumption of large-scale conflict over Nagorno-Karabakh.
- Donors such as the Germans currently, and the World Bank in future, will maintain a steady financial commitment to legal reform projects which complement and build upon USAID assistance.

**C. Causal Linkages**

For a new legal infrastructure in Armenia to be firmly rooted in the principles of a rule of law system which supports democratic processes and market reforms, it will be necessary that the system be based on sound democratic market-based laws and regulations which are fairly and effectively enforced and respected by Armenian citizens.

For those laws to be developed and enacted, Armenia's National Assembly must have the capacity and the independence to produce such legislation, including access to resources such as international laws, etc, and skilled deputies and staff. The new constitution provides a weak base for full protection of human and civil rights, but implementing legislation for those provisions which are included would do much to rectify the inherent weakness of the constitution. The main foundation for Armenia's commercial legal infrastructure - its economic constitution so to speak - will be it's new civil code. For economic growth and activity to develop in a rational, reasonably unhindered fashion in Armenia, and for Armenia to be able to successfully participate in the world market, this new civil code must be acceptable to western financial partners, and particularly, adhere to the IFI (International

Financial Institutions, World Bank, IMF, etc) conditionalities, and conditionalities for accession into the WTO (World Trade Organization).

Not only will the laws put in place need to be appropriate to support a sound legal environment, they must be properly enforced. Armenia's soviet legacy presents a particularly difficult obstacle here: 75 years of "telephone justice", that is, party leaders telephoning procurators, procurators telephoning judges, and a "suitable" verdict and sentence passed has left a totally bankrupt judicial and criminal justice system, with few appropriately trained practitioners, and substantial pockets of corruption and grabs for power. The constitution does not provide for an independent judiciary: it allows the President to nominate directly or indirectly judges at all levels of the court system. There is room however for the gradual development of judicial independence, both on a legislative and an institutional basis. All members of the legal profession must be retrained in western legal concepts, and in their own new economic laws. The administrative capacity of the courts must be developed -such capacity is currently non-existent. The procuracy, which maintains much of its former power both in the letter of the law and in practice, must be restructured and retrained, to function as integral "team-players" in the criminal justice system, rather than arbitrary rulers. Finally, the new criminal code and criminal procedure code must be based on the sound protection of the rights of the accused, as well as ensure efficient processes.

One of the main obstacles to the long-term success of the above two areas of reform is the profound level of distrust Armenian citizens have, particularly for the judicial system, and often fear of the procuracy itself. Under soviet rule, not only were citizens disrespectful of a legal system which they recognized as inherently unjust, many felt that to thwart the law was a positive moral statement, in effect subverting the system itself. It will be a long-term process to change the society's attitudes towards the law and its keepers. Though the above two areas will promote a greater respect from citizens by proving that these institutions can support and protect their constituents, greater government transparency, and the establishment of non-partisan non-governmental "watchdog" groups, will more quickly bring about greater citizen ownership of their own legal infrastructure.

**Armenia 2.2 PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS							
				YEAR	VALUE	1997		1998		1999		2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual
ARM S0 2.2	LEGAL SYSTEMS THAT BETTER SUPPORT DEMOCRATIC PROCESSES AND MARKET REFORMS	1. INCREASING PROPORTION OF POPULATION KNOWS AND UNDERSTANDS BASIC CIVIL AND ECONOMIC RIGHTS AND RESTRICTIONS	Definition:  Unit: PERCENT INCREASE	1996	NOT YET AVAIL	5%		10%		10%		10%	
		2. MEMBERSHIP IN THE WORLD TRADE ORGANIZATION	Definition:  Unit: YES/NO	1996	NO	YES							
IR 1	EFFECTIVE & FAIR LAWS/ REGULATIONS PASSED WHICH PROTECT CIVIL & ECONOMIC RIGHTS	1. ENDORSEMENT OF LAWS, REGULATIONS BY ADVOCACY GROUPS & NGOs	Definition:  Unit: NUMBER	1996	1+	4		5		5		5	
		2. BUSINESS LICENSES ISSUED INCREASES	Definition:  Unit: NUMBER										

IR 1.1	INCREASED CAPACITY OF PARLIAMENT TO DEVELOP & PASS LEGISLATION BASED ON INTERNATIONALLY RECOGNIZED DEMOCRATIC NORMS	1. PERCENT DECREASE OF CONFLICT OF ARMENIAN LAW WITH INTERNATIONAL TREATIES	Definition:  Unit: PERCENT DECREASE															
IR 1.2	REALISTIC CIVIL CODE & IMPLEMENTING LEGISLATION PASSED BASED ON INT'L NORMS & IFI's CONDITIONALITIES	1. IFI CONDITIONALITIES MET	Definition:  Unit:															
IR 1.11	INCREASED PARLIAMENTARY RESOURCES FOR BETTER LAWMAKING	1. DEPUTIES WITH INTERNET ACCESS	Definition:  Unit: NUMBER															
		2. NUMBER AND TYPE OF WESTERN PUBLICATIONS/SERIALS AVAILABLE IN NA LIBRARY	Definition:  Unit: NUMBER & TYPE															
IR 1.12	STRENGTHENED LEGISLATIVE DRAFTING SKILLS FOR MPs AND STAFF	1. TIMELY PREPARATION OF LAW FROM INCEPTION TO FLOOR DEBATE	Definition:  Unit: AVERAGE TIME PERIOD	1996														

		2. NUMBER OF DEPUTIES WHO HAVE ATTENDED LEGISLATIVE TRAINING WORKSHOPS	Definition:  Unit: NUMBER										
IR 1.13	STRENGTHENED PARLIAMENTARY SKILLS FOR MPs AND STAFF	2. NUMBER OF DEPUTIES WHO HAVE ATTENDED PARLIAMENTARY TRAINING WORKSHOPS	Definition:  Unit: NUMBER	1996 THRO UGH 2ND QUAR TER	48	95		95		190		190	
		3. NUMBER OF STAFF WHO HAVE ATTENDED PARLIAMENTARY TRAINING WORKSHOPS	Definition:  Unit:										
IR 2	INCREASED CITIZEN RESPECT FOR LEGAL SYSTEM	1. PUBLIC FORA HELD BY GOA AND NGOs ON NEW LAWS	Definition:  Unit:										
		2. # OF NEW LAWS PUBLISHED IN THE PRESS (STATE OR PRIVATE)	Definition:  Unit:										
		1. # OF NEW LAWS AVAILABLE IN STATE UNIVERSITY LIBRARY	Definition:  Unit:										
		2. CITIZENS WHO RESPECT JUDGES	Definition:  Unit:										

12

IR 2.1	INCREASED TRANSPARENCY OF GOA LEGAL SYSTEMS	1. LAWS PUBLISHED IN TIMELY MANNER AND AVAILABLE TO PUBLIC	Definition: Unit:										
		2. LEGISLATIVE AGENDA AND DAILY TRANSACTIONS PUBLISHED ON REGULAR BASIS	Definition: Unit:										
IR 2.2	ESTABLISHMENT OF INDIGENOUS "WATCHDOG" NGO(S)		Definition: Unit: yes/no										
IR 3	FAIR, EQUAL AND TIMELY ENFORCEMENT OF LAWS	1. CASES IN WHICH JUDGE OVERRULES EXECUTIVE DECREE AS UNCONSTITUTIONAL	Definition: Unit:										
		2. CASES IN WHICH JUDGE RULES AGAINST STATE OR SOEs	Definition: Unit:										
IR 3.1	INCREASED CAPACITY & INDEPENDENCE OF JUDICIAL BRANCH												
IR 3.13	INCREASED CAPACITY OF LEGAL PROFESSIONALS (LAWYERS, JUDGES, LAW PROFESSORS)	1. JUDGES WHO ATTEND CONTINUING EDUCATION COURSES, CONFERENCES, INTERNATIONAL MEETINGS	Definition: Unit:										
		2. IMPROVEMENTS IN THE LAW SCHOOL CURRICULUM	Definition: Unit:										

		<b>3. PRIVATE LAW FIRMS</b>	Definition: Unit:										
		<b>1. PUNISHMENT FOR SAME CRIMES EQUAL OVER TIME</b>	Definition: Unit:										
		<b>2. CITIZENS CIVIL RIGHTS RESPECTED IN PRACTICE</b>	Definition: Unit:										
<b>IR 3.12</b>	<b>INCREASED ADMINISTRATIVE CAPACITY OF COURT SYSTEM</b>	<b>1. INCREASED CASE LOAD HANDLED EFFICIENTLY</b>	Definition: Unit:										
		<b>2. TIME THAT CASES REMAIN ON DOCKET</b>	Definition: Unit:										
		<b>3. TIMELY ACCESS TO PUBLISHED LAWS</b>	Definition: Unit:										
<b>IR 3.13</b>	<b>PROCURACY RECOGNIZES ITS CONSTITUTIONAL ROLE AND ACCOUNTABILITY</b>	<b>1. PROCURACY REPORTS EXPLICITLY TO MINISTRY OF JUSTICE IN LAW AND PRACTICE</b>	Definition: Unit:										
		<b>2. CASES IN WHICH THE DEFENDANT WINS</b>	Definition: Unit:										
		<b>3. PROCURACY RECOGNIZES RIGHTS OF DEFENSE (E.G. SHARING EVIDENCE, ETC.)</b>	Definition: Unit:										

41

IR 3.2	CRIMINAL CODE AND CRIMINAL PROCEDURE CODE PASSED BASED ON INTERNATIONAL HUMAN RIGHTS NORMS		Definition:  Unit: yes/no										
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## **2.2 NARRATIVE ASSESSMENT OF PERFORMANCE:**

### **Overall Progress:**

The National Assembly and its permanent committees have been active in soliciting advice and comments from international legal experts on a range of legislative acts pending. There is a realistic recognition on the part of individual deputies, committee chiefs and parliamentary leaders that their skill levels are currently unequal to the task at hand. On the commercial side, though much initial legislation had been haphazard and inconsistent, recent iterations of the same laws have been painstakingly crafted to fulfill IFI conditionalities; this precedent may do much to increase the level of professionalism on more civil-oriented legislation. Finally, the executive branch, since the establishment of this new parliamentary membership (and its inherent ruling party leaning), has not taken the measure of interference in legislative processes that it has by right of the constitution to take. Whether this is because the National Assembly has yet to push forward legislation at odds with the executive, or whether there is a limited degree of respect for the independence of the institution itself remains to be seen.

Though the judicial system is in shambles, and is not as yet, as noted above, supported by appropriate legislation, again, political will seems to be strong to move forward with reform and restructuring. The constitutional court, after much delay, has been appointed, and its role and responsibilities are currently under discussion on all levels of government - ministry of Justice, the National Assembly, and judicial incumbents themselves. Judges and legal practitioners appear to be receptive to western legal concepts and practices, and eager to absorb those international norms which best suit Armenia's situation.

No progress can be seen on the front of citizen respect for legal systems. Not only is there no trust for the judicial process, there is a pervasive fear of the procuracy, based on both the Soviet legacy, and continued manipulation of the legal system. Citizens' also appear to be fairly skeptical about their elected officials' capacity and will to reflect their interests in developing the laws of the land; and where there is not skepticism, there is at least apathy.

### **ENI's Significant Contributions:**

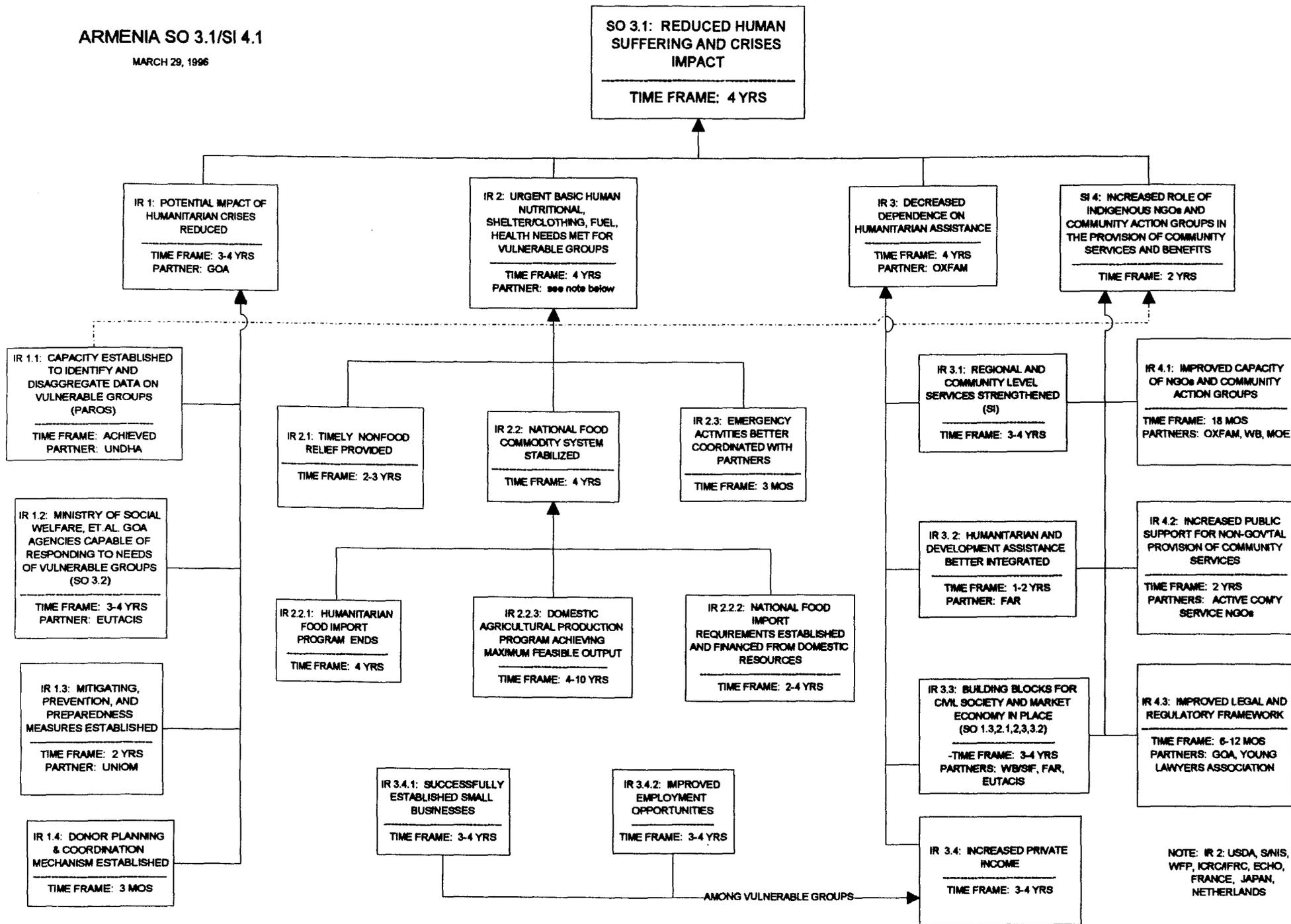
Work over five months on advising the drafters of the Civil Code, resulting in draft Civil Code of high quality/based in large part on international democratic and market norms;

Judicial conference in July 1995 brought judiciary together to discuss issues of commercial arbitration in a market system, court reform, judicial ethics and independence;

Judicial training program to begin September, 1996.

ARMENIA SO 3.1/SI 4.1

MARCH 29, 1996



### **Strategic Objective 3.1: Reduced Human Suffering and Crisis Impact**

#### **RESULTS FRAMEWORK NARRATIVE RATIONALE**

##### **A. Transition Hypothesis**

As a result of the 1988 earthquake followed by economic deterioration associated with the break-up of the Soviet Union and a trade blockade, there is a large proportion of the population who live below the poverty level. According to the United Nations, the cost of food alone to sustain an average Armenian family is \$141 per month, whereas the average wage is about \$4-5 per month. Remittances from the diaspora, massive humanitarian aid and income from informal economic activity, as well as reliance on extended families have been essential to survival. Until economic conditions can generate significant employment and household income, the vulnerable populations will likely continue to suffer.

Following the break-up of the Soviet Union, Armenia experienced total disruption of existing social services, which were quite comprehensive under the old socialist regime. The Government and USAID have determined that it is not useful or productive to rely on the old Soviet system for the distribution of humanitarian assistance or the provision of social services.

What is required is the an assessment and ranking of household poverty levels. In addition, public/ civic organizations and NGOs need to acquire the capacity to assess the social needs and determine appropriate assistance activities for vulnerable populations. Local NGOs and communities themselves presently lack the experience and capacity to perform this role.

The GOA and donors can reduce human suffering by:

- (1) decreasing Armenia's dependence on external humanitarian assistance; and
- (2) improving the institutional capacity of the Government of Armenia (GOA), regional districts and local communities and NGOs to respond to the needs of vulnerable populations.

##### **B. Critical Assumptions**

If national income and employment rises through expanded trade and business activity, this will lead to a reduction in the size of the vulnerable populations. An improvement in the economic conditions will also increase government resources to assist both chronically vulnerable citizens and crisis event affected citizens.

The blockade is contributing to Armenia's humanitarian crisis. The lifting of the blockade is likely to ease the situation significantly.

Monetization of the internationally-donated commodities is politically acceptable to the GOA, USAID and other donors.

### C. Causal Linkages

In order to ease the plight of the most vulnerable populations, the relevant Government ministries, regional administrators, local communities and indigenous NGOs/PVOs must:

- \* satisfy the vulnerable population's basic requirements of food, shelter and medical care;
- \* provide humanitarian assistance which mitigates sudden crises; and
- \* help decrease the country's dependence on humanitarian assistance by providing transitional activities which will lead to sustainable development..

Responding to the present blockade-spawned crisis is reasonably straight forward in that it depends on meeting the most basic needs of the vulnerable population. It requires providing assistance to the recipients in a timely matter, ensuring short-term food security and effective coordination among assistance partners.

Decreasing Armenia's dependence on humanitarian assistance can be accomplished by donors and the GOA working together to reinforce the social safety net, and by integrating development-oriented and humanitarian assistance activities. Increasing income-generation activities and the development of a vibrant civil society and market economy are key to reducing Armenia's dependence on humanitarian assistance.

Putting in place selected preventive measures will limit the potential impact of future humanitarian crises. In addition to identifying and disaggregating society's vulnerable population (already underway through the PAROS project), the institutional capacity of the Ministry of Social Welfare and other relevant GOA agencies will need to be strengthened and donor coordination improved.

IR 1	POTENTIAL IMPACT OF HUMANITARIAN CRISES REDUCED	1. GOA'S MANAGES CRISIS PROGRAMS WITH ITS OWN RESOURCES	Definition: ABILITIES TO MANAGE, COORDINATE, SET PRIORITIES, DIRECT DONORS  Unit: YES/NO. SURVEY												
		2. TIME RATIO FROM APPROVAL OF ASSISTANCE TO DELIVERY TO END-USER	Definition: N/A  Unit: APPROVAL TO DELIVERY RATIO. SURVEY												
IR 1.1	CAPACITY ESTABLISHED TO IDENTIFY AND DISAGGREGATE DATA ON VULNERABLE GROUPS (PAROS)	1. PAROS PROGRAM MANAGED SUSTAINABLE WITH REDUCED DONOR SUPPORT.	Definition: PAROS SYSTEM UPDATED, REFINED, STAFF ASSIGNED  Unit: YES/NO.SURVEY												
		2. UNDHA SITE SURVEY RESULTS????	Definition:  Unit:												

IR 1.2	MINISTRY OF SOCIAL WELFARE, ET.AL. GOA AGENCIES CAPABLE OF RESPONDING TO NEEDS OF VULNERABLE GROUPS (SO 3.2)	1. TRAINING ASSESSMENT CONDUCTED.	Definition: TRAINING ASSESSMENT IDENTIFIES SPECIFIC SKILLS AND TRAINING REQUIRED.  Unit: YES/NO. SURVEY																
		2. STAFF RECEIVES UPGRADED TRAINING	Definition: N/A  Unit: % STAFF RECEIVES TRAINING IDENTIFIED AS REQUIRED IN ASSESSMENT.																
		2. GOA ALLOCATES BUDGET TO PROGRAMS FOR MOST VULNERABLE GROUPS	Definition: N/A  Unit: \$ ALLOCATED. DATA.																
IR 1.3	MITIGATING, PREVENTION, AND PREPAREDNESS MEASURES ESTABLISHED	1. EMERGENCY RESPONSE AND MOBILIZATION PLANS IN PLACE	Definition: N/A  Unit: YES/NO. SURVEY																
		2. ADEQUATE EMERGENCY SUPPLIES ARE MAINTAINED AND AVAILABLE FOR MOBILIZATION.	Definition: N/A  Unit: # OF DAYS OF SUPPLIES. SURVEY																

IR 1.4	DONOR PLANNING & COORDINATION MECHANISMS ESTABLISHED	1. HACC ACTIVELY LEADING COORDINATION EFFORT	Definition:  Unit: YES/NO. SURVEY												
		2. DONORS AVOID OVERLAP, DUPLICATION, AND GAPS IN ASSISTANCE	Definition: LOWER INCIDENCE OF MISTAKES IN COVERAGE  Unit: # OF INCIDENTS OF DUPLICATION OF EFFORTS. SURVEY												
IR 2	URGENT BASIC HUMAN NUTRITIONAL, SHELTER/CLOTHING, HEALTH NEEDS MET FOR VULNERABLE GROUPS	1. INCIDENCE OF DISEASE.  2. INCIDENCE OF INFANT MORTALITY.  3. INCIDENCE OF MORBIDITY.	Definition: N/A  Unit: % INCREASE OR DECREASE. SURVEY  Definition: N/A  Unit: % INCREASE OR DECREASE. SURVEY  Definition: N/A  Unit: % INCREASE OR DECREASE. SURVEY												
		4. MINIMUM CALORIC INTAKE MAINTAINED IN MOST VULNERABLE GROUP	Definition: N/A  Unit: # OF PEOPLE BELOW ACCEPTABLE LEVEL.												

21

		5. PEOPLE ARE PROVIDED WITH SHELTER.	<p>Definition: SHELTER CONTAINERS PROVIDED.</p> <p>Unit: % OF MOST VULNERABLE POPULATION WHO DO NOT HAVE SHELTERS.</p>															
IR 2.1	TIMELY NON-FOOD RELIEF PROVIDED	1. TIME RATIO FROM APPROVAL OF ASSISTANCE TO DELIVERY TO END-USER	<p>Definition: N/A</p> <p>Unit: APPROVAL TO DELIVERY RATIO. SURVEY.</p>															
		2. RELIEF GOODS RECEIVED BY TARGET BENEFICIARIES ON SCHEDULE	<p>Definition:</p> <p>Unit: % PERCENTAGE OF BENEFICIARIES. SURVEY.</p>															
IR 2.2	NATIONAL FOOD COMMODITY SYSTEM STABILIZED	1. WHEAT STOCKS AVAILABLE FOR MOBILIZATION	<p>Definition: N/A</p> <p>Unit: # OF DAYS OF SUPPLIES. DATA</p>															
		2. EFFECIENT RE-SUPPLY MECHANISMS IN PLACE	<p>Definition: ABILITY TO REPLENISH FROM ABROAD OR DOMESTICALLY</p> <p>Unit: REQUEST TO DELIVERY RATIO. SURVEY.</p>															

23

IR 2.3	EMERGENCY ACTIVITIES BETTER COORDINATED WITH PARTNERS	1. COORDINATION EFFORTS RESULT IN MORE FAVORABLE RESPONSE FROM MOST VULNERABLE POPULATIONS	Definition: N/A  Unit: % OF MOST VULNERABLE POPULATION INDICATING REDUCED DUPLICATION. SURVEY.												
		2. MOST VULNERABLE POPULATION RECEIVES APPROPRIATE ASSISTANCE COVERAGE	Definition: N/A  Unit: % OF MOST VULNERABLE POPULATION INDICATING REDUCED DUPLICATION. SURVEY.												
IR 3	DECREASED DEPENDENCE ON HUMANITARIAN ASSISTANCE	1. GOA REQUESTS FOR HUMANITARIAN ASSISTANCE FROM DONORS  2. USAID SPENDING ON HUMANITARIAN ASSISTANCE.  3. INCREASE IN GOA CONTRIBUTION TO HUMANITARIAN ASSISTANCE.	Definition: N/A  Unit: # OF GOA REQUESTS RECEIVED. SURVEY  Definition: N/A  Unit:  Definition: N/A  Unit: % INCREASE IN GOA BUDGET. DATA												

94

IR 3.1	REGIONAL AND COMMUNITY LEVEL SAFETY NETS STRENGTHEN (SO 3.2)	1. NEW OR EXISTING NGO'S WHICH PROVIDE SAFETY NET ASSISTANCE	Definition: RESOURCES MOBILIZED BY ARMENIA PRIVATE SECTOR  Unit: DONOR TO NGO RATIO PROVIDING HUMANITARIAN ASSISTANCE. SURVEY.												
		2. LOCAL/REGIONAL GOVERNMENT ASSUMES BURDEN OF SUPPORTING VULNERABLE GROUPS	Definition: RESOURCES MOBILIZED BY ARMENIA PUBLIC SECTOR  Unit: PUBLIC SECTOR TO DONOR RATIO PROVIDING HUMANITARIAN ASSISTANCE. SURVEY.												
IR 3.2	HUMANITARIAN AND DEVELOPMENT ASSISTANCE BETTER INTEGRATED	1. MONETIZATION OF HUMANITARIAN ASSISTANCE ???????????	Definition: MECHANISM FOR REALLOCATION OF RESOURCES FROM THOSE ABLE TO PAY TO THE VULNERABLE GROUPS  Unit: \$/DRAMS												
		2. USAID STRATEGY ESTABLISHED WITH NGO's/DONORS TO LINK HUMANITARIAN ASSISTANCE TO ECONOMIC DEVELOPMENT.	Definition: N/A  Unit: DATE OF STRATEGY.												

2

IR 3.3	BUILDING BLOCKS FOR CIVIL SOCIETY AND MARKET ECONOMY IN PLACE (SOs 1.3, 2.1, 2.3, 3.2)	1. INCREASED CITIZEN CAPACITY AND WILL TO BE SELF RELIANT	<p>Definition: CITIZENS BECOME MEMBERS OF NGOs AND BECOME MORE INVOLVED IN POLITICAL PROCESS.</p> <p>Unit: % INCREASE IN NGO MEMBERSHIP.SURVEY</p>												
IR 3.31	INCREASED PRIVATE INCOME	1. INCREASED INCOMES OF VULNERABLE POPULATION.	<p>Definition: N/A</p> <p>Unit: % INCREASE IN INCOME. SURVEY.</p>												
		2. REDUCTION IN SIZE OF MOST VULNERABLE POPULATION	<p>Definition: N/A</p> <p>Unit: # OF PEOPLE IN MOST VULNERABLE POPULATION.</p>												
IR 3.32	SUCCESSFULLY ESTABLISHED SMALL BUSINESSES AMONG VULNERABLE GROUPS	1. SMALL BUSINESSES ARE ESTABLISHED AND REGISTERED	<p>Definition: SMALL BUSINESSES IN VULNERABLE POPULATION.</p> <p>Unit: % INCREASE OF SMALL BUSINESSES.DATA.</p>												

<p>IR 3.33</p> <p>IR 4</p>	<p>IMPROVED EMPLOYMENT OPPOR-TUNITIES AMONG VULNERABLE GROUPS</p> <p>INCREASED ROLE OF INDIGENOUS NGOs AND COMMUNITY ACTION GROUPS IN THE PROVISION OF COMMUNITY SERVICES AND BENEFITS.</p>	<p>1. NEW JOBS FILLED BY VULNERABLE CITIZENS.</p> <p>1. NGOs GENERATE INCOME IN SUPPORT OF VULNERABLE GROUPS</p> <p>2. INCREASED SERVICES ARE PROVIDED BY NGOs.</p>	<p>Definition: N/A</p> <p>Unit: % UNEMPLOYMENT OF VULNERABLE POPULATION.</p> <p>Definition: CITIZEN MONETARY CONTRIBUTIONS TO NGOs.</p> <p>Unit: % INCREASE IN CONTRIBUTIONS RECEIVED BY NGOs. SURVEY.</p> <p>Definition: N/A</p> <p>Unit: % INCREASE IN SERVICES PROVIDED BY NGOs TO VULNERABLE POPULATION. SURVEY.</p>												
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IR 4.1	IMPROVED CAPACITY OF NGOs AND COMMUNITY ACTION GROUPS.	1. NGOs AND COMMUNITY ACTION GROUPS BECOME MORE EFFETIVE AFTER RECEIVING TRAINING.	Definition: N/A  Unit: % OF VULNERABLE POPULATION IDICATING MORE EFFECTIVE ASSISTANCE.									
IR 4.2	INCREASED PUBLIC SUPPORT FOR NGO PROVISION OF COMMUNITY SERVICES	1. VULNERABLE POPULATION AWARE OF SERVICES AVAILABLE.  2. VULNERABLE POPULATIONS RECEIVE SERVICES FROM NGOs.	Definition: N/A  Unit: % INCREASE OF PEOPLE AWARE OF SERVICES.  Definition: N/A  Unit: % VULNERABLE POPULATION RECEIVING NGO SERVICES.									
IR 4.3	IMPROVED AND REGULATORY FRAMEWORK	1. KEY LAWS ARE DRAFTED AND ENACTED.	Definition: N/A  Unit: # OF KEY LAWS ARE DRAFTED AND ENACTED. DATE APPROVED.									

**PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS**

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS												
						1995		1996		1997		1998		1999				
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual			
SO 3.1 ARMENIA	REDUCED HUMAN SUFFERING AND CRISIS IMPACT	1. REDUCTION IN SIZE OF MOST VULNERABLE POPULATION.	Definition: REDUCTION IN NUMBER OF MOST VULNERABLE POPULATION REGISTERED IN PAROS DATA BASE.  Unit: # OF MOST VULNERABLE REGISTRANTS.PAR OS PROGRAM DATA.															
		2. INCREASED GOA POLITICAL WILL TO SUPPORT VULNERABLE GROUPS	Definition: GOA HAS RECEIVED TRAINING IN PAST THROUGH PAROS PROGRAM. GOA NOW REQUIRES POLITICAL WILL.  Unit: YES/NO. SURVEY.															
		3. INCREASED GOA BUDGET ALLOCATION TO HUMANITARIAN ASSISTANCE TO REPLACE DONOR SUPPORT.	Definition: N/A  Unit: % INCREASE IN GOA ALLOCATION. DATA.															

### **3.1 NARRATIVE ASSESSMENT OF PERFORMANCE:**

#### **Overall Progress:**

Working on behalf of the GOA, donors and relief agencies have concentrated on meeting food and fuel shortages for the most vulnerable. They have improved shelters for the refugees and homeless in the earthquake zone and assisted vulnerable populations to meet emergency winter needs through food and fuel distribution activities. The GOA's approach to addressing humanitarian needs has been to allow donors and relief agencies wide operating discretion, an approach which has achieved highly positive results.

USAID has focused on three primary humanitarian activities:

- (1) creation of a computer data base of registered households ranked according to level of social vulnerability;
- (2) capacity building of local NGOs and civic action groups to provide or revitalize social services inadequately covered by the public sector; and
- (3) providing direct emergency assistance to vulnerable populations.

#### **ENI's Significant Contributions:**

Seventy-percent of USAID assistance to Armenia since FY 1992 has been humanitarian -- predominantly foodstuffs, residential and school heating fuel, and fuel for the operation of thermal power plants. More than 175,000 families, 35,000 shelters and 1,100 schools received kerosene during the winter of 1995/96 through the USAID-funded Winter Warmth program. The school heating program allowed schools to remain open in winter, increasing school attendance by fifty-four percent during the winter of 1994/1995. Food aid was provided before winter to approximately 71,000 vulnerable Armenian families along with desperately needed basic commodities (stoves, soap, clothing, blankets, agricultural products, etc.) for perhaps as many as fifty thousand vulnerable families. Bridging activities are creating employment opportunities for hundreds of unemployed workers in both the agricultural and light industrial sectors. This assistance will also help shift local expectations from humanitarian assistance to development through self-help activities.

Since 1993, out of a total population of 3.4 million, there have been over 1,500,000 recipients of USAID-funded food assistance through direct grants to CARE and sub-grants to U.S. PVOs under the Save the Children Federation (SCF) Cooperative Agreement. Under the SCF agreement, two projects provided pharmaceutical coverage to 368,000 women in Yerevan and children nation-wide under the age of fifteen.

Until recently, however, humanitarian aid in Armenia was distributed to the population based on less than satisfactory social categories established during the Soviet era. The Ministry of Social Welfare is now working to put in place the USAID-funded needs-based voluntary registration program (PAROS) which is increasing the ability of the GOA and donors to target assistance to the most vulnerable groups. In July, 1994, USAID awarded a grant to the Fund For Armenian Relief to assist the GOA to improve the capacity of the PAROS registration data base. The program is also improving the criteria used to calculate the vulnerability ranking of each household. Government social workers are being trained to: (1) manage the data base; (2) verify the vulnerability status for individual households; and (3) design interventions for the most vulnerable households.

During the first phase of the program, the Ministry of Social Welfare registered 600,000 households. The program's first application was in April, 1995 as part of the USAID funded kerosene distribution activity for winter heating. Since that time, several other humanitarian activities have used the program to compile vulnerable population lists. All major international donors are using the PAROS program (e.g., World Food Program, ECHO, UNHCR).

Since April, 1994, USAID has funded an NGO Training and Resource Center to promote the formation and capacities of local NGOs. Forty-three NGOs have graduated from a core management training program. Several NGO Center graduates have become implementing partners with international organizations or have received international funding to manage programs of their own.

USAID funding to U.S. and local NGOs is also being used to provide management training, technical assistance and grants to local NGOs and civic action groups in order to increase local NGO and civic action group capacity to assess community needs and provide humanitarian and social services.

## PART III

### Status of Management Contract

#### A. Special Management Issues

Process, Systems and Reporting: The reengineering process (i.e., the formulation of Strategic Plans, Results Review and Resource Request, and Strategic Objectives Reports through MRS), has required extraordinary time and effort of a very small professional staff. The focus on process over the past year, and particularly the last three months has been at the cost of program implementation. Examples include less than desirable attention to the Georgia and Azerbaijan programs; inadequate grantee and program direction and monitoring, and too little time spent in dialogue with the host government and other donors except in areas or with actions that could not be avoided. In sum, the process has forced us to be more insulated than we or others desire. Hopefully this major investment will now permit staff to return to substance, to focus on effective program management, including measuring and evaluating results; more and better reporting; and more time to interact with our providers and clients to ensure we are not out of tune with reality, or not detecting emerging impediments to achieving results. It is our expectation that the new systems are now largely in place and there will be no significant change in them over the next 2-3 years. In order to achieve the intermediate results, and ultimately, the strategic objectives to which we have committed ourselves, in the context of a dynamic transition period for both Armenia and USAID, our management tools, e.g., the R4, must remain consistent for the foreseeable future.

Managing and Supporting SO Teams: Team leaders will need to operationalize new concepts and procedures to effectively involve and utilize their SO Teams (providers and clients, and the virtual team members from AID/W technical offices). More views are going to be sought and heard, and taken into account. If greater consensus and commitment are the results then intermediate results are likely to be achieved in a more timely manner with increased impact. But until SO Team leaders become experienced in the new approach to project/program management, difficulties and/or implementation delays could be the result. Team leaders must operate as effective managers, particularly when it comes to planning, organization and directing the work of the SO Team. They must be effective decision makers, eliciting observations and advice upon which the right choices are made and actions will be taken. Also, it will be necessary for senior management to effectively support SO Teams, and determine the nature of direction SO Teams will require to effectively function. It is also clear that greater delegation of authority to AID Representatives and redelegations to SO Team leaders will be required if they are to have the necessary enthusiasm and authority to manage progress toward materially effecting the achievement of intermediate results; and if USAID Representatives are to be held accountable for managing for results across the program portfolio.

**Enhancing the Role of FSNs:** One of the real costs of the reengineering process has been the limited time available to effectively enhance the role of professional FSN staff. This must be recognized by all American staff; vacancies must be filled with qualified FSNs; and SO Team leaders and senior management must be able to devote more time to train and effectively utilize professional FSN staff. In addition, management and SO Team leaders must increasingly delegate authority to FSNs so they can work effectively with both the providers and our host country clients. New skills are going to be required for FSNs to become effective members of SO Teams, and increased funding for external training will also be required.

The Bureau will need to support the field with training funds and then conduct such training, hopefully at a NIS post.

**Contracting and Procurement:** We have not seen the impact of reengineering on these critically important functions. Reengineering and especially managing for results in a timely, effective manner requires that contracting actions move through OP in less than the 100-150 days which is the present norm. We are not in a position to identify the problem - - is it simply the lack of contracting officers; the contracting system or procedures; or is it a new procedure(s) that delays timely action? Are there conditions under which more contracting authority can be delegated to EXOs and/or AID Representatives? Whatever the problem it must be fixed as a matter of urgency if contracting is not to be a drag or major impediment to achieving results in the field by an otherwise reengineered Agency. A Regional Contracting Officer stationed in Kiev has not been replaced. Having that expertise nearby is definitely part of the solution. We feel that one RCO is not enough to handle the contracting needs of the Region. For example, last year it took six months for the RCO to complete a contracting action for USAID/Armenia.

**Staffing:** USAID/Caucasus requires the strong support of the Bureau to fully staff USAID/Caucasus on an urgent basis. This involves filling 2 USDH positions, 2-3 USPSCs and three senior FSNs. As we restructure the mission to fully accommodate the staffing requirements of SO Teams we will seek authority to hire additional professional FSN staff. At present we do not have the authority to do so. It is also probable that we will need to increase our FTE ceiling by 1-2, thus necessitating a NSDD-38 amendment. Given the current, or soon to be, vacancies in the present staffing pattern we cannot achieve the intermediate results in the timeframes presently established. Given our current FTE ceiling every effort must be made by the mission and the Bureau to seek relevant (and highly competent) skills and experience for the SO Team Leader positions, as vacancies occur. On May 15th we will have two vacancies responsible for providing the leadership for SOs 1.2, 1.3, and 1.4. While we have determined how to cover this personnel gap in the short-term, our solution is not sustainable. The economic restructuring and energy sector activities will not be adequately managed from now until suitable USDH officers are assigned to Yerevan.

**Monitoring Results:** Many of the preferred indicators for monitoring progress towards intermediate results will require survey data which is either in short supply or nonexistent.

There is little or no indigenous capacity for developing and implementing these types of surveys, nor are there resources currently available for supporting local or U.S. based consulting of this type. Either funds will need to be programmed into existing and new grants and contracts for this type of monitoring activity, or a separate "monitoring" line item must be added to the country budget for engaging individuals and organizations to provide these services.

**Budgeting Control:** We accept the political realities that impact upon country allocations - - this is beyond our ability to appreciably influence. It is our understanding that the R4 will significantly influence both bottom lines and allocations of program funds among Strategic Objectives. But if we are to effectively reallocate funds among SOs, and among activities under a SO, to achieve intermediate results as circumstances and priorities change, the Bureau needs to identify mechanisms and procedures that will permit a quicker deobligation/reobligation of funds. It is suggested that AID Representatives, as part of their management contract, have such authority - - to be exercised upon a formal justification and recommendation of SO Team leaders. It is recognized that an AID Representative will, possibly often, be confronted with competing recommendations; but given his/her management contract with the Assistant Administrator, it is the Representative who is responsible for achieving "contractible results", and who is, in the best position to determine the trade-offs among competing demands for program resources within the R4 framework. In the final analysis the AID Representative will be held accountable, under his/her contract, for the actions taken. Another area that needs attention is the apportionment process. The Agency obtains apportionments typically within the second quarter of the fiscal year. In a period of reduced funding and lessening pipelines every effort needs to be made to receive apportionments from OMB in the first quarter, so that reservations of program funds can be obtained in the field no later than December. The problem for the field manager is not only the absolute funding level he/she has to work with, but not knowing when the funds will be available to obligate. And lastly if we are to achieve the identified results within the specified timeframe it is absolutely critical that our program budget not be driven by, or encumbered with, one or more Congressional earmarks; earmarks will require both a revision of our Strategy and results framework undoing much of our efforts over the past year.

**Conclusion:** The above highlights what we consider to be the most significant management issues, as we view the prospects for achieving our Strategic Objectives. If the majority can be resolved, and particularly the staffing issues, we believe the reengineering process - the new framework and associated systems - can both direct and improve the mission's overall productivity. We are excited and fully committed to achieving the Strategic Objectives we have identified. We are committed to helping Armenian reformers achieve the targeted results as we believe they are crucial to achieving major progress during the transition to a democratic market-oriented economy in Armenia.

**B: CFR 216 Environmental Analysis Issues**

As the Armenia program for FY 96-98 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.

**C: New Partnership Initiatives**

BOBBY HERMAN IS PREPARING THIS SECTION.

**Caucasus Budget Planning Sheet**  
**(in 000s)**

ARMENIA

STRATEGIC OBJECTIVE	FY 96 Approved OYB	FY 1997 Plan	FY 1998	FY 1998 - 20%
	Arm	ARM	ARM	ARM
<b>Economic Restructuring</b>				
1.2 Increased soundness of fiscal policies and fiscal management practices.	2,000	1,700	1,200	1,200
1.3 Accelerated development and growth of private enterprises	13,800	15,500	18,400	13,600
1.4 A more competitive and market-responsive private sector	2,200	4,000	2,500	2,500
1.5 A more economically sustainable and environmentally sound energy sector	6,800	8,000	8,000	7,000
<b>Democratic Transition</b>				
2.1 Increased, better informed citizens participation in political and economic decision making	2,300	2,000	2,800	2,800
2.2 Legal systems that better support democratic processes and market reforms	1,200	1,000	1,200	1,200
2.3 More effective, responsive, and accountable local government				
<b>Social Stabilization</b>				
3.1 Reduced human suffering and crisis impact	49,850	15,700	12,600	11,200
3.2 Improved sustainability of social benefits services				
<b>Special Initiatives/CrossCutting Issues</b>				
Medical Partnerships				
NET Training & Exchanges	1,000	1,100	500	500
Other Agency Transfers	5,850	6,000	2,800	0
<b>TOTAL COUNTRY</b>	<b>85,000</b>	<b>55,000</b>	<b>50,000</b>	<b>40,000</b>

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10.5.96

SO Combining Projects and/or Activities

SO 1.2:	Proj. 0009	Fisc	650	200		
		Fin/TA	1,350	1,500	1,200	1,200
SO 1.3:	Proj. 0011		10,000	10,000	10,000	8,000
	Proj. 0010		1,500	1,500	1,500	800
	Proj. 0009	Trd.	1,000	1,000	5,100	3,000
	Proj. 0008		750	1,000	1,000	1,000
	Proj. 0005		500	1,000	800	800
SO 1.4:	Proj. 0009	Fin Trng	800	1,800	700	700
		Mkt Env	1,400	1,400	1,500	1,500
SO 2.1:	Proj. 0007	Pol/CivOr	650	800	1,300	1,300
		Media	1,200	1,200	1,000	1,000
		NGO/PVO	350			
		ProgSup	100		500	500
SO2.2:	Proj. 0007	ROL				
		Law Enf.				
SO3.1:	Proj. 0001		48,550			
	Proj. 0004		1,300			

**Caucasus Budget Planning Sheet**  
(in 000s)

ARMENIA

PROJECTS	SO	FY 96 Approved OYB	FY 1997 Plan	FY 1998	FY 1998 - 20%
		ARM	ARM	ARM	ARM
110-0001 Special Initiatives	3.1	48,550	15,700	12,600	11,200
110-0002 Energy	1.5	6,800	8,000	8,000	7,000
110-0003 Environment					
110-0004 Health Care	3.1	1,300	0	0	0
110-0005 Private Sector	1.3	550	1,000	800	800
110-0006 Food Systems	1.3	0	0	0	0
110-0007 Democratic Reform	2.1,2	3,500	3,000	4,000	4,000
110-0008 Housing	1.3	750	2,000	1,000	1,000
110-0009 Economic Restructuring	1.2,3,4,	5,200	6,700	8,800	6,700
110-0010 Eurasia Foundation	1.3	1,500	1,500	1,500	800
110-0011 Enterprise Funds	1.3	10,000	10,000	10,000	8,000
110-0012 Exchanges & Training	Cxl	1,000	1,100	500	500
Performance Fund					
632(A) Transfers (including:)	Cxl	5,850	6,000	2,800	0
Direct Trade and Investment		0	1,800	0	0
USIA Training and Exchanges		1,500	1,000	1,000	0
Warsaw Initiative		250			
Other		4,100	3,200	1,800	0
Transfers to G Bureau		0	0	0	0
Parking Fine Withholding		0	0	0	0

Draft Date: 3/18/96

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TOTAL COUNTRY	85,000	55,000	50,000	40,000
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**Caucasus Budget Planning Sheet  
(in 000s)**

Project: 110-0001, Special Initiatives

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998 - 20%		
		ARM			ARM			ARM		
<b>COMPONENTS</b>										
1. Vulner Groups Feeding					0			0		
2. PVO Cauc/Compr. Human		2,925			4,000			2,000		
3. Emrg, Early Wng, Field Mgt.		625			500			600		
4. Pharm, Vaccines Supply										
5. Armenia Crisis Response		40,500			10,200			9,000		7,600
6. Multilateral Human Asst		300			500			500		
7. Other Emergencies										
8a. Other Soc. Initiatives										
10. Tech. Supt & PD&S		200			500			500		500
Humanit. Transport (632a)		4,000								
<b>TOTAL PROJECT</b>	<b>3.1</b>	<b>48,550</b>			<b>15,700</b>			<b>12,600</b>		<b>11,200</b>

109

### Caucasus Budget Planning Sheet (in 000s)

Project: 110-0002, Energy Efficiency & Market Reform

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>COMPONENTS:</b>													
1. Production Delivery Systems		3,100			4,000			4,000			3,000		
2. Pricing/Policy/Reforms		1,000			1,000			1,000			1,000		
3. Efficiency/Perform Improvement		800			1,500			1,500			1,500		
4. Nuclear Safety (EBRD Part)		500			200			200			200		
5. Privatization/Restructuring		1,100			1,000			1,000			1,000		
Nuclear Safety (NRC) (632a)		300			300			300			300		
<b>TOTAL PROJECT</b>	1.5	6,800			8,000			8,000			7,000		

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### Caucasus Budget Planning Sheet (in 000s)

Project: 110-0004, Health Care Improvement

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>COMPONENTS:</b>													
1. Vaccines/Pharmaceu TA	3.1	1,300			0			0			0		
3. Medical Partnerships													
4. Women's Health Initiative													
5. Project Management													
<b>TOTAL PROJECT</b>		<b>1,300</b>			<b>0</b>			<b>0</b>			<b>0</b>		

### Caucasus Budget Planning Sheet (in 000s)

**Project: 110-0005, Private Sector Initiatives**

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>COMPONENTS:</b>													
1. Privatization													
2. Land Markets													
3. Capital Markets													
4. Public Ed. for Free Market													
5. Post Pvtzn Assist to Enterprises													
6. Policy, Legal & Regulatory Reform													
7. Small and New Business (IESC)	1.3	500			1,000			800			800		
8. Trade and Investment													
9. Administration													
10. Commodity Exchange													
<b>TOTAL PROJECT</b>	<b>1.3</b>	<b>500</b>			<b>1,000</b>			<b>800</b>			<b>800</b>		

112



**Caucasus Budget Planning Sheet  
(in 000s)**

**Project: 110-0007, Democratic Reform**

Proposed Requirements	SO	FY 96 Approved OBY			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>COMPONENTS:</b>													
1. Political & Civic Organizations	2.1	650			800			1,300			1,300		
2. Independent Media	2.1	1,200			1,200			1,000			1,000		
3. Local Governmt/Municipal Finance	2.3												
4. Rule of Law	2.2	1,200			1,000			1,200			1,200		
5. PVO/NGO Program	2.1	350											
7. Program/Field Support	2.1	100						500			500		
Law Enforcement (632a)	2.2												
<b>TOTAL PROJECT</b>		<b>3,500</b>			<b>3,000</b>			<b>4,000</b>			<b>4,000</b>		

### Caucasus Budget Planning Sheet (in 000s)

Project: 110-0008, Housing

Proposed Requirements	SO	FY 96 Approved OBY			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>COMPONENTS:</b>													
1. Housing Sector Reform	1.3	750			2,000			1,000			1,000		
<b>TOTAL PROJECT</b>	1.3	750			2,000			1,000			1,000		

### Caucasus Budget Planning Sheet (in 000s)

Project: 110-0009, Economic Restructuring & Financial Reform

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998			FY 1998 -20%				
		ARM			ARM			ARM			ARM				
<b>COMPONENTS</b>															
<b>1. Fiscal Reform</b>															
'1.1 Fiscal Activities	1.2	650			200										
'1.2 Treasury															
<b>2. Financial Sector Reform:</b>															
'2.1 Financial Sector TA/Monetary	1.2	1,350			1,500			1,200			1,200				
'2.2 Financial Sector Training	1.4	800			1,800			700			700				
'2.3 Financial/Monetary Syst(FSVC)															
<b>3. Market Environment:</b>															
'3.1 Market Environment:	1.4	1,400			2,000			1,500			1,500				
'3.1. Trade & Investment TA	1.3	1,000			1,000			5,100			3,000				
<b>4.1. Progrrm/Field Support</b>															
	1.4				200			300			300				
<b>TOTAL PROJECT</b>		<b>5,200</b>			<b>6,700</b>			<b>8,800</b>			<b>6,700</b>				

### Caucasus Budget Planning Sheet (in 000s)

**Project:110-0010, Eurasia Foundation**

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>COMPONENTS</b>													
1. Eurasia Foundation	1.3	1,500			1,500			1,500			800		
<b>TOTAL PROJECT</b>	<b>1.3</b>	<b>1,500</b>			<b>1,500</b>			<b>1,500</b>			<b>800</b>		

### Caucasus Budget Planning Sheet (in 000s)

**Project:110-0010, Eurasia Foundation**

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>COMPONENTS</b>													
1. Eurasia Foundation	1.3	1,500			1,500			1,500			800		
<b>TOTAL PROJECT</b>	1.3	1,500			1,500			1,500			800		

### Caucasus Budget Planning Sheet (in 000s)

Project: 110-0011, Enterprise Funds

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>COMPONENTS</b>													
1. W/NIS Enterprise Fund													
2. Russian-American w/Far East													
3. Small Bus (EBRD)													
4. Central Asia Enterprise Fund													
5. Trans Caucasus Enterprise Fund	1.3	10,000			10,000			10,000			8,000		
<b>TOTAL PROJECT</b>	<b>1.3</b>	<b>10,000</b>			<b>10,000</b>			<b>10,000</b>			<b>8,000</b>		

1/1

### Caucasus Budget Planning Sheet (in 000s)

Project: 110-0012, Exchanges and Training

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>COMPONENTS</b>													
1. Training & Exchanges													
'1.1 Participant Training	Cxl	1,000			1,100			500			500		
'1.2 Educational Partnerships													
<b>TOTAL PROJECT</b>	Cxl	1,000			1,100			500			500	0	0

122

**Caucasus Budget Planning Sheet  
(in 000s)**

**TRANSFERS:**

Proposed Requirements	SO	FY 96 Approved OYB			FY 1997 Plan			FY 1998			FY 1998 - 20%		
		ARM			ARM			ARM			ARM		
<b>AGENCIES:</b>													
1. OPIC													
2. TDA		0											
3. COMMERCE													
SABIT													
BISNIS													
BISNIS:Russia													
ABCs													
Business Dev Committee													
5. PEACE CORPS		1,100			1,000			800			0		
6. USDAExtension		2,000			1,800								
7. USIA Trng and Exchanges		1,500			1,000			1,000			0		
8. Nuclear Safety		0											
7.2 USIA Small Media Grants													
8.2 Science Centers		1,000											
9. G Bureau for WID													
10. G Bureau for Farmer-to-Farmer													
11. Parking Fine Withholding													
12. S/NIS Transport Fund		0			2,200			1,000					
<b>TOTAL PROJECT</b>	<b>Cxl</b>	<b>5,600</b>			<b>6,000</b>			<b>2,800</b>			<b>0</b>		

A. Annex I (table - Program Funding Source)

~~B&C are budget tables~~

E. Life-of-Objective Funding Levels

The format and historical data necessary for this table has not been received from the AID/W.

F. Program Management Requirements

Guidance and funding levels needed for this section covering operating expenses, staffing and workforce requirements have not yet been received from AID/W.

G. Annex III (field support by Global Bureau)

No support from the G Bureau to USAID/Armenia is built into the country program for FY 1996-98. While close and cordial consultative relations are maintained, no formal financial linkages are anticipated.

H. Composition of Strategic Objective Teams

**STRATEGIC OBJECTIVE TEAMS FOR ARMENIA**

**ENTERPRISE AND ECONOMIC RESTRUCTURING TEAM**

S. O. 1.2 Increased Soundness of Fiscal Policies  
and Fiscal Management Practices

S.O. 1.3 Accelerated Development and Growth of Private Enterprise

S.O. 1.4 A More Competitive and Market - Responsive Private Financial Sector

122

### CORE TEAM

Charles Johnson	Interim Team Leader, S/GDO, USAID
Melissa Schwartz	Dem/Governance Officer, USAID
(To be selected)	Finance and Private Enterprise, USAID
(To be selected)	Economics Advisor, USAID
Sue Thornton	Econ./Political Officer, Embassy
Greg Gajewski	Economist, CEPRA

### EXPANDED TEAM

Susan Jones	IMF, Resident Representative
Steve Anlian	Housing Advisor, ICMA
Richard Russo	U.S. Treasury
Kevork Khrimian	U.S. Treasury
Laurens Ayvazyan	Eurasia Foundation
Armen Darbinian	Dep. Minister of Finance
Armen Keshishian	Ministry of Finance
V. Papava	Ministry of Economy

### VIRTUAL TEAM

Bryan Kurtz	ENI/PER, Wash.
Alexandra Braginski	ENI/PER, Wash.
M. Pollock	ENI/PER, Wash.
Barton Verey	ENI/EEUD, Wash.
Hans Shrader	ENI/ED, Wash.
Jim May	ENI/ED/SB, Wash.
D. Lubbick	U.S. Treasury
D. Nummy	U.S. Treasury
T. Briggs	U.S. Treasury
Giovanni Caprio	Economist, KPMG
Natalie Cropper	Finance Officer, USAID

S.O. 1.5. A More Economically Sound and Environmentally Sustainable Energy Sector

### CORE TEAM

David Lieberman	Team Leader, PDO, USAID
Harout Topsacalian	Energy Advisor, IDEA
Melissa Schwartz	Dem/Governance Officer, USAID

EXPANDED TEAM

Bella Markarian  
Garen Galustian  
Armen Arzumian

D/G Project Asst., USAID  
Deputy Minister of Energy  
Energy Consultant, IDEA

VIRTUAL TEAM

Bob Ichord  
Gordon Weynand  
Jim Bever  
Roy Plucknett  
Mark Ward

ENI/EEUD/EI, Wash.  
ENI/EEUD/EI, Wash  
ENI/EEUD, Wash.  
M/OP/E, Contracts, Wash.  
Regional Legal Advisor, Moscow

DEMOCRATIC GOVERNANCE

- S.O. 2.1 Increased, Better-Informed Citizens' Participation in Political and Economic Decision Making
- 2.2 Legal Systems That Better Support Democratic Processes and Market Reforms

CORE TEAM

Melissa Schwartz  
Bella Markarian  
Charles Jonson  
Sue Thornton  
David Franz  
Bruno Kosheleff

Dem/Governance Officer, USAID  
D/G Project Asst., USAID  
S/GDO, USAID  
Econ./Political Officer, Embassy  
Cons./Pol. Officer, Embassy  
Asst. AID Representative

EXPANDED TEAM

John Karren  
Megan McLean  
Dick Andrews  
Dan Bolger  
Ann Gardner  
Matthew Karanian  
Laurens Ayvazian  
(To be selected )  
Suzy Antonian  
Aremnia

National Democratic Institute  
National Democratic Institute  
National Democratic Institute  
Internews  
IFES  
NGO Center  
Eurasia Foundation  
ABA/CEELI Rep  
Local Rep. American University of

Natalie Cropper  
Greg Gajewski

Finance Officer, USAID  
Economist, CEPRA

VIRTUAL TEAM

Christine Sheckler  
Eileen Wickstrom  
Steve Bouser  
Mitch Benedict  
Corbin Lyday  
Keith Henderson  
Bobby Herman  
Brendan McGrath  
John Christman  
John Knechtle  
David Bronheim,

ENI/DG/PSPM, Wash.  
ENI/DG/PSPM, Wash.  
ENI/DG/PSPM, Wash.  
ENI/DG/PSPM, Wash.  
ENI/DG, Wash.  
ENI/DG/RLG, Wash.  
ENI/PCS, Wash.  
ENI/PD, Wash.  
ABA/CEELI  
ABA/CEELI  
ARD/Checchi

## HUMANITARIAN RESPONSE

### S.O. 3.1 Reduced Human Sufferings and Crisis Impact

#### CORE TEAM

Bruno Kosheleff  
(To be selected)  
Nara Ghazarian  
Artashes Kazakhetsian  
Peter Davidian

Team Leader, Asst. AID Rep  
Humanitarian Relief Coordinator  
Humanitarian Relief Asst.  
Humanitarian Relief Asst.  
Humanitarian Relief Asst.

#### EXPANDED TEAM

Stephen Vance  
Melissa Schwartz  
Adam Roeser  
R. Bogoyan  
Roy Kelegian  
Arminda Pappas  
Ellen Pierce

Save the Children  
Dem/Governance Officer, USAID  
Finance Analyst, USAID  
Minister of Social Welfare  
Fund for Armenian Relief  
Fund for Democracy and Development  
CARE

#### VERTUAL TEAM

Dagnie Kreslins  
Dennis Culkin  
Kent Larson

ENI /OIC/Caucasus, Wash.  
ENI/HR/EHA, Wash.  
ENI/HR, Wash.