U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union

FY 1998 Annual Report

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Prepared by the Office of the Coordinator
of U.S. Assistance to the NIS

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FOREWORD

This Annual Report describes the U.S. Government activities that supported reform in the twelve New Independent States (NIS) of the former Soviet Union during Fiscal Year (FY) 1998, a year marked by financial and political turmoil in the region. In FY 1998, the U.S. Government accelerated the reorientation of its NIS assistance activities away from central governments towards cooperative efforts emphasizing private sector development, regionally focused programs, people-to-people linkages and the development of civil society.

This report summarizes the U.S. Government's contributions to economic and political reform in each of the twelve NIS on a country-by-country basis. It describes the full range of assistance activities through which the U.S. Government is staying engaged in this strategically important region of the world.

William B. Taylor, Jr.
Coordinator of U.S. Assistance to the NIS

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I. INTRODUCTION

The latter part of Fiscal Year (FY) 1998 was marked by the financial and political crises that began in Russia on August 17. As the effects of these events spread to other countries in the region, the U.S. Government re-examined its assistance efforts accordingly. While our overall goals remained the same, we adjusted the mix of programs used to achieve them. Over the past six years, U.S. Government assistance to the New Independent States (NIS) of the former Soviet Union has reinforced the United States' policy goals towards this crucially important part of the world: to foster security, stability and prosperity; develop constructive relationships with the region; and prevent the emergence of new threats to U.S. national security. It also remains the case that the security of the United States and the rest of the world will be immeasurably enhanced if Russia and the other NIS become stable, market-oriented democracies. The U.S. Government has devoted significant resources to facilitating this transition over the past six years—over $12.5 billion in grants and almost $16.9 billion in financing.

This report describes the progress made by U.S. Government assistance programs and cooperative activities with the NIS countries before August 17 and initial responses to the crisis thereafter. These programs and activities were focused in the following four areas: (1) promoting democratic institution-building, the rule of law and the establishment of civil society; (2) helping establish open and competitive markets; (3) enhancing U.S., NIS and international security through cooperative threat reduction and nonproliferation efforts; and (4) addressing urgent humanitarian needs.

PROGRESS IN FY 1998

During the first half of FY 1998, the Coordinator of U.S. Assistance to the NIS continued to restructure NIS assistance activities increasingly towards cooperative activities. This ongoing restructuring is based on the premise that our assistance efforts need to be focused, first and foremost, on investment-led economic growth, people-to-people linkages, and the development of civil society. Especially in Russia, and to a lesser extent in the other NIS countries, the basic institutional building blocks of market economies and democratic governments are becoming known and understood. Technical assistance provided by the U.S. Government and other donors has played an important role in this process. However, we are now gradually shifting our efforts towards more cooperative types of activities that will enable the United States to remain engaged in the region. These activities include U.S. investments in small and medium-sized enterprises; partnerships between U.S. and NIS universities, hospitals, non-governmental organizations, cities, and business and professional associations; and exchanges between U.S. and NIS students, professionals and entrepreneurs. In FY 1998, we also continued to move our assistance activities out of the capital cities and into the regions, particularly in Russia. For example, the Regional Initiative (RI) in Russia established centers in three Russian regions—Novgorod, Khabarovsk and Samara. In Kazakhstan, we laid the groundwork for a regional focus on Atyrau, while in Ukraine, we focused on Lviv and Kharkiv. These and other grassroots activities funded by the U.S. Government are helping to promote long-term stability in the region and are supporting the transitions of the NIS countries to free-market democracies.

After the events of August 17, a program review conducted by the Coordinator's Office suggested that we should accelerate the shift away from assistance to central governments that have not been responsive to our emphasis on market mechanisms and the rule of law. If near-term change in these areas is going to be difficult, we should lay the foundations for longer-term change. This means bringing ever greater numbers of young leaders, new entrepreneurs, scientists and local officials to the United States on exchange programs; supporting more activities with outlying regions of the larger NIS countries; and providing additional support to private, non-governmental entities in these countries—this will be our focus in FY 1999.

The following four sections provide brief assessments of U.S. Government-funded activities in the areas of democratic reform, economic reform, cooperative threat reduction and nonproliferation, and humanitarian assistance in FY 1998.

Democratic Reform Programs

Through our involvement with the NIS over the past six years, we have come to the realization that democratic reform is a generational process in these countries, and we have focused our efforts on building a cadre of young leaders with an understanding of the day-to-day functioning of a market-based democratic system. To this end, we have brought over 75,000 people from the NIS to the United States since FY 1993 on exchange programs lasting from one week to two years. There are now active alumni of U.S. Government-funded exchange programs in all sectors of NIS society who are making a difference by assuming leadership roles in their professions and their communities.

In FY 1998, progress in the area of democratic reform was mixed. Before the Russian economic crisis in August, many of the NIS countries had shown noteworthy gains—several countries had made progress towards free and fair elections, and there had been a proliferation of active non-governmental organizations (NGOs), as well as vibrant and accessible independent media. However, the August economic crisis whittled away at these gains, as many NGOs lost funds in failed banks, independent media saw a dramatic decline in advertising revenue and a number of returned exchange participants lost their private-sector jobs. Despite these setbacks, support for reform remained strong at the grassroots level, where civil society activists prepared to weather the crisis by relying on their own ingenuity and perseverance. NGOs and independent media outlets made use of the training they had received and remained committed to their goals, despite a lack of operating funds. NGOs in Russia banded together to protest a pending tax law that threatened their survival. Similarly, the crisis forced independent media outlets to make hard choices in order to make themselves financially viable, and may actually wind up strengthening the sector in the long run by weeding out the weakest and least sustainable media outlets.

As in FY 1997, the most serious setbacks in the democracy sector occurred in Belarus, where increasing authoritarianism on the part of President Lukashenko imperiled the country's non-governmental sector and independent media. The U.S. Government continued to provide direct assistance to NGOs and independent media in Belarus through the U.S. Embassy's Democracy Fund—one of the few remaining sources of support available to these organizations. In Azerbaijan and Kazakhstan, presidential elections fell short of international standards, due more to a lack of political will than to insufficient technical capacity. However, Azerbaijan demonstrated incremental improvements in the area of democratic reform, eliminating censorship and allowing opposition rallies.

In FY 1998, U.S. Government assistance to the NIS in the area of democratic reform focused on strengthening civil society through exchanges, training programs and partnerships. We continued to work toward building democratic institutions that are responsive to the citizenry. In particular, our programs sought to strengthen institutions and organizations that provide checks and balances against centralized power, such as independent legislatures and judiciaries, independent media, transparent and accountable local governments, and NGOs which can provide a channel for citizen participation in the policy-making process. In addition, we stepped up our efforts to combat violence against women and trafficking in women from the NIS by working with law enforcement officials, crisis centers, local government, health care providers and the legal system.

Organized crime and corruption remained an obstacle to reform and foreign investment throughout the NIS in FY 1998. U.S. Government law enforcement agencies continued to work with their NIS counterparts to combat the spread of Eurasian organized crime and corruption, with an increased emphasis on community-based programs. Cooperative efforts at the local level helped develop basic law enforcement skills and involved citizens in solving pressing problems. Corruption is proving to be a particularly tough problem and one we are approaching through our assistance at all levels, both bilaterally and multilaterally. In addition to law enforcement efforts, good-governance and fiscal regulation programs encouraged transparency in central and local governments. The U.S. Government also supported grassroots efforts through independent media, NGOs and other civic groups to combat crime and corruption.

Economic Reform Programs

Although it reached a critical point only late in the fiscal year, the Russian economic crisis—and its spillover effects in the rest of the NIS—was the dominant economic event of FY 1998. As a result of the crisis, the substantial progress that Russia and a number of other NIS had made toward macroeconomic stabilization in recent years was either reversed or came under serious threat. Inflation in Russia, which had fallen to an annualized rate of 5.5 percent in July, approached 90 percent by the end of 1998. GDP growth, which had also begun to turn in a positive direction in the first half of 1998, took a sharp dive in the last few months of the year.

The ability of the other NIS countries to withstand the shock of the Russian crisis depended on the degree to which they had reoriented their economies away from the Russian market and/or adopted significant structural reforms. For example, Kyrgyzstan, which still conducts 50 percent of its foreign trade with Russia, was deeply affected by the Russian crisis, but was able to mitigate the impact on its currency and inflation rates, thanks to macroeconomic policies put in place over the past several years. Ukraine, on the other hand, suffered a 33-percent drop in the value of its currency and a significant drop in GDP as a direct result of the events in Russia.

Progress on economic reform in FY 1998 was spotty at best. Most of the NIS have yet to adopt the full range of legal and regulatory reforms necessary to establish fully functioning market economies, and have failed to take important steps to privatize the larger state companies, including those in the energy sector. The most notable exception to this general trend in FY 1998 was Moldova, which continued to make significant progress in economic reform, thanks to a government featuring prominent reformers in key economic ministries. Moldova put into effect a modern tax code and passed significant legislation to continue a land privatization program that has already become a model for other states in the region. Other milestones of progress in the region included Kyrgyzstan's accession to the World Trade Organization (WTO) as the first NIS country to achieve this distinction; Armenia's adoption of measures to substantially improve conditions for foreign investment; Azerbaijan's progress in privatizing its agricultural and small business sectors; and Russia's adoption of a portion of production-sharing-agreement (PSA) legislation, which is badly needed in order to attract investment in Russia's energy sector.

Unfortunately, these examples of progress were offset by numerous examples of stagnation or even backsliding in the area of economic reform. For example, Kazakhstan postponed important financial reforms, and Uzbekistan continued to frustrate international investors with its insistence on a regressive foreign exchange regime. Belarus continued its headlong retreat from a market-based economy, and the region's two biggest economies, Russia and Ukraine, continued to suffer due to the Russian and Ukrainian governments' failure to adopt critical measures needed to improve investment opportunities and combat corruption. Faced with this lack of progress at the national level, some regions within Russia and Ukraine began implementing local policies aimed at attracting more investment and generally improving conditions for business activity.

In FY 1998, the U.S. Government focused an increased amount of bilateral economic assistance at the grassroots and regional levels. The Regional Initiative (RI) continued in three Russian regions, where a concentrated infusion of technical assistance, partnerships, small-business training and finance programs was aimed at promoting economic development at the regional level. New regional initiatives were launched in the Kharkiv region of Ukraine and the Atyrau region of Kazakhstan. In general, U.S. Government assistance increasingly emphasized support for small business and the removal of obstacles to trade and investment. Meanwhile, recognizing the critical need for an investment-friendly legal and policy environment, U.S. Government-funded programs continued to support the NIS governments' efforts to put in place the prerequisites for making the transition to a market economy, including sound fiscal and monetary policies, market-friendly commercial legislation, regulatory bodies, strong financial institutions and functioning capital markets.

Security Programs

The economic crisis that affected Russia and the other NIS in FY 1998 also heightened the threat of proliferation of weapons of mass destruction (WMD) from the former Soviet arsenal. Wage arrears and the ruble devaluation exacerbated the already difficult economic conditions faced by many NIS military personnel and former WMD scientists, thus increasing the risk of illicit transfers of sensitive weapons, weapons delivery systems, material technology and expertise. A number of U.S. Government agencies continued a wide range of activities to address potential WMD threats and promote regional stability. While the highest assistance priority remained the facilitation of weapons destruction and dismantlement to meet arms control requirements, an increasing amount of attention was focused on efforts to strengthen export control systems and ensure that former Soviet WMD scientists and technical experts have opportunities to redirect their expertise to peaceful civilian research and development. Failure to continue these efforts at such a critical juncture could jeopardize the enormous progress made in arms control and nonproliferation over the past six years.

The U.S. Defense Department's Cooperative Threat Reduction (CTR) or "Nunn-Lugar" Program continued to facilitate strategic offensive arms reductions in Russia pursuant to the START Treaties, help deactivate SS-19 and SS-24 missiles in Ukraine, and help eliminate SS-18 missile silos and close nuclear test tunnels in Kazakhstan. In Russia, the primary recipient of CTR assistance, the Department of Defense (DoD) pursued efforts to defuel, dismantle and eliminate submarine-launched ballistic missiles from Yankee- and Delta-class SSBNs (ballistic missile submarines). Under its Weapons Protection, Control and Accounting (WPC&A) Program, DoD enhanced the security of Russian nuclear weapons storage sites, dedicated a new training center for emergency response activities, delivered 50 computers for an interim weapons inventory control capability, and further increased the security of weapons in transit. Efforts to help "jump-start" Russian chemical weapons (CW) destruction also continued under the CTR Program. In June 1998, authorities from Russia's Kurgan Oblast (Region) finally selected the site for a CW destruction facility near Shchuchye.

By November 1998, 103 of Ukraine's 111 SS-19 missiles, all 130 launch silos, and all 13 launch control center silos had been eliminated; an integrating contract for bomber elimination had been awarded, and the first bomber elimination began, witnessed by Senator Lugar and a visiting Congressional delegation. In FY 1998, DoD expanded on the CTR-supported efforts of the National Academy of Sciences to increase scientific collaboration in the area of bio-defense and to prevent the proliferation of biological weapons expertise and technology. DoD also continued defense and military contact efforts in Russia, Ukraine, Georgia, Moldova, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan. In FY 1998, for the second year in a row, Belarus was not certified as eligible to receive new CTR assistance due to the Belarusian Government's continuing poor record on human rights.

In addition to CTR, the Department of Defense continued to provide NIS law enforcement officials with equipment and training through its efforts under the DoD/ FBI Counterproliferation and DoD/U.S. Customs Service International Border Security programs. DoD also sponsored the participation of NIS Partnership for Peace member countries in exercises and inter-operability activities, supported radioactive materials storage and disposal efforts through the Arctic Military Environmental Cooperation Program, and pursued a wide range of military-technical cooperative efforts with the NIS.

The State Department's Science Center programs made significant progress in creating opportunities for former NIS WMD scientists to pursue peaceful research. Together, the Science Centers in Moscow and Ukraine generated more than 300 new projects in FY 1998 and have engaged over 24,000 NIS scientists since 1992, addressing a key area of WMD proliferation concern. In addition, cooperative scientific research continued under programs implemented by the Civilian Research and Development Foundation (CRDF) and National Science Foundation (NSF).

In FY 1998, a new pilot project was initiated to support the efforts of the U.S. Departments of Agriculture and Health and Human Services to promote scientific collaboration aimed at redirecting scientists in former Soviet biological weapons-related facilities to civilian commercial, agricultural and public health activities. Another new program that enjoyed a vigorous start in FY 1998 was the Georgia Border Security and Law

Enforcement Program implemented by the U.S. Customs Service. This effort is designed to enhance Georgia's capabilities to control its borders as Russian border troops begin their withdrawal from Georgia.

In FY 1998, the Department of State made progress throughout the NIS in enhancing export control systems by providing equipment and training to prevent, deter and detect potential WMD proliferation. The Department of State also continued to support the development of NIS Partnership for Peace (PFP) interoperability and civil-military relations through the Foreign Military Financing (FMF) and International Military Education and Training (IMET) programs.

In September 1998, the U.S. Department of Energy (DOE) and the Russian Ministry of Atomic Energy concluded an agreement launching the Nuclear Cities Initiative (NCI), a new effort to develop applications for non-military technology and long-term employment opportunities in Russia's ten formerly closed nuclear cities. The NCI is supported and complemented by DOE's Initiatives for Proliferation Prevention (IPP) Program, which approved 64 new projects in FY 1998 in Russia, Ukraine and Kazakhstan to develop non-military, commercially viable applications for defense technologies, as well as and long-term employment opportunities for NIS weapons scientists. Also in FY 1998, DOE's Material Protection, Control and Accounting (MPC&A) Program continued to rapidly improve the safekeeping of nuclear materials in the NIS. Under MPC&A, DOE performed upgrades at 53 major sites in the NIS, completed deliveries of upgraded trucks and railcars for safer transport of materials, and signed a memorandum of cooperation with the main command of Russia's Ministry of Internal Affairs (MVD). DOE's Fissile Materials Disposition Program made progress on a series of U.S.- Russian small-scale tests and demonstrations of technologies to dispose of weapons-derived plutonium no longer required for defense purposes, convert and immobilize weapons-grade plutonium, and examine the feasibility of burning U.S. and Russian plutonium in a Canadian reactor. DOE also contributed to WMD non-proliferation efforts through its traditional nuclear export control assistance and its Second Line of Defense program.

All of these assistance efforts remain in our national security interests. In light of the Russian economic crisis, we must redouble our efforts to take full advantage of the historic post-Cold-War opportunity to reduce WMD threats to the United States, the NIS and the international community. From FY 1992 to FY 1998, over $2.5 billion has been budgeted for U.S. security-related assistance and cooperative programs. These funds represent a mere fraction of U.S. security and defense spending, but the successful and unprecedented partnerships developed through our security-related assistance programs are providing an enormous return on our investment.

Humanitarian Assistance Programs

In FY 1998, as in previous years, U.S. Government-funded humanitarian programs in the NIS were focused on those countries with the greatest need for such assistance. The State Department's Operation Provide Hope delivered over $200 million in humanitarian assistance to the 12 NIS countries in FY 1998. Approximately one fourth of this assistance was provided through the U.S. Defense Department's Excess Property Program, and the remainder was in the form of privately donated commodities—mostly high-value pharmaceuticals—provided through U.S. private voluntary organizations (PVOs). In FY 1998, the State Department coordinated collaborative humanitarian efforts with USAID, responding to emergency flooding situations in Kyrgyzstan, Tajikistan and Russia. In addition, the Department of State worked closely with the U.S. Department of Agriculture (USDA) in the implementation of USDA's Food for Progress programs in the NIS. In FY 1998, USDA's programs provided over $51 million in government-to-government humanitarian commodity assistance in the form of grants or loans and over $67 million in targeted humanitarian programs implemented by U.S. PVOs.

FINANCIAL SUMMARY

Funding for U.S. Government assistance to the NIS reached its lowest level in FY 1997, but increased in FY 1998. From the FY 1994 peak of $2.5 billion, FREEDOM Support Act assistance funds had dropped to $850 million in FY 1995, $641 million in FY 1996 and $625 million in FY 1997. However, with the introduction of the Partnership for Freedom, the U.S. Congress appropriated $770 million for NIS assistance in FY 1998. For FY 1999, the U.S. Congress has appropriated $847 million for NIS assistance.

As of the end of FY 1998, cumulative appropriations for the FREEDOM Support Act, Cooperative Threat Reduction and the other major assistance and cooperative programs totaled $12.56 billion, of which approximately $11.93 billion had been obligated and $10.28 billion expended by the end of FY 1998 (see Appendix). FREEDOM Support Act obligations increased by over $891 million in FY 1998, while obligations of other U.S. Government funds increased by over $855 million for NIS-related programs.

STRUCTURE OF THE FY 1998 ANNUAL REPORT

Section II of this report contains assessments of U.S. Government assistance programs by country, each of which begins with a brief overview of the political and economic developments in each country in FY 1998. Section III describes the major U.S. Government-funded regional assistance programs, trade and investment programs, and cooperative activities. Section IV presents our evaluation of the performance of each of the NIS countries according to the criteria in Section 498A of the Foreign Assistance Act of 1961. Section V describes the use of the "notwithstanding" authority provided to enable U.S. Government assistance programs to move forward without delay. The appendix of this report provides cumulative summary charts of assistance funds budgeted, obligated and expended as of the end of FY 1998, as well as a summary of U.S. Government commercial financing and insurance.

Like our other annual reports, this report will be available through the State Department's homepage on the World Wide Web at the following address: www.state.gov/www/regions/nis/nis_assist_index.html. This report was produced by the Office of the Coordinator of U.S. Assistance to the NIS, and was compiled and edited by Ivars Kuskevics, Aaron Jost and the Security Programs Division. The financial charts in the appendix were prepared by Dean Fischer. Please direct comments and questions to Ivars Kuskevics at (202) 647-0832 or by e-mail to the following address: i.kuskevics@state.gov

II. COUNTRY ASSESSMENTS

The following country assessments provide an overview of U.S. Government assistance programs and their effectiveness in each of the twelve New Independent States (NIS) in FY 1998. These assessments, which also contain brief overviews of political and economic developments in each of the twelve countries, are based on information provided by our embassies, as well as by the various U.S. Government agencies providing assistance to the NIS.

ARMENIA

Political and Economic Overview

President Ter-Petrossian, whose legitimacy had been tainted by seriously flawed elections in 1996 and a pragmatic but unpopular policy on the Nagorno-Karabakh conflict settlement process, was forced to step down in February 1998 under pressure from Prime Minister Kocharian and his allies. Kocharian was elected president in March 1998 in an open and generally well-contested, multi-candidate election. However, his margin of victory was increased by vote fraud. Kocharian took significant steps to bring all parties, including those from the Armenian diaspora, into the political system. He created new institutions to reform the constitution and strengthen human rights protections. His tougher stance vis-a-vis Azerbaijan and Turkey reduced hopes for rapid progress toward regional conflict resolution. Nevertheless, Armenia maintained its policy of cultivating strong relations with both Russia and the West, including greater engagement with NATO.

On the economic front, the technocratic government of Prime Minister Darbinian made substantial progress in creating conditions for viable foreign private investment in Armenia. Despite the Russian financial crisis, Armenia’s national currency, the dram, remained stable. Inflation dropped to single digits, and GNP grew about six percent, albeit from a low base. Despite reform measures aimed at modestly reducing the tax burden on businesses, aggressive tax collection efforts increased budget revenues and kept the deficit relatively stable. With the country’s industrial sector still moribund, Armenia's population remained heavily dependent on remittances from relatives abroad and on outside grants and loans to the Armenian Government. World Bank and International Monetary Fund (IMF) loan disbursements were slowed by Armenia’s reluctance to raise electricity prices to support future energy investment. Toward the end of 1998, the National Assembly, Armenia’s parliament, became increasingly assertive and populist on economic issues, positioning itself for new parliamentary elections in May 1999.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided an estimated $131.0 million in assistance to Armenia, consisting of $84.64 million in FREEDOM Support Act funds, over $28.6 million in other U.S. Government funds and $17.77 million in Defense Department excess and privately donated humanitarian commodities. U.S. Government assistance to Armenia was focused mainly on economic and market reform, energy reform, democracy and good governance, private-sector development, education and training, agriculture, and humanitarian assistance. Since 1995, the U.S. Embassy in Armenia has worked closely with the Armenian Government to decrease the amount of humanitarian assistance provided to Armenia and replace it with more transition- and development-oriented assistance and private-sector development programs. This shift in priorities was designed to assist Armenia in making as rapid and efficient a transition as possible to a free-market economy and in creating jobs in new enterprises. In FY 1998, for the first time since FREEDOM Support Act assistance started in FY 1992, the U.S. Government allocated more funding to development programs for Armenia than to humanitarian assistance. The FY 1998 assistance program for Armenia consisted of $39 million in humanitarian assistance (or 29 percent), $77 million in development assistance (or 57 percent), and $19 million in private-sector development assistance (or 14 percent).

The main emphases of U.S. assistance to Armenia in FY 1998 were as follows:

- $26 million for energy-sector reform. Of this total amount, $5.8 million was devoted to energy-sector restructuring, $5.4 million was allocated for U.S. Department of Energy nuclear safety programs at the Metsamor nuclear plant, and $15 million for the provision of energy meters to complement the ongoing efforts to promote energy-sector reform;

- $11 million for the initiation of a comprehensive market reform program focused on legal and regulatory structures, capital markets, land markets, tax and fiscal policies, and accounting;

- $10 million for U.S.-Armenian exchanges, for U.S.-based education and training programs for Armenians, and for education and institution-building in Armenia. This area received increased emphasis in FY 1998—the funds allocated for educational exchanges with Armenia more than tripled;

- $7.4 million for democracy and good governance programs focusing on six critical areas: judicial reform, independent media, rule of law, training for private voluntary organizations (PVOs) and non-governmental organizations (NGOs), law enforcement assistance, and civic education. The FY 1998 funding level for democracy and good governance programs in Armenia represented a 40-percent increase over FY 1997;

- $6 million to continue the USDA Agricultural Marketing Assistance Program started in 1996. In 1998, USDA expanded the program, placing a particular emphasis on assisting private-sector growth in agriculture and agribusiness;

- $5.8 million for private-sector development, including $3 million through the Eurasia Foundation for the provision of loans and grants to small and medium-size Armenian businesses; and

- $3.8 million for economic restructuring, with a strong emphasis on financial sector and market development.

Economic Restructuring and Reform Programs

USAID Support for the Comprehensive Market Reform Program: With USAID support, the Government of Armenia launched a five-part Comprehensive Market Reform Program in July 1998. The Armenian Government's strong commitment to reform was reflected in the excellent progress in all of the program's five components during the last part of FY 1998.

- **Tax/Fiscal Reform:** Agreement was reached with Armenian tax authorities on a comprehensive modernization plan for district tax offices nationwide. The plan includes new organizational structures and business functions, as well as automation of tax administration. The Tax Inspectorate has "taken ownership" of a detailed implementation plan that will result in the modernization of all tax offices by the end of 1999. As of the end of FY 1998, the plan was being implemented in two pilot district offices in Yerevan, in preparation for expansion to other districts in mid-1999. USAID also provided extensive assistance to the Armenian Government in the drafting of a new customs code that will comply with World Trade Organization (WTO) norms and standards. Armenia may soon complete its documentation for WTO accession and hopes to accede in 1999.

- **Enterprise Accounting Reform:** With USAID technical assistance, the Methodology Department of Armenia's Ministry of Finance and Economy (MOFE) was completing the process of translating and adapting International Accounting Standards (IAS), the first 15 of which were to be implemented in Armenia in January 1999. In cooperation with MOFE personnel, teams of local accountants trained under this project recently completed the conversion of the accounting systems of six private-sector enterprises to IAS. Among the six were the telephone company ArmenTel and a large brewery, Yerevan Beer. A series of 14 training courses leading to certification in international accounting and auditing by the Association of Chartered Certified Accountants (ACCA) began in September. The first two courses in English have been completed by 100 students (an exceptional number for a country the size of Armenia), and the ACCA conducted testing on this first level of certification in Armenia in December. The first course has been translated into Russian and will be offered starting in January.

- **Privatization:** This first phase of this component involved the successful creation of a comprehensive database of all enterprises remaining in state ownership, including details of their financial condition. The database is now being used to help the Ministry of Privatization decide which modes of privatization should be utilized for divestiture of these remaining assets. The next phase of the project will provide direct assistance to the Ministry in international and domestic tenders, privatization through the capital markets, and liquidations.

- **Land Titling and Registration:** Progress under this component was ahead of schedule. The goal of the project was to assist the Armenian Government's ongoing land reform efforts and to support the creation of an active land market. A complete review of all current laws and regulations affecting land was conducted. In close cooperation with the Real Estate Cadaster, key laws on land registration and alienation of state-owned property were drafted and will soon be submitted to the National Assembly. A streamlined methodology for rapid surveying, registration and titling of privatized land was developed, and was being tested in a village outside of Yerevan. This methodology will be the model for rapid titling and registration programs for urban and rural land nationwide by USAID and other donors. The expanded implementation of these extensive new programs will begin in spring 1999, as soon as weather permits.

- **Capital Markets Development:** USAID-funded advisors helped draft a new securities law that establishes an enhanced framework for securities market regulation and creates an independent Securities Exchange Commission to enforce those regulations. In addition, a collaborative effort between USAID-funded advisors and the Armenian Government resulted in the design of a comprehensive national market-trading system that includes clearing, settlement and depository organizations and the use of a centralized share registry. Detailed presentations outlining the proposed trading system were made to the Prime Minister and other Armenian Government officials, as well as to several gatherings of interested private-sector participants.

Although Armenia's progress under the Comprehensive Market Reform Program was remarkable in FY 1998, impediments remained in Armenia's path to a free-market economy. Enforcement of contracts remained a problem, corruption continued to be extensive, and citizen participation in political decision-making remained at very low levels. The U.S. Government is developing a new five-year strategy to address the remaining constraints in ways that promote the development of a stable and prosperous Armenia that is well-integrated into the regional economy.

Other Market-Reform Programs: Additional U.S. assistance programs implemented in FY 1998 that complemented USAID's new Comprehensive Market Reform Program were small and medium-sized enterprise (SME) development, banker training, and assistance with the establishment of an electronic treasury payment transfer system. The SME development activities involved a number of other U.S. Government-funded organizations: the Peace Corps, USDA, and the Eurasia Foundation. To date, the Eurasia Foundation has loaned over $3.4 million to 130 small and medium-sized businesses in Armenia through its three partner banks, helping create 866 new jobs. USDA has loaned a total of $1.4 million to 55 small and medium-sized agribusinesses, helping create another 1,000 jobs.

U.S. Department of Agriculture (USDA) - Agricultural Marketing Assistance Project: In FY 1998, USDA's Marketing Assistance Project (MAP) identified strategic failures in Armenia's marketing system for cheese, high-value fruits, and vegetables and awarded loans to emerging agribusinesses in these areas. The loans were managed through cooperating Armenian banks. It is estimated that MAP's strategic loans for enterprises producing glass jars, as well as transaction loans to canneries for the purchase of fruits and vegetables, increased seasonal employment by 10,000 jobs. The loans to the canneries provided 80 percent of Armenian farmers with direct access to a food processor. A total of $1.4 million was loaned to 55 agribusinesses for expansion of the sales of cheese, dried fruit, milk, meat, wine and tomato paste. New product development resulting from MAP included sun-dried tomatoes, ketchup and high-quality fruit juice. USDA provided grants and technical assistance to help establish an agricultural marketing firm that now has retail and wholesale outlets at 35 locations in 18 cities throughout Armenia. USDA also made technical assistance available to 320,000 farmers via 20 fact sheets published on 13 different subject areas and distributed by the 200 local agents of the Armenian Extension Service created by USDA. In FY 1998, the Extension Service began the transition to its new home at the Armenian Agriculture Academy, assisting the academy in curriculum reform and in establishing a Foundation for Applied Research and Agribusiness that will help initiate applied research.

U.S. Department of the Treasury: Three U.S. Treasury Department advisors, working in close cooperation with USAID, continued to support essential elements of Armenia's economic reform program by providing practical advice to the Ministry of Finance and Economy in the fields of budget administration, tax administration, and government securities management.

USAID Energy-Sector Reform Programs: In FY 1998, USAID energy-sector reform programs continued to work to create a more economically sound energy sector in Armenia. In the area of power-sector restructuring, all remaining generation functions were separated from ArmEnergo, the former state energy monopoly. In July 1998, the transmission function was divested from ArmEnergo, and the distribution sector was further consolidated into four regionally based utilities. This significant restructuring of the power sector has resulted in the following: a decentralization of management and decision-making; an increase in the consumer payment rate for electricity to around 65 percent (the highest in the NIS); enhanced transparency due to sector disaggregation, indicating where costs are excessive and out-of-line with the rest of the sector; an improved environment for the privatization process, achieved by separating the sector into entities that should have more appeal for specific type of investors; and the restoration of the reliability of the power sector, including a 24-hour supply of electricity. In FY 1998, Armenia's energy regulatory commission, which was established in April 1997 with USAID technical assistance, rapidly established itself as a leading regulatory body. To date, the commission has issued some forty resolutions covering areas such as electricity, natural gas and district heating tariff reform, financial reporting requirements for licenses, and critical rules and procedures governing commission operations. This past year, the commission also passed a code of ethics—the first such code to be introduced in Armenia.

Democracy Programs

USIA Democracy Fund Small Grants Program: In FY 1998, the embassy-based, USIA-administered Democracy Fund disbursed $200,000 for 21 small grants to organizations including human rights groups, private radio and television stations, educational organizations, and local NGOs. These grants supported efforts by Armenian organizations to open and expand independent media outlets, monitor the country's human rights situation, educate citizens, develop civic action programs, and strengthen women's rights. For example, a Democracy Fund grant was awarded to support an eight-month public education and training program entitled "Breaking the Silence about Violence Against Women." This grant helped support nationwide seminars on legal issues related to violence against women, television interviews broadcast on Armenian state television, and the development of a 20-page brochure on women's rights. The program is being implemented by the Women's Rights Center (WRC), an Armenian NGO that has worked diligently to promote the creation, change and enforcement of laws for women in Armenia. By conducting a survey of Armenian women's knowledge of women's and children's rights, and operating a hotline for victims of gender discrimination and domestic violence, WRC has successfully raised the profile of women's issues in Armenia.

USAID Democracy Programs: In FY 1998, USAID-funded democracy programs were focused on two main objectives: increased citizen participation in political and economic decision-making, and the development of a legal system that better supports democratic and market reforms. USAID's programs to promote increased citizen participation had mixed results in Armenia in FY 1998. The extraordinary presidential elections held in March 1998 caused some shifts in the focus of USAID's democracy programs, relative to plans made at the beginning of the fiscal year, when there was no prospect of elections in 1998. Despite technical assistance, Armenia's political parties showed little progress compared to the 1996 presidential elections, and international observers documented some serious irregularities in the elections. One positive change, attributed to the strong voter education program conducted by the International Foundation for Election Systems (IFES), was that significantly fewer ballots were declared invalid in the 1998 elections. Another success was independent media assistance provided by Internews, a U.S. NGO that provided technical assistance and equipment to independent television stations in Armenia, thereby increasing their ability to raise revenue and to report news impartially. The Internews program contributed to significantly increased news coverage of the elections. Meanwhile, USAID's legal and judicial reform program focused on ensuring that a legal framework is in place for a well-functioning judiciary, as well as making sure that current and future lawyers and judges are trained in the implementation of such legislation. In FY 1998, Armenia adopted numerous laws that had a direct or indirect impact on the rule of law. USAID-funded technical advisors provided assessments and other expert assistance on laws such as the highly regarded civil code and laws on the status of judges, the judiciary, and advocate service. USAID provided assistance to the Yerevan State University Law School in curriculum and faculty development and funded a modern electronic research law library. USAID is currently providing technical assistance in three critical areas: (1) an evaluation of substantive changes under consideration for

Armenia's constitution, (2) assistance to the Armenian Judges' Association in developing a code of ethics, and (3) support for an effort by the Bar Association of the Republic of Armenia to draft a code of ethics.

USIA Institutional Partnerships: Under its Sister Cities School Partnership Program, USIA announced its plans to support a partnership between Pasadena, California, and Vanadzor, Armenia. A three-week exchange involving 20 Armenian students and two Armenian educators will take place in early 1999. A USIA-funded university partnership between the American University of Armenia (AUA) and the University of California-Berkeley's Boalt Law School continued in FY 1998, with 19 Armenian students accepted into the program's second cycle in May 1998. In October 1998, sixteen first-cycle students graduated AUA with law degrees. In FY 1998, USIA also finalized a university partnership agreement between Yerevan State University and Florida State University, under which the two institutions will exchange faculty and administrators for a combination of teaching, lecturing, faculty and curriculum development, collaborative research, and outreach, for periods ranging from one week to one academic year.

Training and Exchange Programs

U.S. Information Agency (USIA): Training and exchange programs, which aim to expose future Armenian leaders to Western concepts of democracy and market economics, were increased significantly in FY 1998, as 144 young Armenians traveled to the United States under USIA academic exchange programs. Of this total, 70 Armenians were enrolled in master's-degree programs under USIA's Muskie/FREEDOM Support Act Fellowship Program, 50 Armenian high school students took part in USIA's Future Leaders Exchange (FLEX) Program, and 24 students participated in USIA's undergraduate exchange programs. In addition, 31 Armenians participated in USIA professional exchange programs in the areas of civic education, curriculum development, media and government. USIA also supported a university partnership program between Florida State University and Yerevan State University and continued its teacher training program through Iowa University.

USAID Global Training for Development (GTD): In FY 1998, USAID provided short-term training, both in Armenia and abroad, for 373 participants under its Global Training for Development (GTD) Project. Of this total, 88 participants attended training in the United States and 45 attended third-country training programs. U.S.-based training was provided in a number of key areas, including bank supervision, NGO development, criminal justice reform, energy sector reform, legal education, academia, marketing, and business administration. As a complement to the U.S.-based training, other subjects were covered by USAID training programs in Armenia and in third countries (countries other than Armenia and the United States), including NGO development, business administration, economics education, journalism, accounting and fiscal decentralization. In addition to these USAID short-term training programs, another 45 Armenians benefited from USAID-funded conferences and exchange visits to the United States.

Social Sector Programs

Hospital Partnerships: Two USAID-funded hospital partnerships were active in FY 1998: one between the Ereboni Medical Center and College of Nursing and the UCLA Medical Center, and one between the Emergency Scientific Medical Center and the Boston University Medical Center. The UCLA-Ereboni partnership recently introduced the first bachelor's-degree nursing program in Armenia, and in June 1999, 18 nursing students will complete their program and be eligible to receive BSN degrees.

Humanitarian Assistance

As a result of the U.S. Government's effort to reduce humanitarian assistance to Armenia in favor of development assistance—a goal shared by the Armenian Government—only 29 percent of U.S. Government assistance to Armenia was humanitarian assistance in FY 1998. In FY 1998, the Armenian Government was better able to identify and target the country's assistance needs, in large measure due to the USAID-funded PAROS system, a computerized database initiated by USAID in 1996 which contains the names of 750,000 households and is used by international organizations and the Armenian Government for the distribution of humanitarian assistance. PAROS allows USAID, other donor organizations, and the Armenian Government to identify the most needy sectors of the population and to distribute humanitarian assistance accordingly. The Armenian Government is now also better positioned fiscally to shoulder more of the responsibility for maintaining and strengthening the social safety net, especially for the most vulnerable parts of the population.

USAID Winter Warmth Kerosene Program: During the winter of 1997-98, USAID's Winter Warmth Kerosene Program distributed 10,000 metric tons of kerosene to Armenian schools and to the vulnerable population living in temporary shelters in the earthquake zone of northern Armenia. This important, high-profile program provided the only means of heat to a large segment of the population for the entire winter and was the only source of heat for the vast majority of schools throughout Armenia. The fifth consecutive year of this USAID program proved to be the most successful yet. The USAID-supported Fund for Democracy and Development (FDD) utilized a highly experienced staff that benefited from excellent support and collaboration from various U.S. and Armenian governmental and non-governmental sources. As a result, FDD distributed kerosene to 99.7 percent of all eligible beneficiaries—the highest percentage ever. The 10,000 metric tons of kerosene benefited 34,037 beneficiaries living in temporary shelters ever since the December 1988 earthquake, 1,270 schools throughout Armenia, and 429 other institutions.

USAID Community Development Program: The Community Development Program, implemented through the Save the Children Federation (SCF) since 1995, entered a new phase in FY 1998, incorporating a number of changes and stressing a more concerted effort to foster community self-reliance and to more adequately address priority needs through micro-projects. In FY 1998 alone, approximately 200,000 people benefited from over 200 micro-projects implemented under this program. In addition, 30 new projects benefiting an additional 50,000 people were under way and targeted for completion by December 1998. These community development programs are designed to support urban and rural families in the areas of health, education, social and cultural development, irrigation, drinking water, sanitation, small business development, and minor construction projects.

Coordinator's Office Seed Delivery Program: In FY 1998, the Coordinator's Office funded the transportation of 1,950 metric tons of spring barley seed, 1,050 metric tons of spring seed potatoes, and 40 metric tons of super elite winter wheat seed purchased by the Armenian Government. The total cost of the transportation for this program was approximately $198,000.

Coordinator's Office Humanitarian Transport: In FY 1998, the Office of the Coordinator of U.S. Assistance to the NIS transported an estimated $17.77 million in donated humanitarian commodities to Armenia. These commodities—primarily medicines, medical supplies and food—were donated by U.S. private voluntary organizations (PVOs), including the United Methodist Committee on Relief (UMCOR), Citihope International, the United Armenian Fund (UAF) and the Women's Health Care Association. The Coordinator's Office allocated $1.5 million for the transportation of these items to Armenia via surface and air transport.

USDA Food Assistance: In FY 1998, USDA provided $10.7 million for the provision of 11,000 metric tons of food commodities drawing from USDA resources under its Food for Progress program. Four American PVOs working in Armenia participated in this USDA program, distributing 50 percent of the commodities to vulnerable people, and monetizing the remaining 50 percent and using the proceeds for development projects in Armenia.

USDA Concessional Sales: In FY 1998, USDA provided approximately 90,800 metric tons of wheat to Armenia through its P.L. 480, Title I program. This assistance was in the form of a $15 million concessional loan for the procurement and delivery of U.S. wheat to Armenia. In accordance with the U.S.-Armenian government-to-government agreement for the FY 1998 wheat program, all U.S. wheat purchased under this program must be auctioned, thus making the U.S. wheat available to private Armenian entrepreneurs and thereby encouraging the rapid privatization of Armenia's state bread sector. This year, primarily because of the reform conditions placed on the delivery of U.S. wheat since FY 1996, privatization of Armenia's bread industry was completed in August 1998 with the privatization of Armenia's state grain agency, heretofore the controlling government agency for the provision and distribution of wheat, flour and bread in Armenia.

Security Programs

Armenia is an active member of the State Department-supported International Science and Technology Center (ISTC) in Moscow. A number of former Soviet weapons scientists in Armenia are working on ISTC projects designed to prevent the proliferation of their weapons-related expertise. (See Security Programs section in Part III)

Cross-Sectoral Programs

Peace Corps: As of the end of FY 1998, the Peace Corps has been in Armenia for six years, during which time over 180 Peace Corps volunteers (PCVs) have served in its teaching-English-as-a-foreign-language (TEFL) and small-business development programs. In 1998, approximately 50 volunteers served throughout Armenia at any one time, working in cooperation with other U.S. Government agencies and donor organizations active in Armenia. In the area of small business development, PCVs continued to provide support to the Peace Corps' nine regional business centers and to private entrepreneurs by developing training seminars, providing consulting services, teaching college business courses, initiating junior achievement programs, and facilitating contacts with donors. Under the TEFL program, PCVs taught English in institutions of higher learning, secondary and primary schools throughout Armenia, while also assisting with curriculum development and acquisition of teaching materials. In cooperation with the U.S. Information Agency, PCVs organized a traveling teacher show that presented Western teaching methods to local secondary school teachers throughout Armenia. In addition, PCVs collaborated on a wide range of community development projects, including working with orphanages, opening community language and resource centers, repairing irrigation systems, identifying and distributing seeds to the poor on behalf of UNHCR, conducting summer camps, organizing health and environmental awareness activities, and repairing school buildings.

Preview of FY 1999 Programs

In FY 1999, U.S. Government assistance to Armenia will focus on three areas: economic reform (including energy sector development), democracy-building, and regional integration and cooperation. There will be a continued emphasis on education and training programs, community development programs, health and agriculture. At the same time, the U.S. Government will continue to fund assistance programs that support the development of a strong private sector and concomitant job creation, and encourage trade and investment. Technical assistance programs that help create an enabling environment for a thriving private sector will be stressed, along with promotion of the rule of law. Our embassy in Armenia also believes that social safety net programs are important in providing support for the most vulnerable sectors of Armenia's population in order to sustain needed political support while longer term economic and democratic reforms are being made. Although there are still some valuable humanitarian assistance programs, the U.S. Government assistance program will continue to move even further away from humanitarian assistance towards development assistance in FY 1999.

AZERBAIJAN

Political and Economic Overview

The Azerbaijani Government's conduct of the October 1998 presidential elections, the major political event of 1998, fell short of international democratic standards. Nevertheless, with substantial encouragement from the U.S. Embassy in Baku, international organizations and NGOs, the Government of Azerbaijan took several specific steps that represented steps in the right direction, such as eliminating official censorship and allowing opposition rallies. However, these improvements and the development of an assertive domestic press were only first steps towards the general observance of democratic norms in Azerbaijan. Another major weakness was the lack of legal reform. The concept, let alone the practice, of an independent judiciary continued to have little place in Azerbaijani jurisprudence, and there was a continued dearth of qualified lawyers capable of protecting the legal rights of those who run afoul of the government.

On paper, economic reform in Azerbaijan was moving forward in FY 1998, but much work remains to be done, and the reforms that have been introduced need to be implemented effectively. Azerbaijan's macro-economic situation was characterized by 8.5 percent GDP growth last year, less than one percent inflation, a stable currency and healthy foreign exchange reserves. Fourteen production-sharing agreements (PSAs) have been signed with foreign oil companies and have resulted in $1.6 billion in foreign investments and contract bonuses. However, in the areas of commercial law, accounting standards and tax administration, Azerbaijani practices continued to be woefully behind international standards and constitute a barrier to foreign investment and economic development. Government licensing and regulatory practices were characterized by a lack of transparency. Corruption continued to be endemic. At the same time, however, an active privatization program was changing the face of Azerbaijan's economy. As of the end of FY 1998, about 90 percent of the nation's farmland was in private hands, although the farm sector was producing at only half of its Soviet-era levels. Virtually all small commercial enterprises were privately owned. Most medium-sized and large

enterprises remained in the state sector, but will be privatized under legislation that was still in preparation as of late FY 1998.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided an estimated $65.0 million in assistance to Azerbaijan, consisting of $34.29 million in FREEDOM Support Act funds, over $6.2 million in other U.S. Government funds, and $24.53 million in Defense Department excess and privately donated humanitarian commodities (including the donation of an excess hospital by the Department of Defense). Of the FREEDOM Support Act funds managed by USAID, $21.72 million was used for humanitarian assistance, $2.25 million for economic restructuring, $3.17 million for democracy and governance programs, and $1.66 million for cross-sectoral activities. Interagency transfers of FREEDOM Support Act amounted to $5.48 million.

U.S. Government assistance efforts in Azerbaijan continued to focus on humanitarian assistance in FY 1998. By way of a legislative amendment containing expanded waivers to Section 907 of the FREEDOM Support Act (which prohibits several types of U.S. assistance to the Government of Azerbaijan) the U.S. Congress made possible much-needed assistance in the area of democracy and governance; in particular, the relaxation of Section 907 allowed the U.S. Government to work with the Azerbaijani Government on election preparation and administration.

Social-Sector and Humanitarian Programs

U.S. Department of Agriculture (USDA) Food Assistance: Through its Food for Progress program, USDA provided approximately 7,000 metric tons of food assistance valued at approximately $4.8 million and distributed through U.S. private voluntary organizations (PVOs) in Azerbaijan.

Coordinator's Office Humanitarian Assistance: In August 1998, the largest single U.S. Government humanitarian assistance project for Azerbaijan got under way. Sponsored by Office of the Coordinator of U.S. Assistance to the NIS, the project involved close coordination among the Departments of State and Defense, USAID, the U.S. Embassy in Baku and U.S. private voluntary organizations (PVOs) operating in Azerbaijan, as well as full coordination with the Ministry of Health of the Government of Azerbaijan. The project consisted of two elements: the delivery of $13.9 million worth of medical equipment, and the provision of $6.1 million worth of medicines and medical supplies. The medical equipment and supplies, which arrived via a C-5 aircraft and a commercially contracted IL-76 aircraft in August, were installed and distributed to eight hospitals and facilities in Baku. The medicines and supplies were subsequently distributed throughout Azerbaijan by four PVOs working in Azerbaijan: the United Methodist Committee on Relief (UMCOR), Relief International (RI), Counterpart International, and the Adventist Development Relief Agency (ADRA). Numerous U.S. PVOs, pharmaceutical companies and suppliers donated medical supplies and medicines to this highly effective project.

USAID Humanitarian Assistance: Throughout FY 1998, USAID-funded grantees provided vital assistance to internally displaced persons (IDPs) and refugees in Azerbaijan. Primary health care was provided in all areas with a high density of IDPs—services were provided for over 300,000 people. Progress continued to be made in the provision of basic shelter to IDPs in rural areas (with a cumulative total of 50,000 beneficiaries since FY 1992) and in the rehabilitation of public shelter facilities in urban areas (with a cumulative total of 33 facilities rehabilitated since FY 1992). Additionally, the scope of income generation projects was expanded, allowing some 2,500 IDPs to take charge of their lives and regain their sense of personal pride. USAID also provided funding provided to UNHCR for the shelter components of a major part of a World Bank-funded resettlement program. Covering the Fizuli, Agdam, and Ter-Ter regions, this initial program aims at resettling 3,000 IDPs in their home villages.

- **Azerbaijan Humanitarian Assistance Program (AHAP):** In FY 1998, USAID initiated a new Azerbaijan Humanitarian Assistance Program (AHAP), for which Mercy Corps International was selected as the implementing organization. Under its three-year agreement with USAID, Mercy Corps International is managing a large portfolio of subgrants in the sectors of health and nutrition, shelter, and economic opportunity. Mercy Corps International organized competitions to award new subgrants in each sector, ensuring that there was no gap in coverage between the end of the previous program and the beginning of the AHAP.

- **Assistance to Victims of the Nagorno-Karabakh Conflict:** In FY 1998, the U.S. Congress authorized humanitarian assistance to refugees, displaced persons and needy civilians affected by the Nagorno-Karabakh conflict, notwithstanding any other legislative provisions, such as Section 907 of the FREEDOM Support Act, which prohibits U.S. Government assistance to the Government of Azerbaijan. The largest impact of this change was immediately felt in Azerbaijan's health sector. New health subgrants now include provisions for working through Azerbaijani Government health facilities and health-care providers, introducing a new element of sustainability and taking a first step away from the "parallel" non-governmental system of health care delivery established in response to Section 907. USAID was also able to fund a hospital partnership between UMCOR/Baylor University Hospital and two hospitals in Baku. In addition, using funds earmarked for the victims of the Nagorno-Karabakh conflict, USAID designed a rehabilitation program in the front-line Goranboy region of Azerbaijan. This integrated program, which complements the World Bank's resettlement program and will bring USAID-funded assistance into a totally new region of Azerbaijan, will seek to not only to rehabilitate shelter, thus attracting IDPs back home, but also to establish the range of services necessary to keep the IDPs at home, including income-generating activities and health-care services. Village-based activities will be designed with the full participation of communities and community groups, thus serving as a grassroots community mobilization effort and contributing to the U.S. Government's efforts to strengthen civil society.

Economic Restructuring Programs

USAID Small Business Lending and Micro-Credit Programs: In FY 1998, U.S. assistance in this area was geared towards promoting the development of a small business sector in Azerbaijan, with a particular focus on agriculture and agribusiness. Shorebank, a USAID grantee, provided technical assistance and training to three private banks in Azerbaijan which are using International Finance Corporation (IFC) loans to provide loans of up to $100,000. In FY 1998, the IFC opened credit lines of $3.4 million to those three banks. Shorebank aims to create a small-business-lending capacity in the private banks, which so far have disbursed nine loans totaling $491,000. In addition, the USAID-funded Foundation for International Community Assistance (FINCA), supported a village bank lending activity and made loans between $50 and $1,000 to micro-entrepreneurs not serviced by Azerbaijan's commercial banking sector. To date, FINCA has disbursed $27,600 to 276 clients.

USAID Banker Training Program: The USAID-supported Barents Group implemented a banker training program for Azerbaijan's privately owned banks. The training was implemented in a series of one-week courses taught by recognized experts. Participants included mid- and upper-level technical and managerial bank staff. To date, six courses have been conducted with a total of 118 participants. Towards the end of FY 1998, however, training session attendance dropped, and USAID instructed Barents to develop a plan to increase attendance.

USAID Agribusiness Development Programs: USAID provided technical assistance to Azerbaijan's for-profit agricultural and agro-processing sectors, with the goal of enhancing the development and economic opportunities of agriculture-based enterprises, as well as local organizations that works towards this same goal. Under the Farmer-to-Farmer Program implemented by Volunteers in Overseas Cooperative Assistance (VOCA), 18 U.S. farmers and agro-processors traveled to Azerbaijan and spent four weeks providing intensive hands-on technical assistance in production, transformation, marketing and finance. VOCA also supported the development of farmers' associations and processing cooperatives. Although this program was quite effective in its existing scope, Section 907 of the FREEDOM Support Act prohibited USAID from working on the policy and regulatory environment with the Government of Azerbaijan and thus imposed serious constraints on USAID's ability to achieve sustainable results in this area.

Democracy Programs

USAID Election-Related Assistance: With the loosening of Section 907's provisions in FY 1998, U.S. Government-funded democracy programs in Azerbaijan expanded to include programs to promote free and fair elections. The on-the-ground presence of USAID-supported U.S. non-governmental organizations (NGOs) such as the National Democratic Institute (NDI) and the International Foundation for Election Systems (IFES) helped ensure that the Azerbaijani public was as well informed as possible about the electoral process, and that election officials received training in implementation of the new law on presidential elections. With USAID support, NDI and IFES provided technical assistance to Azerbaijan's Central Electoral Commission (CEC), and implemented voter education and election observation programs. NDI also implemented a civic education program and provided commentary on the election process. In preparation for the presidential elections, NDI's small Baku-based staff, along with visiting OSCE experts and the U.S. Ambassador, convinced the Government of Azerbaijan to amend the flawed election law originally passed in April. Among the key amendments to the original law was the inclusion of opposition political party representatives as members of the CEC. NDI also provided technical assistance to the six political parties participating in the election and worked closely with its subgrantee "For the Sake of Civil Society," a local civic organization which fielded 2,600 domestic election observers for the October presidential elections. NDI also sent an international election observer mission for the October elections, as did the International Republican Institute (IRI) and the OSCE. These three international observer missions coordinated their activities closely, and came to similar conclusions, namely that although much progress had been made, the elections failed to meet international standards. In addition to advising Central Election Commission officials on voter education efforts and other issues, IFES helped produce an election guide for poll-workers. Through a train-the-trainer program, IFES trained district officials who, in turn, provided training to precinct election officials. IFES conducted three seminars for a total of 650 chairmen of territorial and precinct election commissions, and provided technical assistance to 82 territorial election commissions. Surveys conducted by IFES prior to and on election day revealed that a large percentage of precinct election commission chairmen had received training. IFES also provided commentary and technical assistance on the election law and implementing regulations, and has been asked to provide assistance with enabling legislation for the 1999 municipal elections.

USAID Independent Media Programs: The USAID grantee Internews has been working in Azerbaijan since 1995, helping Azerbaijani independent television stations to produce and exchange programming. Through Internews, these stations participate in a highly successful regional program-sharing effort. Internews conducted seven in-country seminars with an average of 15 participants each. Through the Academy for Educational Development, USAID's training provider, Internews sent 15 Azerbaijani reporters to the United States for training. Internews also helped independent television stations to register and obtain broadcast licenses. This was an especially important activity, as the Government of Azerbaijan worked in a variety of ways to prevent independent stations from becoming registered and operational. Internews was well-prepared for changes to media registration procedures introduced by the Azerbaijani Government in FY 1998. With help from Internews, two stations were able to register immediately after the procedures changed, although there were some complications. Internews also translated into Azerbaijani a manual on how to conduct media coverage of an election, which was distributed to representatives of Azerbaijan's electronic media. Ultimately, however, Internews was not able to achieve all of what it had set out to do, due to the unfavorable environment for independent television in Azerbaijan.

USAID NGO Development Programs: With USAID funding, the Initiative for Social Action and Renewal in Eurasia (ISAR) has provided 72 grants to local NGOs working in the environmental and social sectors. ISAR also provided organizational development assistance to NGOs working in any sector. In FY 1998, ISAR trained 165 people representing 75 NGOs. A total of 110 NGOs subscribed to ISAR's bulletin.

Democracy Fund Small Grants Program: In FY 1998, the embassy-based, USIA-administered Democracy Fund Small Grants Program funded over 15 projects implemented by Azerbaijani non-governmental organizations involved in developing books, pamphlets and other educational materials, conducting seminars and courses, and organizing associations and conferences on topics related to democracy and civil society. A number of these projects, including a series of democracy readers for secondary school students, have attracted additional funding for mass publication from other sources, including the Soros-funded Open Society Institute, the Norwegian Refugee Council and UNICEF. The programs on human rights and civic education were so enthusiastically received that aspects of these programs will be used on a wider scale by other organizations in Azerbaijan, including state agencies. A Democracy Fund grant was also awarded to support the creation of a human rights center, where participating NGOs will have access to office and meeting space,

computers, faxes, phones, e-mail and the Internet, in return for providing staff to the center eight hours per week. The current political environment in Azerbaijan has made it very difficult for NGOs involved in human rights work to carry out their activities, and some eleven organizations had expressed a need for an improved working environment in which to perform their activities and access communications technology.

USIA Internet Access and Training Program (IATP): Since beginning operations in Azerbaijan in early 1998, IATP has provided computer training and access to over 2,000 scholars, journalists and other information-needy Azerbaijanis. USIA opened three Internet centers in Baku, all of which provide training as well as reliable access to information. In a country starved for the Internet (where one hour of on-line access time costs the equivalent of a university professor's typical weekly salary), IATP has been widely acclaimed as one of the U.S. Government's most positive contributions.

Eurasia Foundation: With support from USAID, the Eurasia Foundation promoted the development of professional and business associations in Azerbaijan, among them an indigenous press association which has been working with the National Assembly to reform the country's media law. The Eurasia Foundation also awarded a grant to provide training to print journalists on campaign coverage.

USIA Exchange Programs: In FY 1998 the U.S. Information Agency (USIA) implemented a wide array of exchange programs for Azerbaijani participants, including opportunities for 17 graduate students to participate in one- and two-year graduate degree programs in 11 targeted fields, 19 undergraduate students to spend their junior year in the United States, 55 secondary school students to participate in USIA's Future Leaders Exchange (FLEX) Program, and eight scholars to conduct research in the United States. These exchange programs provide the participants with the skills and expertise needed to manage a democratic, market-based society. USIA's International Visitors (IV) Program introduced Azerbaijani politicians, ministers, government officials, businessmen, newspaper editors and lawyers to relevant aspects of the American system. This year's IV Program participants included the chairmen of political parties, the Minister of the Press and Information, and some of Azerbaijan's most prominent defense lawyers. USIA's University Linkages Program supported a partnership exchange between the University of California at Los Angeles (UCLA) and Khazar University which resulted in the complete overhaul of Khazar University's library and information resources center. A newly funded three-year partnership between Azerbaijan's Western University and Northern Alabama University will lead to the creation of a MBA program that meets international standards of excellence. In addition, USIA's School Linkages Program supported ongoing sister-school relations between schools in Baku and Florida.

USAID Training Programs: With the help of USAID-funded training programs, Azerbaijani citizens have not only developed new skills, but have also made valuable contacts with colleagues from their own country, as well as with counterparts from other countries experiencing political and economic transitions. In FY 1998, the Academy for Educational Development (AED), USAID's training provider, sponsored nine training programs for a total of 167 participants. Courses conducted during FY 1998 included a community development course for refugee and IDP community leaders, courses in business development and agro-business consultation, agricultural development study tours, and a number of activities in support of democratization.

Preview of FY 1999 Programs

U.S. Government assistance to Azerbaijan will continue to have two central objectives in FY 1999: (1) to alleviate human suffering while helping to reduce dependence on humanitarian assistance, in part by strengthening the capacity of indigenous NGOs/PVOs and community groups to assume a larger role in the country's development process; and (2) to support more responsive, transparent and accountable democratic governance through increased participation of informed citizens in the country's economic and political life. The latter involves strengthening NGOs, political parties, and independent media, and expanding basic civic education. In addition, USAID will continue to implement programs designed to stimulate the nascent private sector, focusing on small to medium-sized enterprise and agribusiness development, training and related areas. Small business credit and village banking programs will constitute the centerpiece of this effort.

In FY 1999, the U.S. Government will continue to increase the proportion of assistance resources going to support democratic pluralism and private sector development in Azerbaijan. A modest amount of funding is also likely to be allocated to preliminary efforts at demining, resettlement and rehabilitation in some of the areas of the country previously occupied by Armenian military forces. The U.S. Government will also continue to implement activities to assist victims of the Nagorno-Karabakh conflict, as mandated by the FY 1998 Congressional earmark. In the event of a peace settlement, the U.S. Government will continue to provide

humanitarian and rehabilitation assistance, while expanding overall support for economic restructuring and growth objectives. A variety of USAID training programs will bolster the capacity of Azerbaijani citizens, groups and institutions to advance the reform process. Increasingly, training will focus on economics and business development.

BELARUS

Political and Economic Overview

In FY 1998, the Government of Belarus continued along its path toward an authoritarian government and a centrally controlled economy. Power remained heavily concentrated in President Lukashenko's hands, as it has been since the illegal constitutional referendum in November 1996, which also extended President Lukashenko's term in office and resulted in a dissolution of the legitimate parliament. Belarus's largest independent newspaper was shut down by government authorities in November 1997, and numerous other independent media were subjected to various forms of intimidation and restrictions. At least two prominent Belarusian attorneys who handled human rights-related cases were disbarred. Security services continued to use force and administrative sanctions to intimidate and threaten supporters of the opposition.

Ideologically still committed to a planned economy, the Belarusian Government remained hostile to the adoption of any significant economic reforms in FY 1998. Although massive credits to the debt-ridden state sector allowed government officials to claim economic growth, living standards declined for many segments of society as wages were eroded by high inflation. Significant and sustained depreciation in the value of the Belarusian ruble resulted in a critical shortage of foreign currency. According to a poll conducted by the Ministry of Economy in October 1998, almost half of all Belarusian households were experiencing difficulty making ends meet.

Overview of U.S. Government Assistance

U.S. Government assistance to Belarus remained modest in FY 1998, due to Belarus's poor record on economic and democratic reforms. The U.S. Government provided an estimated $17.2 million in assistance to Belarus, consisting of $7.96 million in FREEDOM Support Act funds, over $1.4 million in other U.S. Government funds, and $7.86 million in Defense Department excess and privately donated humanitarian commodities. Approximately 48 percent of this assistance was technical assistance, and 48 percent was humanitarian assistance. USIA university partnerships and USAID hospital partnerships accounted for the remaining four percent.

Throughout FY 1998, the U.S. Government continued its policy of "selective engagement" adopted after the above-mentioned November 1996 referendum. Under this policy, no new bilateral assistance is channeled to the Government of Belarus. U.S. assistance priorities remained the following: (1) building respect for the rule of law and democracy, (2) strengthening NGOs and independent media, and (3) encouraging small-scale privatization. Resources were directed to those elements of Belarusian society that, despite the political regime, were trying to introduce democratic and market principles.

Democracy Programs

Democracy Fund Small Grants Program: In FY 1998, our embassy's Democracy Fund, which is administered by USIA and has been awarding grants since January 1997, remained a critical element of the overall U.S. Government strategy to help develop in Belarus a civil society based on the rule of law. Since the program's inception, a total of 64 projects in the areas of rule of law, human rights, and development of independent media have been funded. A total of 49 grants with a total value of approximately $656,000 were awarded in FY 1998 to support youth and women's groups, independent trade unions, print and broadcast media, human rights NGOs and other democratically oriented organizations. Although the grants are limited in size (they may not exceed $24,000, and most fall between $5,000 and $15,000), they have proved to be an effective vehicle for supporting pro-reform segments of Belarusian society, especially at the community level. Despite a difficult overall political environment, the delivery of assistance to grant recipients was achieved without serious problems.

American Bar Association - Central and East European Law Initiative (ABA/CEELI): The USAID-funded ABA/CEELI program has worked to develop local education programs and strengthen professional legal associations in Belarus since August 1992. Highlights of activities implemented in FY 1998 include legal seminars devoted to human rights, conducted in partnership with the Brest Lawyers' Association as part of a "street law" program to educate Belarusian citizens on the rule of law; a workshop on effective legal representation of independent trade unionists; and co-sponsorship of a commercial arbitration workshop with the Belarusian Chamber of Commerce's International Arbitration Court. ABA/CEELI's local counterparts often faced harassment and direct opposition from Belarusian Government authorities. Despite these obstacles, the program was a useful and successful mechanism through which to promote the concepts of legal training and rule of law throughout Belarus.

IREX/Promedia Program: In mid-1997, USAID initiated support for the development of independent media in Belarus through the Promedia program implemented by the International Research and Exchanges Board (IREX). In FY 1998, the IREX/Promedia project continued to provide professional journalistic and management assistance with the goal of increasing independent media's ability to better inform Belarusians so that they more fully participate in economic and political decision-making. In December 1997, IREX/Promedia established a photo service and text archive, along with an Internet website to access the information, which are used regularly by at least eleven local newspapers. As a result of IREX/Promedia training and consulting sessions, several news organizations initiated product design and content improvements. Highlights of FY 1998 activities include IREX/Promedia-organized roundtable discussions with a former Czech dissident journalist.

International Republican Institute (IRI): In FY 1998, the IRI's USAID-funded program in Belarus remained focused on the basic elements of political party building. IRI conducted a seminar on outreach planning for political parties which was attended by representatives of the Belarusian Popular Front and the United Civic and Social Democratic parties. IRI also held seminars for members of the dissolved Thirteenth Supreme Soviet (Belarus's legitimate parliament) and political party youth leaders. While limited in nature, IRI programs in Belarus were an effective means through which to provide training in democratic processes to pro-reform political figures. (see also FY 1999 Programs section below)

Counterpart Alliance for Partnership (CAP) NGO Development Program: USAID began funding CAP's Belarus program in September 1997 as part of the effort to develop an open, civil society. Since the program's inception, CAP has awarded 18 grants to local NGOs and trained over 65 NGO representatives in different aspects of NGO management and project design. FY 1998 program highlights included support for the Belarusian Hospice Women's Educational and Consulting Center—the first such center in the country. CAP plans to support the creation of training coordination points and help increase the number of local NGO trainers in Belarus.

Economic Development Programs

International Finance Corporation (IFC) Small-Scale Privatization Program: USAID has funded the IFC's Small-Scale Privatization Program in Belarus since mid-1993. In FY 1998, IFC continued to provide a full range of consulting, technical and legal services to cities throughout Belarus. Over 630 municipally owned small businesses have been privatized through direct IFC assistance, with proceeds going to community budgets to support schools, public transportation, and health facilities. "Dutch auctions" (asset prices usually decline during the bid process) were introduced by the IFC during FY 1998 in order to speed up the privatization process. Despite the lack of progress in structural economic reforms in Belarus, the privatization of businesses has proven to be successful and has encouraged competitive practices among neighboring state-owned enterprises. Regional government officials and local entrepreneurs have been highly receptive to the IFC program.

Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA): In FY 1998, USAID-funded programs implemented by ACDI/VOCA in Belarus were focused on agricultural entrepreneurs, rural education and training, agricultural reform and privatization, and environmental improvement in rural areas. ACDI/VOCA'S highly effective small-scale programs provide assistance to private farmers and entrepreneurs in the agricultural production and processing sectors. In FY 1998, ACDI/VOCA continued to provide highly skilled U.S. volunteer consultants to work with Belarusian agriculturists. Through ACDI/VOCA's Farmer-to-Farmer Program, over 102 volunteers have completed 118 projects in Belarus since April 1993. Fifteen voluntary technical assistance programs were completed during FY 1998.

Training and Exchange Programs

U.S. Information Agency (USIA): In FY 1998, USIA-sponsored exchange programs were a key component in the U.S. Government's strategy to assist those Belarusians who are working to introduce democratic and economic reforms. USIA began recruiting in Belarus in 1997 for its Community Connections Program, which provides community-based U.S. internships for entrepreneurs and NGO leaders. A total of 73 people from five cities in Belarus traveled to the United States for short-term professional training during FY 1998. USIA also sent four groups of Belarusians to the United States for professional training and consultations on education, small business development, youth NGOs, information technology and modern libraries. USIA brought seven U.S. specialists from various disciplines to Belarus to give lectures and consult with local counterparts, including one who advised the Minsk Civic Education Center on the creation of a secondary school civics curriculum. USIA also funded the participation of Belarusians in a seminar in Poland on teaching American studies.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1998, the USAID-supported Eurasia Foundation awarded $1 million in grants to support activities in Belarus. Areas of focus included, but were not limited to, support for independent media, NGO development, business development and education. In September 1998, the Foundation substantially increased its capacity in Belarus by establishing a permanent representative office in Minsk. As a private foundation, the Eurasia Foundation has been able to successfully leverage funds from other donors, which will help to fund an independent media project implemented by the Foundation in Belarus. In November 1997, the Foundation, along with the Institute for East-West Studies and the King Badouin Foundation, co-hosted a meeting of donors and prospective funders in Brussels to discuss program opportunities in Belarus. A total of 34 representatives of 23 foundations and official aid agencies participated in the meeting and discussed how to build public awareness of democratic principles, promote private business development, improve economics and business instruction, develop the non-governmental and non-profit sector, and keep independent media alive in Belarus.

Social Sector and Humanitarian Assistance

Hospital Partnerships: In FY 1998, USAID provided $400,000 to fund the American International Health Alliance (AIHA) Hospital Partnership Program in Belarus. AIHA has partnered the Magee Women's and Children's Hospitals Of Pittsburgh and the University of Pittsburgh Schools of Medicine and Nursing with four Minsk-based medical institutions: the Minsk Medical Institute, Children's Hospital No. 4, the Radiation Medicine Institute, and Maternity Hospital No. 2. Since its formation in March 1993, the partnership has focused primarily on pediatrics, medical education reform, gastroenterology, nursing reform, women's health, and poison control. In late April, the partnership celebrated the opening at Maternity Hospital No. 2 of a women's wellness center which offers special education and outreach for adolescents. Minsk Medical Institute administrators worked with their Pittsburgh colleagues to redesign the school's curriculum and teaching methodologies, and Children's Hospital No. 4 embarked on a program to upgrade the skills of its nursing staff. AIHA helps to address a critical need in Belarus for improved health care.

Humanitarian Assistance: In FY 1998, the Coordinator's Office continued to fund the delivery of privately donated humanitarian assistance to Belarus. At a cost of approximately $300,000, the U.S. Government delivered almost $7.9 million in humanitarian assistance to Belarus, most of which was donated by U.S. citizens and private voluntary organizations (PVOs) and directed to victims of the Chornobyl accident. USAID and the Department of State also continued to fund the Counterpart Humanitarian Assistance Program (CHAP), which locates excess Defense Department commodities at U.S. military bases which are closing down and delivers them to hospitals, orphanages and social service-oriented NGOs in Belarus. There were no government-to-government humanitarian assistance programs with Belarus in FY 1998.

Security Programs

With the exception of $61,000 in **International Military Education and Training (IMET)** funds, the U.S. Government did not provide any security-related assistance to Belarus in FY 1998. In February 1997 and again in 1998, the President of the United States decertified Belarus under the **Defense Department's Cooperative**

Threat Reduction (CTR) Program due to its poor record on human rights, resulting in a suspension of $40 million in unobligated CTR funds. Although project funds already obligated were permitted to continue, some of those also encountered difficulties. The most serious obstacles to implementing CTR programs in Belarus were imposed by the Belarusian Government. Beginning in 1996, the Government of Belarus denied U.S. contractors access to installations so that they could provide agreed-upon assistance for the elimination of SS-25 fixed structure foundations. The Belarusian Government also stopped funding an environmental restoration project in Postavy, as a result of which soil remediation equipment given to the Belarusian Government under the CTR Program has stood idle since July 1997. Previous CTR efforts had helped eliminate and dismantle Belarusian weapons of mass destruction, and provided emergency response equipment and training, and export control assistance.

Preview of FY 1999 Programs

No major program changes are planned for FY 1999. However, one new focus of the U.S. Government's democracy-building programs will be support for election observer training held under the auspices of the OSCE's Advisory and Monitoring Group (AMG) in Minsk prior to local elections scheduled for early 1999. An expanded independent media program that would also assist independent television stations in Belarus is under consideration.

GEORGIA

Political and Economic Overview

Political and economic reform moved forward in Georgia in FY 1998, but at a somewhat slower pace than during the previous year. The Georgian Government was distracted by a number of domestic crises, including, among other things, the attempted assassination of President Shevardnadze in February, a military defeat during renewed fighting in May in the Gali area of Abkhazia, the subsequent influx of some 40,000 internally displaced persons (IDPs) from Gali into Western Georgia, a cabinet crisis during the summer, an unsuccessful military mutiny in October, and an economic crisis in November. Even though these circumstances made it more difficult for the Georgian Government to concentrate on its ambitious reform program, several important reforms were accomplished. Supported by U.S. assistance, Georgia’s border guards took control of the country's Black Sea border from Russian forces and initiated Coast Guard operations. The Georgian Government also began preparations to assume control of Georgia’s border with Turkey, and reached agreement with Russia on the withdrawal of all Russian troops from Georgia’s borders. In the energy sector, the Telasi power facility, the primary electrical distribution facility for Tbilisi, was privatized, with the tender going to a U.S. firm. Final decisions on the privatization of operations at Poti, Georgia's primary port, are expected in early FY 1999. In a major step forward for judicial reform, in May 1998, the Council of Justice, with assistance from the American Bar Association, implemented a first-of-its-kind judicial qualifying exam for sitting judges and independent candidates. Sixty percent of the judges who took the exam failed. A total of 34 candidates passed, of whom 32 received judicial appointments in August. Additionally, on November 15, Georgia held local elections, the first under the country's new constitution.

Foreign direct investment continued to play a modest, but increasing role in economic activity in FY 1998. The number of U.S. companies active in Georgia nearly doubled over the past year, as did the number of foreign entrepreneurs visiting Georgia. Georgia's position as a transit gateway for Caspian Sea energy resources and for the exports of Central Asia continued to spark a great deal of investment interest. The single most important foreign business venture continued to be the construction of a crude oil pipeline across Georgia from Baku to Supsa. Completion of this "early oil" pipeline is expected early in 1999. Georgia was also engaged in negotiations with the Azerbaijan International Operating Company (AIOC), Turkey and Azerbaijan on the construction of a main export pipeline from Baku through Georgia to the Turkish Mediterranean port of Ceyhan. In addition, some oil exploration took place within Georgia, including by the U.S. company Frontera.

Nevertheless, serious problems remained. This past fall, Georgia's relationship with the International Monetary Fund (IMF) was complicated by the Georgian Government’s difficulties in meeting its commitments to the Fund with respect to increasing taxes, levying excise taxes, and developing budgets to operate within existing income. Georgia was hard hit by Russia’s economic collapse. Thirty percent of Georgian exports had traditionally been going to Russia, which was now unable to pay for them. In addition, the Russian crisis also

made it more difficult for other countries in the region to continue to pay for exports from Georgia. This situation exacerbated an already critical shortfall in revenue.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided an estimated $143.9 million in assistance to Georgia, consisting of $85.61 million in FREEDOM Support Act funds, over $21.5 million in other U.S. Government funds, and $36.72 million in Defense Department excess and privately donated humanitarian commodities. USAID-managed assistance accounted for $57 million, of which $19.25 million was humanitarian assistance, $19.6 million was devoted to economic reform, $8.5 million to energy reform, $5.25 million to democratic reform and $4.4 million to cross-cutting activities. Transfers to other agencies, including the U.S. Information Agency (USIA), the U.S. Department of Justice and others, accounted for $35.3 million of total assistance. Defense Department-managed funding included $1.35 million for Foreign Military Financing (FMF) and $375,000 for International Military Education and Training (IMET). Funding for the U.S. Customs Service's programs totaled $17.5 million, and the U.S. Trade and Development Agency (TDA) funded a $250,000 feasibility study. Total U.S. Department of Agriculture (USDA) assistance to Georgia in FY 1998 was $17.8 million, of which $15 million funded concessional sales to the Georgian Government under P.L. 480, Title I and $2.8 million in food assistance was provided to U.S. non-governmental organizations for distribution in Georgia under USDA's Food for Progress program.

U.S. Government assistance programs in Georgia actively supported comprehensive market reform, economic restructuring, energy sector reforms, democratic reforms, and the development of Georgia's capability to guard its borders and create a military suitable for its security needs. In FY 1998, economic reform, including energy sector reform, received increased emphasis, as U.S. assistance to Georgia continued its transition from a primarily humanitarian to a developmental focus. However, U.S. programs such as those in support of victims of the Abkhazia conflict continued to address Georgia's ongoing humanitarian needs.

Security Programs

Georgian Border Security and Law Enforcement Program: In FY 1998, the U.S. Government implemented a $17.5 million program to help the Georgian Government develop the capacity of its Border Guards and Customs Service to exercise control over Georgia's borders. To date, the program has focused primarily on the requirements of Georgia's maritime border guard forces, but the needs of the Customs Service are also receiving close attention. Thus far, initiatives have included the provision of basic support equipment, delivery of two patrol craft purchased under CTR, the construction of housing and barracks, the purchase of fuel and oil for border guard ships and vehicles, the repair of border guard vessels, and a feasibility study for a communication/surveillance system. Future initiatives will include the purchase of a helicopter, development of the airborne arm of the border guards (including purchase of one twin-engine patrol aircraft for maritime operations), creation of a Customs Service training center, and numerous training programs. The U.S. Embassy in Georgia rates this critical program as highly effective.

In FY 1998, the U.S. Government also provided assistance to Georgia under the Defense Department's **Cooperative Threat Reduction Program (CTR)** or "Nunn-Lugar" Program to help Georgia enhance its export control capabilities by providing two patrol boats to facilitate Georgia's border security and help prevent the proliferation of weapons of mass destruction and other trafficking. The effort complements the Georgia Border Security and Law Enforcement Program described above.

Foreign Military Financing (FMF)/International Military Education and Training (IMET): In FY 1998, the Georgian Government received $1.5 million under the FMF Program, which it used to purchase badly needed radios and other communications equipment that will increase the capability of its military forces to participate in NATO Partnership for Peace exercises. The Georgian Government also received $375,000 in IMET funding, which it used to send Georgian officers for ranger and infantry training, command and general staff courses, English language training, and courses in civil-military relations.

USIA NATO Exchange Programs: USIA organized two NATO tours--one for six Georgian Government officials and one for six journalists. In addition, USIA sent a Georgian journalist to NATO to participate in a program for the Caucasus region. The programs, which were the first U.S. Government-funded NATO programs for Georgia, provided Georgian policy-makers and opinion-leaders with an understanding of NATO policy, the enhanced Partnership for Peace program, and European security institutions. After returning home, the program's participants successfully built support for NATO and military-security cooperation with the West among Georgian citizens and political leaders.

Georgia is an active member of the multilateral **International Science and Technology Center (ISTC)** in Moscow, and a number of former Soviet weapons scientists in Georgia are working on ISTC projects funded with U.S. contributions. Projects have been funded with scientists at the Georgian Technical University, the Institute of Cybernetics, the Institute of Stable Isotopes, the Republican Center of Environmental Monitoring, the State Institute of Economic Relations and Tbilisi State University.

Energy Sector Programs

In FY 1998, USAID's emphasis on the importance of privatization for the efficient delivery of energy facilitated the privatization of seven gas distribution enterprises in the municipal regions of Georgia. In addition, USAID collaborated with the World Bank and Merrill Lynch in the privatization of Telasi, an electric distribution company based in the Georgian capital Tbilisi that serves more than half of the country's consumers. The tender was won by the American firm AES.

A USAID-funded pilot project in Rustavi demonstrated that with appropriate management reforms, public education, modest equipment repairs and improvements, and a political commitment to supply only paying customers, collections from energy consumers could be increased to almost 100 percent. It also demonstrated to the Georgian Government that consumers are willing to pay for services if they are provided on a regular basis. In October, with USAID support, the Georgian National Electricity Regulatory Commission increased its tariffs by 33 percent and adopted an improved tariff methodology, despite the fact that the Georgian Government had attempted to delay the implementation of the higher rate for political reasons. USAID's analysis of the longer-term benefits of the rate increase (specifically, how cost recovery will enable the government to reinvest in the system) and vigorous intervention by the USAID Mission helped convince the Georgian Government to stick to its original plan.

Economic Restructuring Programs

USAID Comprehensive Market Reform Program (CMRP): The CMRP consists of five activities: tax and fiscal reform to support the establishment of a modern and transparent tax administration, land privatization, privatization of the Port of Poti, accounting reform, and capital market infrastructure development. Together, these activities are designed to create the macro-economic conditions necessary to revitalize the Georgian economy. USAID-funded technical assistance facilitated the establishment of a Budget Analysis Office inside the Georgian Parliament and a Fiscal Analysis Unit inside the Ministry of Finance, and resulted in improved budget procedures, computerization and more regularized tax administration. However, much remains to be done in FY 1999, as Georgia has one of the lowest tax compliance rates in the world. To improve tax collections, more progress in the creation and implementation of transparent and accountable systems will be necessary.

USIA Budget and Fiscal Management Exchanges: USIA sent a total of 37 staff members of the budget offices in the Ministry of Finance and the Parliament to the United States on three International Visitor (IV) programs in budget and fiscal management. As a result of these programs, the Georgian Government is now in the process of changing its budget-making processes to begin using U.S. standards in areas such as line itemization, budget execution, and money transfer.

USAID Privatization Assistance: USAID provided technical assistance to the Georgian Government on the process of land privatization. A USAID-funded contractor established a legal team in the Georgian Parliament that advises parliamentarians on key issues related to land markets. Analyses by this group, along with activities by various citizens' groups, have been instrumental in blocking several pieces of legislation that would have been harmful to the objective of establishing land markets. USAID also provided recommendations to the Georgian Government for the privatization of Port of Poti in Western Georgia, the country's largest enterprise.

USAID Accounting Reform Programs: USAID-funded activities are raising accounting practices in Georgia to international standards and have led to the establishment and growth of the Georgian Accountants' and Auditors' Association, which now has more than 800 members. USAID-supported training helped form a cadre of 650 professionals educated in market-oriented accounting principles and practices who are now working effectively in enterprises, audit firms, and development organizations. This resulted in a surging demand for training services in the new accounting/auditing systems, and for vastly improved standards of transparency and accountability in the public and private sectors.

USAID & USIA Capital Markets Programs: USAID supported the development of Georgia's securities market by helping establish pilot share registries and facilitating the drafting and submission to parliament of a securities law and a law on entrepreneurs. USIA's first cooperative television project (TV co-op) on capital-market development produced surprising spin-offs. In addition to providing Georgian viewers with a documentary series on the subject, the project inaugurated futures trading in Tbilisi, resulted in the publication of a series of articles and provided the impetus for a regional public-private conference, whose participants resolved to use U.S. models for regulation and legislation in this field.

Trade and Investment Programs: The U.S. Government also worked with the Georgian Government to help develop a legal and regulatory environment conducive to free trade and investment in Georgia. This USAID-funded project effectively helped Georgia maintain its "fast-track" status for accession to the World Trade Organization (WTO).

Macro-Economics Textbook Translation Project: In FY 1998, USIA, the Eurasia Foundation and the Soros-funded Open Society Institute cosponsored a book translation project that will produce the first Georgian-language college-level macro-economics textbook available throughout the country. The project's sponsors also worked very effectively with Georgian educators on curriculum development.

USAID Banker Training Programs: This program was developed to provide finance education and retraining to employees of Georgia's commercial banks. In cooperation with five leading Georgian banks, USAID helped establish a non-governmental organization (NGO) for the banking and finance sector. The NGO implemented a train-the-trainer program through which 21 banker training courses have been offered to a total of 443 participants. USAID also provided technical assistance in electronic payment systems to the National Bank of Georgia.

USAID Assistance to Small and Medium-Sized Enterprises (SMEs): USAID provided financial and technical support for the development of SMEs in Georgia, including lending institutions. USAID sponsored the development of partnerships with a Tbilisi bank and the training of loan officers and credit committee members. Thirteen SME loan proposals were approved, and over $223,000 was disbursed to private companies in and around Tbilisi. Technical, managerial, and business planning assistance was also provided by U.S. volunteer senior executives, who helped establish a resource center and a satellite office for Western Georgia.

USAID Seed Production Programs: USAID also helped form viable and sustainable enterprises that can provide improved quality seed and better technical and financial management systems for seed production, with the goal of reestablishing a seed industry in Georgia. Approximately fifteen seed enterprises participated directly in commercial seed production activities.

Democracy Programs

Democracy Fund Small Grants Program: Under this USIA-administered program, the U.S. Embassy's Democracy Commission awarded six grants totaling approximately $69,000 to the following organizations: the information center Alternativa for a conflict resolution project establishing public information centers to promote the settlement of the Georgian-Ossetian conflict; the Association of Information Specialists for a training program for Georgian information specialists and librarians in modern standards of information retrieval; the Caucasus-American Bureau on Human Rights and the Rule of Law for a project on monitoring and advocating for human rights in Georgia; and the Georgian Youth League for a project on improving civic education in Georgia's regions. The Democracy Commission also awarded several grants in support of Georgia's independent media, including a grant to *Rustavi Info* (the only independent newspaper in the city of Rustavi), and a grant to the independent newspaper *Kavkazioni* for a regional Southern Caucasus Journalists Center devoted to conflict resolution and for the publication of a regional newspaper, *Common Caucasus Newspaper*, in Georgia, Armenia and Azerbaijan.

USAID Democracy and Governance Programs: USAID's comprehensive program in this area focused on election assistance, the rule of law, assistance to the parliament and independent media, and the development of NGOs and civil society.

- **Election-Related Assistance:** Local elections took place in Georgia in mid-November 1998, in preparation for which the USAID-funded International Foundation for Election Systems (IFES) provided extensive technical assistance to Georgia's Central Electoral Commission (CEC), including production of a poll-worker manual, training for election officials, and voter education. In addition, the Eurasia Foundation provided funding to a Georgian civic organization to assist IFES and the CEC with poll-worker training. Political party representatives and domestic poll-watchers were trained by the USAID-supported National Democratic Institute (NDI) and International Republican Institute (IRI).

- **Judicial Reform Programs:** Georgia is the most advanced NIS country in the area of judicial reform. The American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI) provided clinical legal education and helped strengthen and expand lawyers' associations. AMEX, a USAID contractor, provided training and technical assistance with the drafting of codes and laws. In May 1998, Georgia's Council of Justice, with assistance from ABA/CEELI, prepared and implemented a first-of-its-kind judicial qualifying exam for sitting judges and independent candidates. Sixty percent of the judges who took the exam failed. A total of 34 candidates passed, of whom 32 received judicial appointments in August 1998. The new judges are receiving a monthly salary ranging from 500 to 600 lari (approximately $975 to $1,175) as compared to their previous judicial salary of 30 to 45 lari (approximately $60 to $90).

- **Parliamentary Assistance:** NDI helped the Georgian Parliament improve its oversight capacity by producing a manual based on the U.S. House of Representatives Oversight Committee's manual. NDI also facilitated other innovations, such as the introduction of a weekly government hour (during which executive branch officials answer questions before the parliament), better-focused parliamentary hearings, and more reporting from parliamentary committees to the full parliament. In addition, the USAID-funded National Association of Public Administration worked with the Georgian Parliament to improve its information management services, providing both hardware and training.

- **Programs to Promote Citizen Participation:** NDI worked through the International Society for Free Elections (ISFED), a local Georgian NGO which it helped create in 1995, to establish citizen advisory committees in Tbilisi and several of Georgia's regions. There are nearly 23 committees in place, with more planned in the future. In three municipalities, the committees have succeeded in obtaining public hearings on the local budget. In others, members regularly attend municipal staff meetings.

Support for the Georgian Institute of Public Administration (GIPA): In FY 1998, USIA and the Eurasia Foundation continued to support GIPA, which offers a one-year master's-degree program in public administration. GIPA graduated 25 students from its 1998 program—its fourth graduating class. A majority of GIPA's graduates go on to work in the public sector. USIA also sponsored a Fulbright professor who taught public administration, law and public policy at GIPA and other Georgian institutions.

USIA Information Research Center (IRC): The Tbilisi-based IRC provided critical legislative drafting support to Georgian Government officials by answering scores of information requests on subjects ranging from human organ trafficking to church ownership of land. The IRC also conducted outreach programs to help develop IRCs in other parts of the country.

Training and Exchange Programs

USIA Academic Exchanges: In FY 1998, 50 Georgian high school students traveled to the United States under USIA's Future Leaders' Exchange (FLEX) Program and USIA began recruiting Abkhazian high school students for the FY 1999 cycle. In addition, for the fourth year in a row, USIA sponsored a high school civic education youth exchange program, bringing 10 Georgian students to the United States and 10 American students to Georgia. The students attended history and language classes and participated in volunteer projects. The program's organizers reported that the Georgian students returned home completely transformed, and subsequently organized volunteer efforts in their home communities. Also in FY 1998, 43 Georgians students studied at U.S. colleges and universities through USIA's FREEDOM Support Act Undergraduate and Muskie Graduate programs, and 23 Georgian scholars traveled to the United States under the Fulbright, Regional Scholars, and Contemporary Issues programs. Upon returning home, Georgian alumni of USIA academic exchange programs were offered jobs by foreign and local businesses and NGOs, as well as by the Georgian Government.

USIA Professional Exchanges: In FY 1998, 50 English-speaking Georgian entrepreneurs and 40 Georgian-speaking professionals traveled to the United States under USIA's Community Connections program. The entrepreneurs, who came from a diverse number of fields, worked in U.S. businesses similar to their own. The professionals consisted of three groups: wheat growers, employees of agricultural lending and educational agencies, and teachers of the disabled. In addition, a group of 26 Georgians, including procuracy staff, human rights groups, attorneys, and journalists, traveled to the United States under a USIA International Visitor (IV) program on human rights. The program brought together Georgians of diverse viewpoints who discussed Georgian laws with U.S. experts, and it led to a press conference and television program on the subject. Four Georgians participated in a USIA International Visitor (IV) program on business management for newspapers. USIA also sent a journalist to participate in a Foreign Press Center program on media and the rule of law. In addition, USIA sent seven Georgians to the United States on a program in cultural preservation, which familiarized the participants with U.S. methods of preserving artifacts in museums and regulating tourism.

Georgian-Abkhazian Youth Conflict Resolution Camp: This past summer, in support of the peace process between the Georgian Government and Abkhazia, the USAID-funded Academy for Educational Development (AED) sponsored a month-long U.S.-based summer camp for 40 children—half from Abkhazia and half from elsewhere in Georgia. Some of the participants of this program were from USAID-supported youth houses in Tbilisi and Sukhumi (see Humanitarian and Social Sector Programs below). The program enabled the participants to acquire skills in conflict resolution and, most importantly, helped establish friendships between ethnic Georgian IDP youth from Abkhazia and ethnic Abkhazian youth.

USIA Speakers Program: At the request of the Georgian Parliament, USIA brought a U.S. expert to Tbilisi to speak on the subject of international adoption. The speaker, a professor from Harvard University, participated with other international experts in a conference on international adoption, whose findings addressing Georgian adoption legislation were subsequently published.

Humanitarian and Social Sector Programs

U.S. Department of Agriculture (USDA) - Food Assistance and Concessional Sales: In FY 1998, USDA donated 4,500 metric tons of food assistance to Georgia under its Food for Progress program. In addition, USDA provided approximately $15 million in wheat and vegetable oil under its P.L. 480, Title I program.

Coordinator's Office Humanitarian Assistance: In FY 1998, Georgia received over $36.7 million in humanitarian commodities transported at a cost of approximately $2.5 million under the State Department-funded Operation Provide Hope. These commodities were distributed by U.S. private voluntary organizations (PVOs), including the United Methodist Committee on Relief (UMCOR), A Call to Serve (ACTS), Counterpart and CitiHope.

USAID Winter Fuel Assistance: In March-April 1998, USAID purchased and delivered over 58 million cubic centimeters of natural gas valued at $5 million to the Russian-Georgian border for use in generating electricity during late winter. The gas was provided in response to a request from the Georgian Government to the U.S. Government to cover a shortfall in funds for purchasing winter fuel.

Planned Assistance to Abkhazia: One of the most important U.S. Government humanitarian assistance activities planned for FY 1998 was a program to assist the victims of the conflict in Abkhazia, for which the U.S. Congress had earmarked $5 million. USAID made two grant awards to the Adventist Development and Relief Agency (ADRA) for health and other projects, and additional proposals were evaluated. Unfortunately, just as this process was reaching fruition, the security situation in Abkhazia and western Georgia deteriorated, indefinitely delaying the implementation of these important programs. As of the end of FY 1998, the security situation continued to prevent program implementation.

Shelter Programs for Internally Displaced Persons (IDPs): With the help of a grant from USAID, the International Federation of the Red Cross (IFRC) completed its IDP shelter program, under which thirteen buildings were rehabilitated, benefiting over 5,200 IDPs. USAID also provided a $2.5 million grant to the Office of the United Nations High Commissioner for Refugees (UNHCR) for the rehabilitation of more than 70 shelters for IDPs, as well as water and sanitation facilities, health services, and basic domestic needs such as mattresses and blankets.

Support for the United Nations World Food Program (WFP): With USAID funding, WFP provided supplemental rations to 93,000 IDPs in eastern and western Georgia. Significantly, 1,124 metric tons of the wheat flour distributed under this program was provided by the Georgian Government as a partial repayment (approximately one-third of the total) for USAID wheat that the Georgian Government had diverted from its intended recipients in 1994. In addition, WFP food-for-work projects benefited more than 64,000 members of vulnerable households.

Support for Youth Houses: With USAID funding, the United Methodist Committee on Relief (UMCOR) established youth houses in Sukhumi (Abkhazia) and Tbilisi which aim to provide a safe environment for youth, with access to extra-curricular and academic activities and psychological counseling for post-war trauma, thus improving children's health and contributing to the Georgian-Abkhazian peace process. The Sukhumi youth house is the first USAID assistance program in this war-torn region, and it expects to have provided services to between 700 and 1,400 youth by the end of its first year. To date, more than 1,000 children have benefited from the programs of the Tbilisi youth house.

Disease Prevention Programs: USAID provided funding to UNICEF for a mass immunization campaign against measles. By the time it was completed, the campaign had achieved 90- to 95-percent coverage of children aged 15 months to five years. In addition, six Georgians traveled to the United States on a USIA International Visitor (IV) program on the prevention of HIV-AIDS and other infectious diseases. After returning home, the participants established a non-governmental organization (NGO) devoted to disease prevention using U.S. models.

Preview of FY 1999 Programs

In the economic sphere, U.S. Government assistance to Georgia will build on past progress in privatizing state-owned firms, creating a legal and regulatory framework to help stimulate the growth of small and medium-sized enterprises, and fostering the development of a competitive capital market to increase access to credit, all with a renewed emphasis on accountability and transparency. In the area of democracy and governance, the U.S. Government will continue to support strategic objectives in citizen participation (including efforts to strengthen NGOs, political parties and independent media), legal and judicial reform, and effective local government. In the social sector, efforts will continue to meet the basic needs of the most vulnerable segments of the population, particularly the victims of the Abkhaz conflict, while working at the community level to increase household self-sufficiency and provision of basic services. In expanding its support for grassroots programs that tangibly improve people's lives, USAID will build on the World Bank's successful Social Investment Fund, which was established to support community-level projects that stimulate local employment and income generation while fostering citizen participation in decisions that directly affect their lives. USAID will also support the Georgian Government's health reform efforts, through institutional partnerships, strengthening of national health information systems, and technical assistance in the area of women's reproductive health. In

addition, USAID will provide vaccines, medicines and equipment to help combat health problems, including infectious diseases such as tuberculosis.

KAZAKHSTAN

Political and Economic Overview

In FY 1998, Kazakhstan decreased its pace of political and economic reform. Kazakhstan's constitution continued to concentrate power in the presidency. While President Nazarbayev had the authority to rule by decree, he chose to introduce major reform legislation through the parliament. Although it remained weak, the parliament nevertheless staked out some independent positions. The president also continued to control the judiciary. President Nazarbayev and the parliament agreed in October 1998 to hold an early presidential election on January 10, 1999. The Kazakhstani Government used administrative actions against leading opposition politicians to prevent them from registering as presidential candidates. It inhibited opposition access to independent and state-controlled media and took actions against newspapers, television and radio stations perceived to be sympathetic to the opposition. Personnel changes at the highest level in the government caused some uncertainty among international donors as to the government's willingness to maintain the pace of reform. Significantly, the completion of the move of the national capital and important line ministries from Almaty to Astana during the year has resulted in decreased coordination between ministries, and the cost of the move is putting added pressure on the state budget.

Largely due to external factors—namely, low oil and mineral prices and the world financial crisis—Kazakhstan's GDP is unlikely to have increased in FY 1998. However, Kazakhstan's macro-economic performance continued to earn support from international financial institutions, and for the most part enabled Kazakhstan to avoid major damage to its economy from the Russian economic crisis in late FY 1998. At the same time, though, proposed intergovernmental finance reforms were postponed by the Kazakhstani Government until 1999.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided approximately $75.0 million in assistance to Kazakhstan, consisting of $37.71 million in FREEDOM Support Act funds, over $25.8 million in other U.S. Government funds, and $11.39 million in Defense Department excess and privately donated humanitarian commodities. Of the FREEDOM Support Act assistance, 85 percent was technical assistance, 10 percent was humanitarian assistance, and five percent was devoted to partnership activities. USAID provided $30 million in development assistance focused on the broad sectors of market transition, social transition, democratic transition, and energy and environment. In particular, U.S. Government assistance focused on improving the regulatory environment and technical infrastructure for a competitive securities market, a healthier banking sector, and a reformed pension system, as well as on health-care reform and local government reform. U.S. Government-funded democracy programs focused on independent media and civil society—more specifically, on supporting media associations and training local NGOs. A number of regional initiatives focused on region-wide environmental and energy-related issues, such as the alleviation of the Aral Sea environmental disaster, as well as multilateral water sharing and resource management. In the energy sector, USAID also provided technical support to Kazakhstan's oil and gas industry in the areas of sectoral restructuring (with the goal of encouraging foreign investment), pipeline tariffs and environmental protection. USAID-funded advisors also helped develop a regional framework for a restructured electricity sector. In general, progress towards the U.S. Government's development objectives for Kazakhstan was on target in FY 1998, with greater-than-expected progress in some areas.

Trade and Investment Programs

U.S. Government-funded programs in this area sought to promote trade and investment by supporting market reform, addressing the process of Kazakhstan's accession to the World Trade Organization (WTO), and commercial law reform. USAID-funded advisors promoted the adoption of sound fiscal policies and management practices, the accelerated development and growth of private enterprise, and the development of a more competitive and market-responsive private financial sector, all of which are vital not only to business development, but also to the creation of a favorable trade and investment climate in Kazakhstan. Progress towards meeting these objectives was more or less satisfactory in FY 1998, although the pace of reform did slow noticeably in some areas, particularly WTO accession. For a variety of reasons, including sustained negative pressure from Russia, the Kazakhstani Government made much slower progress in negotiating its accession to the WTO in FY 1998 than it had previously. At the end of FY 1998, however, the Kazakhstani Government publicly renewed its commitment to join the WTO, although has reservations about joining before Russia. Extensive drafting of WTO-compliant legislation has been undertaken, including laws on anti-dumping, certification, safeguards, intellectual property rights (IPR), standardization and countervailing duties, and other issues. The Kazakhstani Government has made a commitment to submit all draft legislation for WTO accession by March 31, 1999.

USAID-funded advisors also helped Kazakhstan draft rules and regulations for licensing and environmental safeguards, and helped prepare a pipeline tariff methodology. In cooperation with USAID, the U.S. and Foreign Commercial Service office in Almaty pushed for and reports limited but growing success with pre-arrival and periodic customs declarations.

Business and Economic Development Programs

In FY 1998, the U.S. Government continued to provide assistance in the drafting and implementation of a number of major laws and policies crucial to the improvement of the business climate in Kazakhstan, including laws on natural monopolies, registration of pledges of moveable property, unfair competition, and amendments to the government procurement law. With the assistance of USAID-funded advisors, bank restructuring and securities market strengthening efforts proceeded in Kazakhstan in FY 1998, resulting in an improved private financial sector, which is vitally important for the creation of a well-functioning, modern market economy.

Progress towards meeting the U.S. Government's business and economic development objectives for Kazakhstan was generally satisfactory in FY 1998, with a few areas exceeding expectations. Several major laws were developed, including amendments to the law on bankruptcy, a new joint stock company law, and a law on partnerships. With extensive support from USAID, Kazakhstan implemented a new pension system in January 1998, made progress in its tax administration efforts, and continued to experience remarkable success in converting corporate accounting to international accounting standards, as well as in the adoption of international prudential norms in the banking sector. However, progress in the area of bank accounting reform was slow in FY 1998.

The U.S. Government continued to actively support micro-enterprise development in Kazakhstan this past fiscal year. Under a micro-credit program organized in Almaty by the Central Asian - American Enterprise Fund (CAAEF), Mercy Corps International was awarded a $1.5 million grant and began lending operations in October 1997. The loans provided by Mercy Corps range from $1,000 to $25,000. In addition, a micro-lending program was begun in the Taldy Kurgan region of Kazakhstan, with a total of $1 million dollars in funding available as of the end of FY 1998. Disbursement of loans under this second program began in mid-December. In late FY 1998, the CAAEF refocused its lending efforts in Kazakhstan on the country's small and medium-size enterprise (SME) sector, where they have been much more successful than its other investments.

Training and Exchange Programs

USAID: In FY 1998, USAID's training efforts focused on a number of strategic areas. In the area of economic restructuring, USAID training programs familiarized entrepreneurs with critical changes in Kazakhstani law, bankruptcy procedures and liquidation of enterprises; trained commercial bank managers in Western commercial banking standards and operations; and trained Kazakhstani participants in financial analysis, accounting and due diligence techniques. USAID also trained Kazakhstani health-care professionals in modern management techniques. As a result of this training, independent family group practices now submit annual

business plans to government health departments, and USAID-trained practice managers monitor and improve the clinical and financial performance of the practices.

U.S. Information Agency (USIA): In FY 1998, 176 Kazakhstanis traveled to the United States under USIA-sponsored exchange programs, including seven graduate students, 18 undergraduates, 55 professionals, and 96 secondary school students. Under USIA's professional exchanges, five public safety officials studied U.S. programs for earthquake preparedness and emergency response on a three-week International Visitor (IV) program in March that resulted in a number of U.S. offers for training and assistance to Kazakhstan, and a realization by the group's members of the importance of inter-agency coordination. USIA also continued to build on its ongoing partnership programs in Kazakhstan, including university and secondary school partnerships. Kazakhstan also took part in the Teaching Excellence Awards (TEA) Program, which awarded educational materials to teachers in the fields of English language and American studies. Twelve Kazakhstani TEA finalists participated in a seven-week training program in the United States this past summer. Upon returning home, one of the finalists conducted a workshop in her home town of Issyk for 32 teachers and participated in a workshop in Almaty for 60 teachers, thus contributing to the TEA Program's multiplier effect.

Democracy Programs

Democracy Fund Small Grants Program: Under this USIA-administered program, the U.S. Embassy's Democracy Commission awarded some 13 grants totaling over $94,000 to Kazakhstani NGOs, independent media outlets and other democratically oriented organizations in FY 1998.

USAID Democracy Programs: In FY 1998, USAID's efforts to promote increased, better-informed citizen participation in economic and political decision-making in Kazakhstan focused on three areas: NGO development, increasing the availability of information, and increasing the accountability and responsiveness of local government by developing and working with a core group of officials interested in being responsive to citizens. The goal of USAID's efforts in this area was to increase the "supply" of citizen participation through NGOs while simultaneously increasing the demand for citizen participation on the part of government officials. Progress in this area was satisfactory in FY 1998, as Kazakhstani non-governmental organizations (NGOs) continued to grow in number and acquire needed skills. Moreover, the Kazakhstani Parliament took small but significant steps toward asserting its independence, drafting legislation and establishing the precedent of semi-open hearings with input from NGOs.

- **Independent Media Assistance:** USAID-funded advisors also continued to provide technical assistance to Kazakhstan's independent broadcast media on station management, political reporting, and media law. Despite strides made over the course of FY 1998, television stations struggled to overcome periodic repressive measures by the Kazakhstani Government.

- **Election-Related Assistance:** In FY 1998, Kazakhstan's Central Election Commission took the somewhat bold step of initiating the first nationally televised political debates in Central Asia. However, the announcement of early presidential elections and the Kazakhstani Government's disinterest in conducting these elections according to OSCE and international standards for free and fair elections resulted in a retargeting of U.S. Government election-related assistance efforts towards NGOs and independent media rather than the Central Election Commission.

- **Legislative Drafting Assistance:** A significant number of parliamentary deputies and staffers participated in a legislative drafting seminar organized by the American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI), which also supported the development of a legislative drafting center in the Kazakhstani Parliament. USIA will provide U.S.-based training to the parliamentary staffers, followed by in-country training.

- **Assistance to Local Governments:** USAID's efforts in this area focused on increasing citizen participation through public hearings, building local capacity in governance through training and pilot activities in improved management, and creating a better support environment for local government through work at the national level on decentralization and corresponding legislation.

Security Programs

In FY 1998, although activities in Kazakhstan under the under the Defense Department's **Cooperative Threat Reduction (CTR) Program** were almost completed, Kazakhstan continued to play an important role in support of nonproliferation and regional security. No new CTR funds were provided in FY 1998; however, ongoing CTR activities helped complete the closure of nuclear testing tunnels at Degelen Mountain and the dismantlement of SS-18 missile silos. Progress was also made through CTR assistance in infrastructure dismantlement at the former Soviet facility designed for production of biological weapons in Stepnogorsk. Through the U.S. Energy Department's **Initiatives for Proliferation Prevention (IPP) Program** and the State Department-supported **International Science and Technology Center (ISTC)** in Moscow, a number of projects were approved and funded to redirect the biological weapons expertise from the Stepnogorsk facility to peaceful civilian research and development activities as part of the multi-agency Stepnogorsk Initiative.

Energy Programs

The U.S. Government's efforts in this area were focused on developing an effective policy framework for an environmentally sound, regionally efficient, and market-oriented energy sector, which will also help reduce economic and political tensions generated by cross-border environmental disputes. Progress toward these objectives exceeded expectations in FY 1998. USAID-funded advisors helped the Kazakhstani state entity charged with developing Kazakhstan's interests in the Caspian Sea, and also helped draft rules and regulations for licensing and environmental safeguards. USAID support in the power sector has contributed to policy reforms leading to the sale of over 90 percent of Kazakhstan's electric power generation sector to private investors over the past four years.

Environmental Programs

U.S. Government-funded efforts were also quite successful in the environmental sector. With assistance from USAID-funded advisors, draft legislation was being prepared that would establish water user associations, a new national environmental law, and a pilot air pollution emissions program. In addition, the first phase in developing a national environmental action plan in Kazakhstan got under way. Climate change was also a concern in the region in FY 1998, particularly in Kazakhstan and Uzbekistan. USAID assistance was focused on legal and regulatory reforms and environmental programs in the areas of oil, gas and electricity generation. USAID-funded advisors also helped draft four major implementing rules and regulations, of which three were approved and implemented by the Government of Kazakhstan in FY 1998. Water management in the Aral Sea Basin has been identified as the greatest transnational environmental issue in Central Asia. In order for the Central Asian states to be able to conclude regional agreements on water management and related pollution, there will need to be long-term agreements among all of them. A major step was taken in this direction in FY 1998 as Central Asian energy and water officials, with USAID support, drafted the first multi-year, multi-state water and energy agreement on the Naryn Syr Darya cascade of dams since the collapse of the former Soviet Union. USAID-funded seminars and workshops over the past two years have promoted discussion and analysis of issues associated with regional water management.

Social Sector and Humanitarian Programs

USAID Health Care Reform Programs: USAID's efforts in this area have focused on increasing the efficiency and effectiveness of Kazakhstan's health sector and developing private-sector capacity in local government health sectors. These efforts were designed to introduce cost-effective reform models and to build a policy consensus and legal framework for the reforms, provide technical assistance to develop and implement specific interventions, provide training, and inform the public about the impact of these reforms on their daily lives. The increased involvement of physicians and consumers is already evident in USAID's demonstration sites. Newly trained family physicians have organized non-governmental professional associations to resolve problems jointly and to influence government policy decisions. A public information and marketing campaign sponsored by USAID resulted in more than 75 percent of the population of the city of Zhezkazgan enrolling in the family group practice of their choice. The new leadership at Kazakhstan's Ministry of Health was eager to expand health reform nationwide; however, budgetary constraints prevented USAID from responding fully to the Kazakhstani Government's requests for technical assistance in this area.

U.S. Department of Agriculture (USDA) - Food Assistance: In FY 1998, USDA provided approximately 7,300 metric tons of food assistance valued at approximately $6.8 million under its Food for Progress program. The food assistance was distributed by Mercy Corps International a U.S. private voluntary organization.

Coordinator's Office Humanitarian Assistance: In FY 1998, the State Department-funded Operation Provide Hope provided approximately $11.4 million in humanitarian assistance to Kazakhstan, primarily through Counterpart, a U.S. private voluntary organization (PVO) that accesses commodities under the Defense Department's Excess Property Program. The transportation cost incurred by the U.S. Government was approximately $1.4 million.

Cross-Sectoral Programs

Eurasia Foundation: With support from USAID, the Eurasia Foundation awarded over $1 million in grants in Kazakhstan in FY 1998, the majority of which supported business development and NGO development. The Foundation organized grant competitions addressing areas of particular need, awarding grants in support of cross-border exchanges, agribusiness and housing associations. In an effort to encourage effective, responsible, and accountable local governments, the Foundation supported the process of housing reform by promoting the development of resident-run housing associations. The International City/County Management Association (ICMA) received a grant from the Foundation to develop the advocacy and training capacities of the country's National Association of Housing Cooperatives, which serves 22 regional housing associations and conducts activities related to advocacy development, tariff development, and alternative energy systems. The association also organizes systems for trash collection, home repair services, and other activities that help to reduce consumer costs and create a new market for small businesses. To increase citizens' participation in and knowledge of political and economic decision-making, the Foundation awarded a grant to the NGO Ekologicheskiy Proyekt to produce a weekly television program on NGO- sector development in Kazakhstan and Kyrgyzstan. The program, which is to be shown on national television, aims to increase public understanding of the role of nonprofit organizations in society. In FY 1999, the Foundation will enlarge its representative office in Almaty to become a full-fledged grant-making office overseeing the Foundation's activities in Kazakhstan and Kyrgyzstan.

Peace Corps: A new class of Peace Corps volunteers was sworn in on August 14, 1998. This is the sixth class of volunteers to serve in Kazakhstan, bringing the total number of volunteers currently in-country to 96. Some of these volunteers are teaching English as a foreign language in secondary schools and universities, while others are conducting a program in environmental education. Eight volunteers are working on health education at AIDS clinics in regional centers throughout Kazakhstan. Fourteen economic development volunteers are teaching various subjects in secondary schools and universities and as serving as part-time consultants to local entrepreneurs.

Preview of FY 1999 Programs

In FY 1999, the U.S. Government will continue to provide assistance in the areas of economic development, energy and environment, health sector reform, local government strengthening, and market transition. USAID's new local government initiative will build on successful results achieved by USAID's housing reform infrastructure and municipal development projects since FY 1997. USAID's overall development program will continue to focus on providing economic assistance to improve the environment for reform in all sectors, with additional new efforts to implement partnerships with local NGOs, work with local government institutions, and conduct a public information campaign on the public's rights and responsibilities in the health-care system.

In view of the flawed January 1999 presidential elections, USAID will reevaluate its planned assistance in the areas of civic education, voter education and technical election assistance in preparation for the local and parliamentary elections also scheduled for 1999. USAID will continue to target support to local NGOs, focusing on those NGOs working to promote the rule of law, environmental issues, women's issues, business, media, human rights, trade unions, consumer rights, civic education, advocacy, elections, housing and professional associations. In the area of local government, USAID expects to develop and implement in two oblasts (regions) a model citizens' budget, financial report and hearing process as a model of good local practice promoting citizen input and involvement.

In the health sector, USAID's integrated reform models will continue to be refined in the pilot demonstration areas and expanded beyond these areas. USAID will seek to conduct a policy dialogue at the national level focusing on the institutionalization of reforms and the integration of reproductive health, infectious disease, and partnership programs into a primary health care model. USAID tuberculosis initiatives will begin nationwide, with pilot clinics in each oblast. USAID hopes to direct future medical partnerships to support the overall health reform agenda and the strengthening of primary health care in Kazakhstan.

Cooperative efforts in regional energy trade and infrastructure investment by the five Central Asian republics will continue to receive USAID support. USAID will advocate and support the preparation and ratification of regional agreements on water sharing and pricing, related water and energy exchanges, parallel operation of the five national electric systems, and operation and maintenance of the Central Asian regional transmission grid, with the goal of establishing a support system for existing and emerging energy regulatory and negotiating bodies and personnel in Central Asia which could ultimately become self-sustaining.

KYRGYZSTAN

Political and Economic Overview

Although political and economic reform continued in Kyrgyzstan in FY 1998, the easy gains of reform had largely been achieved, and economic problems loomed large.

On the political front, the major event of 1998 was a hastily called “snap” referendum on October 17, which put a number of controversial constitutional reform issues to the electorate, including full privatization of land, changing the composition of the parliament, limiting parliamentary immunity for deputies, requiring the parliament to provide a fully funded annual budget and strengthening freedom of the press. The format of the referendum forced the electorate to accept or reject all of the items as a package through a single yes/no vote. The Kyrgyz Parliament clearly would have preferred that the issues be handled through a legislative process rather than a referendum, although both were legal options under the constitution. The referendum passed by an overwhelming percentage reminiscent of Soviet-era referenda, and there were significant procedural irregularities, including family voting. Nevertheless, the referendum clears the way for further land privatization, and Kyrgyzstan is now one of the few NIS countries that explicitly allows private land ownership under the law.

The Kyrgyz Parliament has become one of the most active and independent in the NIS and has regularly overridden presidential vetoes or passed legislation the executive branch did not favor, such as a new pension law passed in July which did not conform with the Kyrgyz Government’s spending plans. In accordance with the referendum, the Legislative Assembly will increase in number from 35 to 45 deputies, thus both increasing the number of parliamentary experts on key issues and mitigating the problem of too few deputies controlling the legislative process, a situation which has provided too many opportunities for deputies to pass quirky or self-interested legislation.

In FY 1998, the press in Kyrgyzstan remained freer than in any other country in the region, although the parliament vetoed by a large margin President Akayev’s draft bill to remove libel from the criminal code and place it under the civil code. Nevertheless, there were no journalists in prison for libel. Religious tolerance was widely practiced, although some religious groups occasionally had bureaucratic problems with registration. The courts began having a separate budget from the executive branch, and an independent bar association was established to regulate lawyers’ standards. Nonetheless, the judicial branch remained Kyrgyzstan’s weakest branch of government.

On the economic front, Kyrgyzstan is a landlocked country with limited natural resources, and limited industrial production, and those who were not benefiting economically from the reform process in Kyrgyzstan remained a potent political force in FY 1998. Since half of its foreign trade continued to be with Russia, Kyrgyzstan (like the other NIS countries) was affected by the Russian economic crisis, although its fully convertible currency and fully independent economic policy enabled it to mitigate some of the effects of the crisis. As of the end of FY 1998, there had been no effect on the distribution system and prices of staples had been rising slightly but were relatively stable. However, the gradual decline of inflation that had continued through FY 1997 reversed itself, interest rates on government bonds were close to 80 percent per year, and commercial lending rates were far too high to encourage growth in the private banking system as a stimulus to the economy. Kyrgyzstan’s national currency, the som, weakened considerably from around 17 to 19 to the dollar last year to 24 to 31 to the dollar at the end of FY 1998. Unemployment rates remained stubbornly high throughout the country, particularly in the Osh region of southern Kyrgyzstan. While growth in 1997 was a healthy seven to eight percent for the first half of the year, all observers expect growth to have been much more limited in 1998. Gold revenues, which contributed significantly to overall growth in 1997, were weak in 1998.

Although about three-fifths of Kyrgyzstan's economy was in private hands by 1997, there was virtually no additional privatization during FY 1998. The political will to forge the compromises necessary to advance privatization in key "crown jewel" sectors such as telecommunications, energy and mining was lacking. Furthermore, the growth of Kyrgyzstan's stock market, which was established with USAID support, stagnated in FY 1998, due to limited new privatization and probably also the loss of confidence caused by the Russian and Asian economic crises.

Kyrgyzstan's one major economic success in 1998 was its accession to the World Trade Organization (WTO) in October, which the Kyrgyz Government has made a cornerstone of its economic reform policy. With U.S. Government assistance, Kyrgyzstan negotiated its accession in record time, and with a strong sense of purpose, achieving an accession package that is a good precedent for the other NIS countries. The accession was speedily ratified by the Kyrgyz Parliament. In FY 1999, Kyrgyzstan will need to concentrate on implementing its WTO commitments, and the Kyrgyz Government has requested U.S. Government assistance in doing so.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided an estimated $70.8 million in assistance to Kyrgyzstan, consisting of $24.87 million in FREEDOM Support Act funds, over $26.3 million in other U.S. Government funds, and $19.58 million in Defense Department excess and privately donated humanitarian commodities. Of the FREEDOM Support Act assistance, 85 percent was technical assistance, 10 percent humanitarian assistance, and five percent partnership programs. The main foci of U.S. Government-funded assistance programs were economic reform, democratic reform, social transition, and regional energy and environment initiatives. As was the case last year, although the Kyrgyz Government was generally very receptive to U.S. Government-funded assistance programs, it did not always follow through with full institutional support. In particular, there seemed to be little understanding by tax officials of the legal provisions relating to transactions such as non-commercial monetization and the donation of computers and other equipment to non-commercial entities upon termination of a project. Taxation issues were resolved on several occasions by the U.S. Embassy interceding with the Kyrgyz Government.

Trade and Investment Programs

Support for Kyrgyzstan's Accession to the World Trade Organization (WTO): Kyrgyzstan's accession to the WTO in October 1998 as the first NIS country to do so was a major success for Kyrgyzstan, as well as for the WTO accession assistance provided by USAID through Booz-Allen. The Kyrgyz Government has requested U.S. assistance in complying with its new WTO obligations.

In FY 1998, the **Overseas Private Investment Corporation's (OPIC)** activities in Kyrgyzstan continued to be hampered by an investment dispute involving an OPIC-insured investor in the country's telecommunications sector. As a result of the Kyrgyz Government's reasonable and necessary decision to offer no new sovereign guarantees for private-sector or para-statal business projects, the **U.S. Export-Import Bank's** activities in Kyrgyzstan also remained limited. The **Central Asian - American Enterprise Fund's (CAAEF)** activities picked up somewhat in FY 1998, although final resolution of a court case involving one of its projects had not yet been achieved.

Business and Economic Development Programs

In FY 1998, Kyrgyzstan continued to be a leading NIS country in the adoption of international accounting reforms, both for banks and enterprises. With the personal support of President Akayev and with USAID assistance, the Kyrgyz Government took significant initial steps to implement program budgeting, and further steps are planned for FY 1999. Tax administration reform also moved forward with the help of USAID assistance. However, the Kyrgyz Government's revenues failed to rise appreciably, due to the country's difficult economic situation.

Assistance to Kyrgyzstan's National Bank: The readiness of Kyrgyzstan's National Bank to carry out its regulatory functions was exemplary in FY 1998. The National Bank has implemented many of the regulatory reforms recommended by USAID-funded advisors, such as the introduction of financial services, including demand deposits, time deposits, electronic fund transfers, letters of credit, self-liquidating accounts, custodial

services, securities clearance and settlement, and life insurance, all of which are crucial to business and economic development.

U.S. Department of the Treasury: A Treasury Department advisor worked closely with Kyrgyzstan's Ministry of Finance and the National Bank, offering advice on sound public financial policy.

Micro-Lending Programs: In the area of micro-enterprise development, USAID supported the development of micro-lending in Kyrgyzstan. With a $6.2 million grant from USAID, the Foundation for International Community Assistance (FINCA) administered a micro-lending program in Kyrgyzstan that by the end of FY 1998 had provided over $2.3 million to over 7,200 applicants. The Central Asian - American Enterprise Fund (CAAEF) also initiated a micro-lending program in Kyrgyzstan in FY 1998.

Training and Exchange Programs

U.S. Information Agency (USIA): In FY 1998, 51 Kyrgyzstanis traveled to the United States under USIA's International Visitor (IV) Program, bringing the cumulative total of Kyrgyzstani IV grantees to 152. Three U.S. Fulbright Scholars came to Kyrgyzstan in FY 1998, bringing the cumulative total to twelve. USIA also actively supported two new initiatives highlighted by First Lady Hillary Rodham Clinton during her visit to Kyrgyzstan in November 1997: support for the American University of Kyrgyzstan in cooperation with the Soros Foundation's Open Society Institute, and the Awards for Excellence in Teaching program, under which five Kyrgyz secondary school teachers went on career-enhancing study tours to the United States and two of their U.S. counterparts visited Kyrgyzstan.

USAID: Over 2,300 Kyrgyzstani citizens had participated in USAID training programs by the end of FY 1998. One of USAID's more successful training programs was its legal and administrative training, focusing primarily on justices, attorneys, customs officials and administrative personnel within the tax inspectorate. A total of 169 judicial and legal professionals received such training, either in Kyrgyzstan, elsewhere in the region, or in the United States. Under USAID's Farmer-to-Farmer Program, the U.S. NGO Winrock arranged for volunteer American farmers to work with Kyrgyzstani farmers on various assistance projects.

U.S. Department of Agriculture (USDA): Under USDA's Cochran Fellowship Program, 10 Kyrgyzstani participants completed agricultural training in the United States.

U.S. Department of Defense (DoD): Since August 1994, some 36 Kyrgyzstani officials have attended training programs at the Defense Department's Marshall Center in Germany. Under the International Military Education and Training (IMET) Program, Kyrgyzstan was allocated approximately $325,000 in training funds. With these funds, seven Kyrgyzstani military officers received a full year of English language instruction and follow-on military training. In addition, an English language laboratory was established for use by other Kyrgyzstani Defense Ministry personnel. In addition, the Ministry of Defense, National Guard, and Ministry of Emergency Situations and Civil Defense participated in a partnership program with the Montana National Guard, which included a medical assistance visit.

Democracy Programs

USAID Democracy Programs: In FY 1998, USAID-funded democracy programs focused on civic education through dissemination of survey results, civic initiative planning at the local level, and the development of special courses and training for lawyers, NGO leaders and others. USAID also provided support to independent (i.e., non-governmental) radio and television stations in Kyrgyzstan by organizing programs on effective business management, boosting revenue through advertising sales, using computer graphics on television, and enhancing the country's journalistic standards. These programs also enhanced greater transparency, public discussion, accountability and responsiveness from the executive branch through the adoption and implementation of laws and the institutionalization of the judiciary as an independent branch of government. A number of Kyrgyzstani parliamentarians and others praised the support provided through USAID for public debates on the issues addressed in the October referendum.

Democracy Fund Small Grants Program: Under this USIA-administered program, the U.S. Embassy's Democracy Commission issued grants totaling $100,000 to 18 important grassroots community organizations involved in women's issues, human rights, education and independent media.

Law Enforcement Programs: In FY 1998, the U.S. Government provided approximately $140,000 in law enforcement training to Kyrgyzstan. This training focused on customs/non-proliferation and narcotics interdiction.

Security Programs

In FY 1998, Kyrgyzstan received $1.35 million in Foreign Military Financing (FMF), making a total of $2.15 million available through the end of the fiscal year. Kyrgyzstan also received $325,000 in FY 1998 International Military Education and Training (IMET) funding. Under NATO Partnership for Peace (PFP) programs jointly sponsored by NATO and the U.S. Government's Warsaw Initiative funds, Kyrgyzstani officials attended planning conferences, joint exercises, and other events. The U.S. Defense Attaché estimates that Kyrgyzstan was allocated over $750,000 in Partnership for Peace (PFP)/Warsaw Initiative funds for NATO/PFP exercises, the majority of which went to support Kyrgyz participation in a training exercise of the PFP-funded, U.S.-sponsored Central Asian Battalion (CENTRASBAT), which was established to facilitate the formation, training and maintenance of a regional peace-keeping battalion. Kyrgyzstani military officials participated in CENTRASBAT activities together with their counterparts from Kazakhstan and Uzbekistan. In addition, over $100,000 in PFP funds was used to enable Kyrgyz officials and officers to attend courses and conferences at the Defense Department's Marshall Center in Germany. Total Defense Department-managed funding for Kyrgyzstan in FY 1998 was approximately $2.5 million, excluding FMF funds carried over from FY 1996-97.

Energy and Environmental Programs

USAID Power-Sector Assistance: In FY 1998, USAID-funded advisors continued to help develop implementing regulations for the licensing of electricity subsector operations in Kyrgyzstan. Proposed national electricity tariff methodologies and specific tariff rates were under review by a state regulatory agency and by the Kyrgyzstani Parliament. USAID also supported the process of restructuring, unbundling and privatizing the para-statal energy company KyrgyzEnergo. To date, 18 percent of KyrgyzEnergo's shares have been sold to Kyrgyzstani citizens through a mass privatization process.

USAID Water Management Assistance: USAID-funded advisors stressed the importance of concluding international treaties and other agreements on water pricing, quality and cost-recovery; and balancing water use among irrigation, residential, industrial and power-generation applications. All five Central Asian countries participated in seminars on regional water cooperation, and significant progress was made in developing a draft agreement on the management of the Syr Darya Naryn cascade.

Social Sector and Humanitarian Programs

USAID Health-Care Reform Programs: USAID's efforts to promote health-care reform in Kyrgyzstan continued for a fourth year with the Kyrgyzstani Government's recognition of USAID's Issyk-Kul family group practice (FGP) demonstration site and its support for the nationwide expansion of the Issyk-Kul model. USAID also collaborated with the World Bank on expanding the FGP model nationwide. At the Issyk-Kul demonstration site, work continued on strengthening a FGP association consisting of 81 fully operational FGPs which service 98 percent of the local population. A USAID-supported medical marketing team continued to develop its institutional capacity by designing and implementing a public education campaign on self-referrals to hospitals.

USAID Infectious Disease Programs: In FY 1998, a USAID-funded infectious disease program focused on reducing child morbidity and mortality. A health facility assessment was undertaken in the Osh region, and a program to reduce acute respiratory infection and diarrheal disease among children was implemented. USAID also provided quality assurance and equipment support to Kyrgyzstan's National Institute of Tuberculosis.

U.S. Department of Agriculture (USDA) Food Assistance: Under its P.L. 480 Program, USDA provided 80,000 tons of soybeans and 4,000 tons of vegetable oil, valued at $13.3 million, in the form of concessional sales. USDA also provided over 8,500 metric tons of food assistance valued at approximately $8.5 million to NGOs such as Mercy Corps and Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) which they subsequently distributed and/or monetized to support their NGO programs in Kyrgyzstan.

Coordinator's Office Humanitarian Assistance: Since 1992, the U.S. Government has provided approximately $93 million in humanitarian assistance to Kyrgyzstan. In FY 1998, the State Department's Operation Provide Hope provided approximately $19.6 million in humanitarian assistance to Kyrgyzstan. This assistance was distributed by U.S. private voluntary organizations (PVOs) such as Citihope and Counterpart International and consisted of U.S. Defense Department excess and privately donated commodities, including food, clothing, medical supplies and medical equipment shipped by air and surface freight. Transportation costs incurred by the U.S. Government were approximately $1.5 million.

Disaster Assistance: In FY 1998, the U.S. Government provided $1 million to help the Suzak-Jalalabad region recover from flood damage and prevent future flooding.

Cross-Sectoral Programs

Peace Corps: In FY 1998, the Peace Corps maintained approximately 80 volunteers in Kyrgyzstan. The volunteers worked on projects in the areas of small-business development, English language teaching and environmental education.

Eurasia Foundation: In FY 1998, the USAID-supported Eurasia Foundation awarded approximately $500,000 in grants in Kyrgyzstan. Priority areas included local government reform, business development, business education and management training, public administration, and media development. In addition to its open-door grant-making activities, the Foundation organized three grant competitions in Central Asia to stimulate and foster activities in the key areas of housing reform, support for agribusiness and cross-border programs. To support economics education in Kyrgyzstan, the Foundation awarded a grant to the Republican Youth Center for Creativity and Entrepreneurship, which plans to use the funding to provide training in market-oriented economics to 120 rural secondary school teachers. The Foundation's grants to support entrepreneurship in Kyrgyzstan included an award to the Bishkek Academy of Finance and Economics to teach 150 unemployed people how to start their own businesses.

Preview of FY 1999 Programs

USIA, in cooperation with the Soros Foundation's Open Society Institute, has committed to spend $1 million in FY 1999-2000 to support the development of the American University in Kyrgyzstan (AUK) into a top-rate educational institution that can provide its graduates with an American-style, English language, liberal arts education emphasizing business, law, international relations, journalism and other much-needed disciplines. AUK graduates are already highly sought after by prospective employers.

The Kyrgyz Government highly values all types of U.S. Government-funded training and exchange programs, and has made special requests for assistance in implementing its new World Trade Organization (WTO) obligations, and in budget and fiscal planning. The Kyrgyz Government's handling of the October 17 referendum made clear the need for increased training of both election commission members and domestic monitors in sufficient numbers so that they can cover the country's 2,000 polling stations. Such training could reduce the number of procedural irregularities in the 1999 parliamentary and 2000 presidential elections.

On the security side, the Kyrgyz Government has taken full responsibility for controlling its borders from Russian border guards as of January 1, 1999, and will need considerable assistance to do this job adequately. The Kyrgyz Government has also made a high-priority request for help in establishing a disaster response and mountain rescue center.

As for environmental programs, the World Bank has agreed to fund a study of the serious problem of Kyrgyzstan's degrading storage facilities for uranium tailings. Clean-up of this environmental hazard, which affects both Kyrgyzstan and potentially the entire Ferghana Valley, will require a coordinated international effort.

MOLDOVA

Political and Economic Overview

Moldova supported democracy and human rights in FY 1998, but the country remained divided, with the separatist Transnistrian region along the Ukrainian border controlled primarily by ethnic Slavs. The self-proclaimed government in Transnistria displayed neither democratic principles nor adequate respect for human rights. In Moldova's parliamentary elections in March 1998, four center and center-right parties won 61 of 101 seats and formed a coalition government, known as the Alliance for Democracy and Reform. The opposition Communist Party took the remaining 40 seats. Prime Minister Ion Ciubuc retained his office at the head of this coalition, committed to economic and political reform.

In FY 1998, Moldova continued to make progress in economic reform. The coalition government featured prominent reformers in key economic ministries. The Moldovan Government put a modernized tax code into effect, and the Parliament passed significant legislation to continue land privatization. Moldova's gross domestic product (GDP) grew in 1997 for the first time, but the economy was hit hard by Russia's financial and economic crisis. The normally stable national currency, the leu, came under pressure, foreign investment in Moldovan securities dried up, and Moldova's exports—60 percent of which go to Russia—suffered from the economic turmoil in that vital market. Consequently, Moldova began an effort to diversify its exports. The leu remained fundamentally sound and inflation dropped to less than one percent per month, but external debt rose to over $1 billion, or more than 60 percent of the country's GDP. Over half of the debt was for energy, mostly owed to the Russian gas company GazProm. Moldova thus remained dependent upon foreign sources—GazProm in particular—for its energy needs.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided an estimated $43.9 million in assistance to Moldova, consisting of $27.12 million in FREEDOM Support Act funds, over $6.1 million in other U.S. Government funds, and $10.58 million in Defense Department excess and privately donated humanitarian commodities. An additional $6.3 million in donated commodities was provided by the USAID-funded Counterpart Consortium. Technical assistance amounted to $30.67 million, and partnership activities $2 million. The U.S. Government completed its program to develop capital markets and carried out intensified programs in agricultural land and energy-sector privatization. The land program moved to the point of achieving genuine private ownership of agricultural land throughout Moldova. The U.S. Government-funded energy program established a modern regulatory system and laid the basis for privatization of the country's power plants and distribution systems. The Peace Corps took on new tasks and grew to record numbers. Security assistance also reached new levels, bolstered by the successful U.S. purchase of Moldovan nuclear-capable MiG-29 airplanes in FY 1997. In addition to providing help to the neediest sectors of Moldova's population, the U.S. Government continued to promote development of a competitive, market-oriented economy, sound fiscal policies, transparent and accountable governance, and agricultural development, notably through partnerships.

Trade and Investment Programs

In FY 1998, the U.S. Government continued its support for Moldova's accession to the World Trade Organization (WTO) through the **Commercial Law Development Program (CLDP)** administered by the U.S. Department of Commerce. CLDP seminars covered trade in services, border enforcement of trade laws, standards, intellectual property rights (IPR), customs valuation, and procurement laws and practices that ensure consistency with WTO standards. Under the U.S. Patent and Trademark Office's Visiting Scholars Program, advisors focused on the application of Moldova's intellectual property laws and compliance with the Agreement on Trade-Related Intellectual Property Rights (TRIPS). In addition, eleven Moldovan officials attended a USAID-funded conference on appeals and disputes related to intellectual property.

The USAID-funded Center for Institutional Reform and the Informal Sector (IRIS) increased Moldova's capacity to draft commercial legislation compatible with a market economy and the rule of law. IRIS conducted market economy workshops, as well as a two-week course in legislative drafting offered by the International Legislative Drafting Institute. U.S. Government-funded investment promotion programs focused on support to entrepreneurs in the small and medium-sized enterprise (SME) sector, where over 470 service and production businesses have borrowed over $6 million, and to the agribusiness sector, where USAID resources have leveraged $5 million in private-sector investment and generated 150 new jobs.

In FY 1998, the **Western NIS Enterprise Fund (WNISEF)** continued to provide equity investment to support the development of small and medium-sized businesses in Moldova, with the goal of demonstrating the potential for investment in Moldova. In over three years of activity, investment has totaled $10 million in three Moldovan enterprises. In FY 1998, $3.8 million was invested in a food processing enterprise that employs over 700 people.

Business and Economic Development Programs

In FY 1998, the main objectives of these U.S. Government-funded programs were (1) to continue development of a regulatory environment supportive of mass-scale land privatization; and (2) to develop a fair and transparent business environment suitable for domestic and foreign investment, including linkages between U.S. and Moldovan businesses. In the area of business development, USAID-supported business service centers (BSCs) approached self-sufficiency by providing training, information and consulting services on a commercial basis. Efforts by USAID land privatization contractors resulted in a streamlined land and property allocation process, and a decentralized and simplified titling and registration system within existing law to break up collectively owned tracts of land into individual parcels for titling and registration to private individuals, who were formerly members of collective farms. The Moldovan Parliament amended legislation to lower prices for land associated with private enterprises, generating renewed interest in urban land privatization. Noteworthy is the emergence of secondary land sales transactions. More than 10 private land transactions occurred, primarily involving urban land.

USAID Accounting Reform Programs: In FY 1998, USAID also assisted the Moldovan Government in the area of accounting reform. Moldova has adopted core national accounting standards (NAS) based on International Accounting Standards (IAS). Moldova is uniquely situated because it adopted legislative fiscal and accounting reforms requiring all enterprises to comply with NAS as of January 1, 1998. USAID advisors implemented four pilot enterprise conversions to NAS, and lessons learned have been incorporated in a manual. The Association of Professional Accountants and Auditors of Moldova (ACAP) received the first NIS associate membership in the International Federation of Accountants. Extensive training was provided to educators, practitioners, and enterprise chief accountants to develop their skills and knowledge of Western accounting practices. Beginning this past fall 1998, 1,000 students at all universities and colleges in Moldova (or 50 percent of all accounting students) are being taught principles of accounting utilizing new Western methods.

USAID Securities-Market Programs: In FY 1998, the USAID continued to provide technical assistance to the Moldovan Stock Exchange (MSE) and the State Commission for Securities Markets. Establishment of the Central Securities Depository under the MSE completed the development of the institutional infrastructure of capital markets. Similarly, the October 1998 adoption of the Law on Securities Markets and the Law on the Securities Commission (the latter enhances the commission's enforcement authority places it under parliamentary oversight) completed the development of a legal and regulatory framework.

USAID Privatization Assistance: As part of a pilot program in FY 1998, USAID-funded advisors successfully helped complete the break-up of 72 collective farms, resulting in the issuance of 185,000 individual land titles and the formation of more than 3,000 new private farms. In March 1998, the Moldovan Government launched a national farm privatization program to break up more than 550 former collective farms. The expected completion of this effort in 1999 will result in the distribution of more than 1.6 million individual land titles. The methodology developed through this program will be disseminated nationwide, and training will be provided to local administrators and other government officials through nine privatization and reorganization centers across Moldova.

USAID Fiscal Reform Program: USAID helped facilitate Moldova's adoption of Western-style tax laws (value-added tax, corporate and personal income tax, excise taxes and administrative provisions) and gradual incorporation of those laws into a single tax code; the introduction of modern tax administration and comprehensive government financial management systems that meet international standards; the introduction of macroeconomic analysis and revenue forecasting techniques; and the application of these techniques to the formulation of realistic budgets. A new USAID-supported Center for Budgetary and Financial Analysis will advise the Moldovan Parliament on these issues.

U.S. Department of the Treasury: With assistance from a Treasury Department advisor, the transaction tax on secondary market transactions in government securities was eliminated. As a result, the 198 secondary market trades in July 1998 far exceeded the previous high-water mark of 112 in March 1997. Although the market cannot yet be considered liquid, it is making good progress.

Training and Exchange Programs

In FY 1998, over 200 Moldovans traveled to the United States on U.S. Government-funded exchange programs to learn about the day-to-day functioning of our democratic and market-based system, and to gain technical skills to carry out reforms in Moldova. These exchange programs furthered specific U.S. assistance objectives. For example, under USIA's Community Connections program, two groups of new private farmers, local leaders, and managers of agribusiness visited the United States to learn about agriculture in a market economy—an effective complement to USAID's land reform program. Through its Community Connections and International Visitor (IV) Programs, USIA sent a number of Moldovan legal experts and law enforcement officials to the United States, with a special emphasis on fighting crime and corruption. Under the IV Program, the President of the Supreme Court, President Ciubuc's advisor on foreign affairs, the President's advisor on national security, the head of the President's Supreme Economic Council, and six Members of Parliament, including almost the entire Budget Commission, visited the United States.

Democracy Programs

Democracy Fund Small Grants Program: Under this USIA-administered program, the U.S. Embassy's Democracy Commission approved eight proposals totaling almost $70,000. These grants were awarded to Moldovan NGOs involved with citizenship education, education for democracy, development of independent media, promotion of human rights, improvement in the status of women, and the promotion of transparency in the legislative process. The grants supported a range of start-up expenses for rent and office equipment, as well as program activities such as seminars and workshops.

USAID-funded democracy programs promoted citizen participation in political and economic decision-making, stressed NGO development, and supported development of the legal profession and the judiciary. The USAID-funded **International Foundation for Election Systems (IFES)** helped develop a universal electoral code for local, parliamentary, and presidential elections, and contributed to a new law establishing a permanent central electoral commission. The **American Bar Association's Central and East European Law Initiative (ABA/CEELI)** helped Moldova's Judicial Training Center organize reviews of basic legal concepts for 500 Moldovan judges, prosecutors, lawyers and notaries. With assistance from ABA/CEELI, Moldova's Judges' Association published a compilation of all Constitutional Court decisions. ABA/CEELI also provided assessments on draft laws on access to environmental information, the legal profession, and condominiums.

Energy and Environmental Programs

In FY 1998, USAID continued to help privatize and restructure Moldova's power sector. The disaggregation and corporatization of the state electric-power monopoly into three generation, five distribution, and one dispatch and transmission entity laid the foundation for privatization. USAID helped establish the National Agency for Energy Regulation (ANRE) as an independent regulatory body with the exclusive authority over licensing, establishing tariffs and consumer service standards. USAID-funded advisors also helped introduce a cash collection system and fuel procurement mechanism, as well as information and management techniques to promote a new market-oriented environment conducive to foreign investment.

Social Sector Programs

Social sector assistance included USAID projects in health and family planning. A U.S.-Moldovan medical partnership continued to address training of trauma care units, complications from inappropriate treatment of patients, and infection from cardiovascular surgery. USAID also funded advisors for counseling on family planning and women's health issues.

Humanitarian Programs

U.S. Department of Agriculture (USDA) - Food Assistance: In FY 1998, USDA provided approximately 9,200 metric tons of food assistance valued at $1.8 million to targeted groups in Moldova through its Food for Progress program. The assistance was distributed by U.S. private voluntary organizations.

Coordinator's Office Humanitarian Assistance: In FY 1998, the State Department's Operation Provide Hope provided over $10.5 million in humanitarian assistance to Moldova at a cost of approximately $4.8 million through the U.S. private voluntary organizations (PVOs) Counterpart Consortium and CitiHope. The Counterpart Consortium, which is funded both by USAID and the Department of State, continued to work through local Moldovan NGOs to address the needs of orphans and pensioners by providing medical equipment and supplies to municipal and district hospitals and regional clinics. Since 1994, Counterpart has provided about $15 million in excess property donated by the Department of Defense and U.S. PVOs, with $6.3 million delivered in FY 1998.

Security Programs

In FY 1998, the U.S. Government continued to increase defense and military contact activities with Moldova, after the successful purchase in FY 1997 of 21 nuclear-capable MiG-29 airplanes, 500 air-to-air missiles, and associated equipment from Moldova under the Defense Department's **Cooperative Threat Reduction (CTR) Program.** Moldova became eligible to receive Foreign Military Financing (FMF) under the Partnership for Peace program in FY 1997, and initiated FMF-funded activities in FY 1998. Under the FMF Program, the U.S. furnished uniform cloth, boots, boilers for an airfield, light vehicles and computers. FMF funding for FY 1998 totaled $3.45 million. The International Military Education and Training (IMET) Program trained 11 Moldovans, bringing the cumulative total to 40.

Cross-Sectoral Programs

Peace Corps: In FY 1998, the Peace Corps supported 80 volunteers working in three project areas. Forty-four volunteers worked on teaching English as a foreign language (TEFL). With funding from the Soros Foundation, the Peace Corps published a manual for TEFL teachers developed in cooperation with Moldovan teachers. The Peace Corps also initiated a health education project with the Moldovan Ministry of Education. Five volunteers began work with teachers to develop a curriculum and models for outreach activities for schools. This program will cover a range of preventive health education, from personal hygiene to environmental health. Thirty-one Peace Corps volunteers in economic and organizational development worked with Moldovan host institutions, including local and district governments, NGOs, and farmers' groups, to promote NGOs, small business, agribusiness, and farmer association development. In FY 1998, this project moved from cities to more rural and small town sites and from national to district and local levels to support grassroots efforts. Business education and agriculture became the most important areas in the Peace Corps' economic development programs, while the Corps' organizational development activities focused on social service NGOs and farmers' associations and cooperatives.

Eurasia Foundation: In FY 1998, the Eurasia Foundation awarded grants totaling approximately $151,000 to a variety of Moldovan NGOs working in economic education and research, electronic communications, media, NGO development, public administration and rule of law. The Foundation focused on developing the effectiveness of Moldovan NGOs, supporting a local NGO development center which organizes management and training seminars.

Preview of FY 1999 Programs

In FY 1999, USAID's technical assistance programs will continue to emphasize agricultural land privatization, energy sector privatization, and promotion of investment opportunities in Moldova based on reforms that encourage private-sector activity. Fiscal and banking reform, accounting reform and agribusiness partnerships will also be high priorities. Security assistance will gain new prominence as Moldova continues to utilize the Foreign Military Financing (FMF) Program. A humanitarian demining program will also begin in Moldova.

RUSSIA

Economic and Political Overview

Russia's persistent budget deficits and incomplete structural reforms, combined with recent global economic instability and falling oil prices, led to severe disruptions of the country's economy in FY 1998. Through the first half of the year, interest rates soared as the Central Bank of Russia sought to defend the hard-won stability of the ruble. Gross foreign currency reserves dropped from a high of $24.9 billion in June 1997 to $14.6 billion in May 1998. In July 1998, a $22.5 billion International Monetary Fund (IMF) program was agreed. However, markets were not convinced, particularly after the Russian Duma (Russia’s lower house of parliament) failed to enact necessary revenue measures. Faced with a wholesale loss of confidence, the Russian Government announced a series of emergency measures on August 17. These measures included a 90-day moratorium on certain payments, including financial credits with maturities over 180 days; a rescheduling of domestic securities; and a widening of the Central Bank's targeted exchange-rate corridor from 6.2 rubles to 9.5 rubles to the dollar.

The emergency measures of August 17 were followed by President Yeltsin's decision to replace Prime Minister Kiriyenko with the previous prime minister, Viktor Chernomyrdin. Political uncertainty, pivoting on the concessions necessary for Duma confirmation of Chernomyrdin, moved the country into a full-blown economic and political crisis, and Chernomyrdin's nomination was subsequently withdrawn. By the end of September, the exchange rate had plunged to more than 20 rubles to the dollar, and Russia's commercial banking and payments system had ground to a halt. These factors, in turn, contributed to a sharp decline in imports, a fall in tax payments and a rise in government arrears. Inflation, which had fallen to an annualized rate of 5.5 percent in July 1998, reached 70 percent by September 30, 1998. Russia’s GDP contracted 9.9 percent during the first nine months of 1998.

On September 11, a new government headed by former Foreign Minister Yevgeniy Primakov was installed. As of November 1998, the Russian Government had a number of pressing issues to address, including negotiating a new IMF program; rescheduling 386 billion rubles in outstanding Russian treasury bills (GKOs); restructuring the country’s commercial banking system; formulating a new foreign exchange policy; and implementing a realistic budget for 1999.

The slow pace of structural reforms was a key cause of the economic and political crises of 1998. Tax reform and resolution of persistent budget deficits had yet to be achieved. Foreign companies cited the lack of a solid business environment based on the rule of law as a key impediment to foreign investment in Russia. Crime and corruption continued to hamper economic growth. Wage arrears reportedly reached $12 billion as of August 1. Unemployment was growing, reaching 11.8 percent by the end of 1998 (using International Labor Organization methodology), and up to 20 percent in some cities. Needed social investments, such as modernization of the prison system, introduction of jury trials in more regions, training of the judiciary, improvement of the court system, conversion of the nuclear weapons complex, and reform of the military, faltered as a result of these economic pressures. However, on the positive side, there was some success in restructuring of natural monopolies, particularly in the electricity sector. Key legislation, including oil production

sharing agreement (PSA)-enabling legislation and tax code measures required before foreign investors are willing to proceed with billion-dollar energy investments, was being considered by the Duma, and by the end of 1998, significant progress had been made on PSA legislation, thus improving the business climate in Russia's energy sector. In addition, the Duma finally made some progress on passage of the general part of a new tax code, but legislative action on specific taxes and their rates was still pending.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided an estimated $639.4 million in assistance to Russia, consisting of $152.51 million in FREEDOM Support Act funds, $468.2 million in other U.S. Government funds (including over $278.0 million in U.S. Defense Department funds and $165.3 million in U.S. Energy Department funds), and $18.63 million in Defense Department excess and privately donated humanitarian commodities. In FY 1998, USAID obligated $26.3 million for small-business development and micro-credit programs, $17.2 million for the elimination of trade impediments, $9.7 million for democratic reform programs, $9.15 million for Eurasia Foundation programs, $8.2 million for health programs, $5.9 million for training programs, $5.2 million for environmental programs, $4.2 million for partnership programs, $1.1 million for energy programs and $3.7 million for other programs.

Implementation Problems

Despite significant progress towards passage of Russian legislation on taxation of assistance in FY 1998, U.S. Government-funded assistance programs in Russia continued to experience significant problems in receiving the tax- and duty-exempt status to which they are entitled under a 1992 bilateral agreement that exempts all U.S. assistance activities from Russian taxes and customs duties. This agreement has not been backed up with the necessary Russian legislation. After long debate and a number of drafts, the Russian Parliament gave final approval to taxation of assistance legislation in December 1998. Although flawed, this legislation would have provided a starting point from which to address ongoing attempts to assert the tax-exempt status of U.S. assistance. However, President Yeltsin vetoed the bill in January 1999, and its future status is uncertain.

Pending the enactment of permanent legislation, U.S. assistance programs had been operating under the so-called Panskov-Pickering Agreement, first signed in 1996 and extended several times thereafter. Unfortunately, in June 1998, Russia's Finance Minister instructed tax and customs officials that the agreement had no legal basis and that they should therefore begin collecting taxes and customs duties from U.S. assistance providers. While this Finance Ministry instruction was rescinded later in the year, ostensibly putting the Panskov-Pickering Agreement back into effect, a number of assistance activities continued to be hindered by inconsistent application of the agreement, including critical U.S. Energy Department nuclear materials disposition programs, Cooperative Threat Reduction (Nunn-Lugar) activities, American Business Centers, the Peace Corps, and others. Most problems stemmed from the actions of local officials who refused to recognize the tax-exemption certificates issued by the U.S. Embassy in Moscow. U.S. officials continued to raise this issue at every opportunity in an effort to resolve it.

Trade and Investment Programs

Regional Initiative (RI): The U.S. Government's Regional Initiative (RI) continued to expand its activities in Russia in FY 1998. RI coordinators were resident in Novgorod, Khabarovsk, Yuzhno-Sakhalinsk and Samara, and served as central points of contact for Russian and U.S. businesses, regional and local officials, locally based implementers of U.S. Government-funded assistance programs, Moscow-based officials and U.S. Government representatives, and Washington-based U.S. Government agencies.

- **Novgorod RI:** USAID helped the Novgorod regional administration to refine and accelerate its economic growth and investment strategy, which facilitated over $100 million in foreign investment. USAID also helped establish a new micro-finance institution which disbursed 144 loans totaling $122,000, facilitated two small equity investments totaling $380,000, provided training to 170 women in business and computer skills (resulting in the creation of new business plans, one new business and four NGOs), and helped establish a partnership between Novgorod Oblast (Region), the University of Massachusetts, and Pskov Polytechnic University to develop a geographic information system (GIS), for which the Oblast administration purchased computer equipment.

- **Khabarovsk RI:** In the Russian Far East, RI investment strategy development activities resulted in increased dialogue between Khabarovsk Kray officials and the private sector. USAID intensified its support for micro-enterprise and small-business development in the region through a number of initiatives, including expanded micro-credit, small-business loan guarantees and increased training. USAID also initiated a grants program to support environmentally sustainable economic growth.

- **Samara RI:** During the first part of FY 1998, intensive negotiations took place with Samara regional officials to define and agree upon the priorities and framework for the Samara RI. By the end of FY 1998, key activities had begun or were about to begin, including the placement of economic policy and investment strategy advisors with senior Samara Oblast (Region) officials, a pilot training program in international accounting standards (IAS), an environmental-health risk assessment and ISO 14000 training, energy-efficiency programs, and technical assistance and training to improve public finance management and planning.

USAID Tax Reform Programs: In FY 1998, USAID-funded advisors worked closely with members of the Russian Duma in drafting sections of the new tax code and continued to advise officials in selected Russian regions on ways to rationalize public finance.

The U.S.-Russia Investment Fund (TUSRIF): Since its inception in 1995 , TUSRIF has disbursed nearly $93 million in loans to small business and banks, and direct investments. In FY 1998, TUSRIF had disbursed $15 million in loans through mid-August, when new loans were temporarily halted pending a review of the potential effects of the economic crisis. At that time, the annualized rate of disbursement was $32 million, not including the pilot mortgage-lending program initiated last year. As of mid-September 1998, TUSRIF had been granted an exemption to the Central Bank's moratorium on debt payments. The automobile-lending program that was begun in Moscow was expanded to Yekaterinburg, Rostov-on-Don, and St. Petersburg. As of July 1998, Moscow's loan program had a 100-percent repayment rate with over $2 million in outstanding loans. In the Russian Far East, TUSRIF, in cooperation with Working Capital, launched the first micro-credit program in the region.

Support for EBRD Russian Small Business Fund (RSBF): In FY 1998, USAID provided $5 million to this $300 million fund managed by the European Bank for Reconstruction and Development (EBRD) and supported by contributions from the G-7 countries. The RSBF finances small businesses and strengthens the lending capacity of Russian banks. Prior to mid-August 1998, over 22,000 loans had been disbursed to Russian enterprises, with monthly disbursements averaging 1,000 loans. Arrears were 2.5 percent and the repayment rate was 99.5 percent.

Business and Economic Development Programs

USAID Small-Business Development Programs: In FY 1998, USAID continued to support small business development in Russia. Since 1994, USAID has helped train over 250,000 Russians in starting and running a small business. These program have contributed to the creation of over 5,301 new businesses and over 22,000 new jobs. Over 1,000 new businesses and over 3,700 new jobs were created in FY 1998 alone. With USAID support, senior U.S. executives provided 366 *pro bono* consultation sessions throughout Russia, from St. Petersburg to Sakhalin. Since 1994, USAID has created 12 small- and micro-business financing institutions outside Russia's formal banking sector. These institutions are located throughout Russia and have financed over 3,500 small and micro entrepreneurs since 1994, almost a third of which were financed in FY 1998.

U.S. Department of Commerce - Business Information Service for the NIS (BISNIS): In FY 1998, BISNIS expanded its regional coverage in Russia by adding representatives in Yuzhno-Sakhalinsk and Nizhniy Novgorod and by raising the number of BISNIS representatives in Russia to seven. As a result, BISNIS increased U.S. companies' access to market reporting on Russia and promoted U.S. export and partnership opportunities. Of the 276 *Trades and Tenders* export-opportunity leads published by BISNIS in FY 1998, 196 were for Russia, and a total of 179 *Search for Partners* long-term-cooperation leads published by BISNIS were from Russia. In addition, BISNIS distributed a new edition of the Russian-language booklet *Trade with America* throughout Russia. The booklet highlights Commerce Department and other U.S. Government trade programs active in Russia. In FY 1998, BISNIS strengthened its cooperation with other U.S. Government programs, resulting in a greater number of leads and reports from first-hand sources to U.S. companies and raising awareness about governmental and non-governmental resources for commercial activities in Russia.

U.S. Department of Commerce - American Business Centers (ABCs): The U.S. and Foreign Commercial Service's network of American Business Centers (ABCs) in Russia continued to support small and medium-sized U.S. businesses in Russia, providing on-site office facilities, communications and logistical support, as well as contact information and expert business counseling in regions outside of Moscow. The Samara ABC officially opened its doors on September 1, 1998. In addition to providing the above-mentioned services to small and mid-size U.S. firms in the region, the ABCs in Samara, Khabarovsk and Yuzhno-Sakhalinsk also provide office space for the U.S. Regional Initiative coordinators in these regions.

Peace Corps Economic Development Program: In FY 1998, Peace Corps volunteers provided training and consulting services to Russians at the grassroots level throughout Russia with the aim of improving the climate for small-business development. In Nizhniy Novgorod, volunteers created an incubator for non-governmental organizations (NGOs) that provides 11 local interns with hands-on NGO management experience. Also in Nizhniy Novgorod, Peace Corps volunteers helped local entrepreneurs obtain equity investment loans from the European Bank for Reconstruction and Development (EBRD) and assisted with the development of an investment profile publication for the city. In the Russian Far East, eight Peace Corps volunteers provided training and consulting services to Russian entrepreneurs and NGOs. In all, Peace Corps volunteers trained more than 6,700 Russian entrepreneurs through workshops, seminars and individual consultations in FY 1998.

Training and Exchange Programs

To date, over 35,000 Russians have participated in U.S. Government-funded training and exchange programs targeting the next generation of Russian leaders. Young Russians have come to the United States on academic and professional exchange programs, which focus on the skills needed to build a civil society and a market-based economy. As Russia's 1999 parliamentary elections approach, we plan to expand these initiatives to reach out particularly to young leaders from the regions who may be potential candidates for the Russian Duma (Parliament).

USIA Presidential Management Initiative (PMTI): In spring 1998, the U.S. Information Agency (USIA) launched the Presidential Management Training Initiative (PMTI) in response to President Yeltsin's call to Russia's Western partners to provide training to mid-level managers of Russian firms. Modeled after the highly successful Business for Russia/Community Connections Program, PMTI is a cooperative project between the U.S. and Russian Governments that organizes community-based business internships for Russian managers in U.S. companies. The Russian Government has established a federal organization to screen applicants and select participants for in-country training and foreign internships; however, to ensure quality of applicants and necessary language skills, USIA has established an interview process to select qualified applicants from among those recommended by the Russian Government. The in-country training, which precedes the U.S. internships and is conducted by institutions of higher learning around Russia, includes management and language skills and lasts from one to three months. The Russian Government pays international airfare for PMTI participants. A total of 54 Russian business managers had participated in PMTI through the end of 1998, with a total of 360 participants anticipated by the end of FY 1999.

USIA Professional Exchange Programs: In FY 1998, 480 Russian entrepreneurs participated in U.S.-based internships through USIA's Business for Russia (BFR) program, as well as 20 local government officials who studied U.S. governmental and business structures. This brings the total number of BFR participation since FY 1994 to 2,011. In FY 1999, BFR recruitment will be undertaken in six regions, with an anticipated total of 360 participants. BFR is highly successful in exposing Russian entrepreneurs to American business practices. It also achieves the secondary objective of acquainting Russian participants with American society and culture through home-stays and cultural and social events. USIA also funds the Productivity Enhancement Program (PEP) run by the Center for Citizen Initiatives (CCI). PEP arranges business internships throughout the United States using local resources such as Rotary Clubs. Through March 1998, approximately 600 Russians had participated in PEP, and another 490 are anticipated through summer 1999. PEP participants pay their own travel and per diem, while USIA and the U.S. host communities cover the costs of the training. USIA's Community Connections program targets non-English speaking Russians in the fields of business development, NGO administration and educational administration. Groups of participants from individual Russian communities visit U.S. communities in groups of ten or so, to study U.S. practices in their professional areas. In FY 1998, 155 Russians participated in Community Connections, with a total of 440 having participated since the program's inception two years ago. In addition, 144 Russians traveled to the United States under USIA's International Visitors (IV) Program, with a total of 768 having participated since FY 1992. USIA also organized

exchange programs for members and staff of the State Duma and regional parliaments. In FY 1998, two programs were arranged for a total of 15 Russian political leaders, bringing the total number of parliamentary participants to 151 deputies and 79 staff since FY 1992.

USIA Academic Exchange Programs: In FY 1998, some 1,225 Russians (65 percent of whom were under the age of 30) participated in USIA's nine academic exchange programs, which provided not only academic study and enrichment but also community immersion and practical internships. Participants returned home with a deeper understanding of the foundations of American democracy and market economics, as well as of U.S. concepts of government, civic activism, and social responsibility. USIA's Future Leaders' Exchange (FLEX) Program brought 315 Russian high-school students to the United States, while the FSA Undergraduate Exchange Program brought 70 Russian undergraduates, and the Muskie/FSA Graduate Fellowship Program brought 77 Russian graduate students. Some 375 Russian and American high school students participated in USIA's short-term High School Linkages Program. USIA's Teaching Excellence Awards Program awarded 30 Russian finalists and 14 American finalists with an opportunity to participate in a professional development seminar alongside their foreign counterparts, and provided much-needed educational materials to 195 Russian semifinalists. Other programs for teachers and scholars included the Partners in Education Program (54 Russian participants in FY 1998), the Curriculum Consultants Program (10 Russian participants in FY 1998), Fellowships in Contemporary Issues (20 Russian participants in FY 1998), the Regional Scholar Exchange Program (36 Russian participants in FY 1998), and the Junior Faculty Development Program (54 Russian participants in FY 1998).

USIA Alumni Programs: Maintaining contact with and between alumni of USIA programs is a high priority, and every effort is made to reinforce the program experience after participants return to Russia. Alumni activities organized by USIA in FY 1998 included conferences, networking opportunities, career development seminars, job forums and U.S. Embassy/Consulate events. Strong alumni societies have already grown from the FLEX, Muskie/FSA and scholar programs.

USIA Distance Learning Partnerships: USIA has funded a wide range of bilateral training and exchanges between Russian and U.S. educational institutions. Six partnerships (three funded with FREEDOM Support Act funds and three with USIA base-budget funds) have been established to expand the ability of Russian institutions to teach business and management courses through the use of distance learning technology.

USIA Women's Leadership Programs: In FY 1998, USIA provided a total of $450,000 in support of six programs for female NGO activists and community leaders. These programs helped the participants acquire a wide range of organizational skills, establish links with other NGOs, encourage grassroots activism, establish training centers, and learn how to combat domestic violence. One program addressed the need to develop the role of women in the judiciary through training for judges.

Other USIA Programs: In FY 1998, USIA implemented a media development program, a program encouraging regional trade and investment, and community grants for local economic, health, education and social service development. The community grants targeted cities with a large defense-industry presence.

USAID Training Programs: In 1998, 103 Russian professionals participated in USAID-funded short-term training programs in the United States, and 800 Russians took part in 40 in-country training courses. Under USAID's Eurasian Medical Educational Program, approximately 300 participants received specialized medical training in Tula, Kazan, Khabarovsk, Yaroslavl and Yekaterinburg. Since 1993, USAID has provided U.S.-based training for a total of over 5,000 Russians in such areas as urban land redevelopment, corporate finance, environment, and law enforcement. USAID intends to support the Presidential Management Training Initiative (PMTI) described above by offering important follow-up training for 100 to 150 Russians who will returned from USIA-organized business internships in the United States.

U.S. Department of Commerce - Special American Business Internship Training (SABIT) Program: In FY 1998, 159 Russian professionals participated in SABIT internships, receiving training in the areas of metrology, food processing, medical standards, quality of manufacturing, and leasing. In addition, SABIT organized three special programs for the Russian Far East, including a mining and energy program, and a customs program which will be implemented in FY 1999. U.S.-Russian business contacts established through the SABIT Program continue to spur new business opportunities for U.S. companies, with at least $1 million in contracts for U.S. firms already realized.

Democracy Programs

USAID NGO Development Programs: Since 1992, USAID has provided over $36 million in direct support of NGO development programs in over two-thirds of Russia's territory. In FY 1998, a program was initiated by the USAID-funded Initiative for Social Action and Renewal in Eurasia (ISAR) to provide training, information resources, one-on-one consultations, and small grants to NGOs in the Russian Far East. The Civic Initiatives Program, a successful four-year activity that concluded in FY 1998, promoted citizen involvement and advocacy at the national, regional and local levels, fostering the development of 27 NGO resource centers that in turn provided over 26,000 training sessions, information resources, and one-on-one consultations to NGO activists in four of Russia's regions. Some of these centers have subsequently received funding from alternative sources and continue operations without USAID funding. USAID will continue to fund other such centers under its follow-on NGO sector support program.

USAID Independent Media Programs: In FY 1998, USAID-supported Internews provided training and program assistance to some 200 independent television stations from Kaliningrad to Sakhalin, helping them strengthen their journalistic professionalism, advertising sales and management capabilities. The National Press Institute and the Eurasia Foundation's Media Viability Fund provided in-house consultations to about 70 local independent newspapers. Since 1993, USAID-supported independent media programs have provided training to over 300 regional television stations and over 1,500 newspapers.

USAID Rule-of-Law Programs: In FY 1998, USAID began funding a training project for members of Russia's new bailiffs' (court marshals') service in the Ministry of Justice, to bolster the enforcement of court decisions. This support is complementing USAID's ongoing efforts to promote the rule of law in Russia. (See below for Eurasia Foundation grants in crime and corruption and the rule of law.)

USAID Political Process Programs: In FY 1998, USAID continued to support the participation of Russian citizens in political processes. With USAID support, the International Republican Institute (IRI) and the National Democratic Institute for International Affairs (NDI) continued their work to help Russia's pro-democratic political parties strengthen their organizational structure and increase party membership. IRI and NDI trained more than 1,800 political party leaders and civic and political activists in 12 core Russian regions. IRI provided approximately $300,000 in subgrants to five regional Russian NGOs supporting democratic development, training and research. The USAID-funded International Foundation for Election Systems (IFES) provided support to the New Perspectives Foundation (NPF), enabled it to continue its work in promoting civic education and women's and youth participation in politics in 59 of Russia's regions. IFES also continued to provide technical assistance to Russia's Central Election Commission and, through its Moscow resource center, to 89 subject (regional) election commissions (SECs) and 2,700 territorial election commissions (TECs). USAID grantees also provided direct support for the Moscow School of Political Studies (MSPS) to conduct training and seminars for approximately 600 Russian politicians and policy-makers in Moscow and in the regions. USAID support enabled MSPS to reach 200 regional politicians and policy-makers in southern Russia's "Red Belt," and to publish four volumes on democracy and democratic values. In FY 1998, MSPS distributed over 3,000 copies of its publications to elected officials, journalists, political activists, scholars, and university and public libraries. The AFL-CIO's USAID-funded American Center for International Labor Solidarity trained 120 Russian union activists (67 men and 53 women) in basic trade unionism. In addition, 335 trade union activists (114 men and 221 women) attended seminars focused on areas such as collective bargaining, understanding enterprises' financial documentation, and observance of employment contracts.

U.S. Department of State - Anti-Crime Training and Technical Assistance (ACTTA) Program: In FY 1998, ACTTA law enforcement training programs continued to reach a broad cross-section of Russian society, providing training to law enforcement personnel, court officials, NGOs and health professionals who deal with domestic violence. The Federal Bureau of Investigation (FBI), Drug Enforcement Administration (DEA), U.S. Immigration and Naturalization Service (INS) and U.S. Secret Service (USSS) all continued core training activities with their respective Russian counterpart agencies. In summer 1998, the International Association of Chiefs of Police (IACP) initiated an ACTTA-funded program of law enforcement exchanges at the local level, involving police chiefs from across the United States and Russia.

Contemporary Society Small Grants Program: This embassy-based small grants program administered by the Eurasia Foundation made 64 awards totaling approximately $1 million in FY 1998. Under this program, grants of up to $25,000 are awarded in the areas of rule of law and democratic processes, community development, educational and cultural administration, and U.S.-Russian relations. Over the past two years, the program has disbursed 90 small grants totaling some $1.4 million.

Security Programs

U.S. Department of Defense - Cooperative Threat Reduction (CTR) Program: The CTR Program has invested approximately $1.2 billion in Russia since 1992, with $1 billion obligated through FY 1998 and over $603 million disbursed, to help accelerate strategic offensive arms reductions pursuant to the START Treaties, increase security of nuclear warheads in transit or storage, and help "jump start" Russian chemical weapons destruction. Whereas the Russian Duma ratified the Chemical Weapons Convention in 1997, adding momentum to CTR chemical weapons efforts, START II remained unratified at the end of FY 1998. Nevertheless, in FY 1998, the CTR Program pushed forward with a joint effort to speed up the elimination of the SS-18 intercontinental ballistic missile, approximately 50 submarines capable of carrying sea-launched ballistic missiles, and 32 nuclear submarines. Under the CTR Program, a technical training center equipped with up-to-date security systems for the secure storage of nuclear weapons was constructed and used to train Russian personnel on the operation and maintenance of these security systems. By the end of FY 1998, the CTR Program had provided the Russian Ministry of Defense with equipment and training for installation security systems to be used at 50 nuclear weapons storage sites. In addition, steps were taken to provide the Russians with a computer-based system for nuclear weapons accounting and tracking. The Department of Defense also provided funding for the construction of a central analytical laboratory in Moscow, which began in FY 1998. Substantial progress was also made in the construction of a chemical weapons elimination facility at Shchuchye in the Kurgan Region. CTR projects are also being developed to help the Russians process and package fissile material in the post-dismantlement stage and to prevent proliferation of biological weapons (BW) expertise and technology.

Cooperation between the United States and Russia in the area of fissile material control and accounting continued to progress in FY 1998. Under the **Energy Department's Material Protection, Control and Accounting (MPC&A) Program,** joint projects were under way at Ministry of Atomic Energy (MinAtom) facilities and MPC&A cooperation was expanded with the Russian Navy. Other successful bilateral programs with nonproliferation goals included the **International Science and Technology Center (ISTC), DOE's Initiatives for Proliferation Prevention,** and cooperation in the area of export controls. (see Security Programs in Section III)

Energy and Environmental Programs

U.S. Department of Energy (DOE)/USAID Energy-Sector Reform Programs: In FY 1998, USAID and DOE developed a final report on the restructuring and privatization of Russia's electrical power sector. The report addressed the commercialization of Russia's regional power utilities and the development of the country's wholesale power markets. DOE continued to promote U.S. investment in Russia's power sector, and promoted energy efficiency on a number of fronts. DOE's District Heating Initiative encouraged Russian cities to redirect district heating subsidies from the Russian Government to pay for energy-efficiency upgrades. A demand-side management project continued to promote energy efficiency through the installation of energy-efficiency equipment in Ivanovo, Perm and Novosibirsk, and provided training in demand-side management. DOE also continued to engage the Russian Federal Energy Commission (FEC) through programs emphasizing the importance of transparency, consistency and fairness in the development of Russia's energy regulatory regime. DOE focused on providing assistance to Russian officials responsible for drafting and implementing relevant

energy-sector laws and regulations. Working together with USAID, DOE sponsored a conference on natural regulation in FY 1998. In spring 1998, DOE organized a workshop on regulation of discharge from offshore oil and gas platforms, providing a variety of Russian Government ministries with an overview of offshore waste regulation in other countries. In addition, as a result of a feasibility study carried out in Krasnodar as a follow-on to the USAID-supported Joint Electric Power Alternatives Study (JEPAS), a U.S. company (Global Power, Light and Water Turbines) agreed to provide $1.38 billion to build a modern combined-cycle thermal power plant in Mostovskaya in the Krasnodar Kray Region. The plant will be built in three years with a six-year repayment period. The U.S. company accepted the guarantee of the Krasnodar Regional Administration for the financing package.

USAID Environmental Programs: In FY 1998, USAID helped introduce new technologies and approaches to reducing pollution in Russia. In Novokuznetsk, the introduction of a water filtration and leakage control system brought water to many new areas of the city, helping the city avoid building a new pumping station and thus saving over $1 million dollars. Moreover, reduced pumping costs will lead to annual savings of $70,000 in electricity demand. USAID's Comprehensive Reforestation Program resulted in the production of over 1.7 million seedlings in 1998, compared to the 6,500 produced annually before the program was initiated. USAID-sponsored greenhouse complexes produced high-quality seedlings and were becoming self-financing, with growing government and private-sector demand. USAID-funded advisors also helped develop a regional forestry code in Khabarovsk that clarifies the division of authorities and responsibilities between the federal government and the kray (region). Results were also achieved in improving Russia's natural resource and environmental management. USAID's Eco-Tourism Program in the Russian Far East (RFE) helped the region's nature reserves survive despite minimal support from the state budget. The RFE Marine Reserve raised $4,500 during the last three months of FY 1998 by conducting 55 excursions for schoolchildren, visitors from the local area, foreign tourists and specialists. Peace Corps volunteers helped the staffs of the nature reserves, as well as the nascent environmental NGO community in Russia.

- The results described above were being continued and sustained under **USAID's Replication of Lessons Learned (ROLL) Project**. In FY 1998, Russian organizations received 53 grants averaging $25,000 to replicate activities in 46 regions. Specific projects included support to the Yekaterinburg Center of Sanitary and Epidemiological Control for legal and legislative initiatives in the area of environmental protection, support to the Buryatia Regional Association on Lake Baikal for the implementation of a rayon-level (county-level) geographic information system (GIS) in order to promote sustainable development of the Baikal component of the UNESCO World Heritage Program, and support to the Foundation for the Development of the Russian Far East State Marine Reserve in Vladivostok to organize eco-tourism and ecological excursions to nature reserves in the Russian Far East.

U.S. Department of Energy - Nuclear Energy Programs: FY 1998 was an important year for plutonium disposition-related initiatives. DOE and the Russian Ministry of Atomic Energy (MinAtom) signed a technical agreement that will lead to the development of a pilot scale pit conversion facility. The groundwork was also laid for negotiations on a broader framework agreement for future full-scale plutonium disposition activities. In FY 1998, the Highly Enriched Uranium Purchase Agreement continued to be implemented and transparency measures carried out. A Nuclear Cities Initiative (NCI) designed to help the Russian Government "right-size" its nuclear weapons complex was also launched in FY 1998. As a part of the Materials Protection, Control and Accounting (MPC&A) and Second Line of Defense Programs, DOE continued efforts to secure weapons-grade fissile materials in Russia, working with the wide range of Russian organizations responsible for securing the country's nuclear materials. A key MPC&A project under which began in FY 1998 was a program to secure nuclear reactor fresh fuel stores in facilities belonging to the Russian Navy's Northern and Pacific fleets. DOE continued to train MinAtom's exporting organizations on control procedures and practices designed to strengthen export controls. FY 1998 also saw the opening of a state-of-the-art emergency response center at the headquarters of the Russian Government's nuclear regulatory body, GosAtomNadzor (GAN) and continued work on nuclear safety at all of Russia's nuclear power plants and under DOE's International Nuclear Safety Program. DOE also continued work under its Radiation Health Effects Research Program, which is designed to monitor and study radiation effects on workers assigned to MinAtom's Mayak nuclear weapons complex.

Social Sector and Humanitarian Programs

USAID AIDS Prevention Program: In FY 1998, USAID initiated a new multi-year AIDS prevention program for Russia. Under the program, U.S. and Russian NGOs work as partners to reach high-risk populations with specialized information and AIDS-prevention services in situations where Russian Government programs lack community-level experience and public trust. Among the NGOs actively involved in the program were a Russian NGO and a U.S. NGO which had previously benefited from USAID's NGO development grants program.

Support for the Russian Medical Association (RMA): With USAID assistance, the American Medical Association (AMA) continued to work with the RMA in FY 1998 to help develop the latter's institutional capacity. The RMA is now considered the premier medical association in Russia, is an observer at the World Health Organization's (WHO) World Health Assembly, and has started publishing a version of the *Journal of the American Medical Association (JAMA)* in Russian. The RMA is also participating in an initiative under the U.S.-Russian Joint Commission to improve the quality of health services in Russia.

USAID Women's Health Programs: In FY 1998, four USAID-supported women's wellness centers provided reproductive health services to some 4,000 women, and 213 obstetricians/gynecologists participated in USAID-supported refresher training courses. USAID is also helping distribute to health professionals the Russian Health Ministry's recently approved guidelines on family planning.

USAID Hospital Partnerships: In FY 1998, USAID supported the development of four new hospital partnerships in Moscow, Buryatia, Chelyabinsk and Volgograd. Under these four partnerships, U.S. partner hospitals in Memphis, Rhinelander (Wisconsin), Tacoma and Little Rock are providing technical assistance to their Russian partners in the areas of maternal and child care, diagnosis and treatment of tuberculosis, and infection control. This brings to 15 the total number of USAID-funded hospital partnerships in Russia. These partnerships organized exchanges of U.S. and Russian doctors, nurses, administrators and health educators, and provided ongoing support for the introduction of new cost-effective health care methods in Russia.

USAID Institutional Partnerships: In FY 1998, USAID implemented a new partnership program in Russia, Sustaining Partnerships into the Next Century (SPAN), which strengthens existing partnerships between U.S. and Russian institutions and provides Russian professionals with internship and training opportunities. Since August 1997, SPAN has supported over 105 partnerships, which have provided training to more than 3,300 Russian participants.

- Under a partnership between the St. Petersburg Medical Academy of Post-Graduate Studies, the Medical Faculty of the Novgorod Medical Institute and the University of Iowa, the U.S. and Russian partners worked together to implement a tele-medicine project. Video-conferencing equipment purchased by the partners is allowing the partners to share information and collaborate on research and diagnostic efforts.

- Under a partnership between the Russian-based All-National Fund for Decent and Affordable Housing (ANF), Citizens Foundation (CF) and the U.S.-based Urban Homesteading Assistance Board (UHAB), the U.S. and Russian partner institutions established an organizational and technical assistance center in Novgorod which provides support to community leaders and activists working on housing issues.

- A partnership between the Irkutsk-based Baikal Environmental Wave and Baikal Watch at the San Francisco-based Earth Island Institute headed a campaign to close a environmentally hazardous mill in Baikalsk. As a result, the chairman of Russia's State Committee for the Environment endorsed the recommendation that the mill be closed.

U.S Department of Agriculture (USDA) - Food Assistance: In FY 1998, USDA provided over 15,000 metric tons of food assistance valued at approximately $3.5 million to Russia under its Food for Progress program.

Coordinator's Office Humanitarian Assistance: In FY 1998, the State Department's Operation Provide Hope provided approximately $18.6 million in humanitarian medical assistance to Russia at a cost of approximately $1.3 million.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1998, the U.S. Government-supported Eurasia Foundation awarded over 500 small grants totaling $9.2 million to support NGO development, electronic communications, public administration, the rule of law, independent media and a number of new and innovative projects in Russia. Over 80 percent of the grants were made by the Foundation's field offices in Moscow, Saratov and Vladivostok. Under its Rule-of-Law Grant Program, which began in FY 1997, the Foundation awarded grants to 23 organizations from seven regions, including the Russian Far East. The grants supported three programs dealing with corruption-related issues, such as transparency in local government, and 12 crime-prevention projects addressing the needs of at-risk groups. The Foundation also managed three independent programs in Russia: the Small Business Loan Program, the Economics Education Consortium and the Media Viability Fund.

- In FY 1998, the Eurasia Foundation opened a Small Business Loan Program (SBLP) office in Saratov. The SBLP's $600,000 agribusiness loan fund offers capital to agricultural processors, producers and suppliers. By September 1998, the new SBLP office had initiated four loans totaling $184,000 through local banks.

- The Economics Education Research Consortium (EERC), of which the Eurasia Foundation is a member, supported small research grants, offering a combination of competitive grants, technical assistance, and professional publication opportunities for Russian economists. Since its inception in July 1996, the Russian component of EERC has supported 150 researchers involved in 80 research projects, and has provided professional development opportunities to more than 250 young Russian economists.

- The Media Viability Fund (MVF), a joint effort of the Eurasia Foundation and the Soros-funded Media Development Loan Fund, worked with Russia's National Press Institute to provide in-house consultations to about 70 local independent newspapers.

- The Eurasia Foundation also administered the disbursement of grants under the U.S. Embassy's Contemporary Society Grants Program. In FY 1998, the Foundation awarded $1.3 million in Contemporary Society grants to in the areas of economic development, government reform and the nonprofit sector, and media and communications.

Peace Corps: In FY 1998, 99 Peace Corps volunteers worked in the areas of free-market economic development, business education and NGO development in Russia. In addition to the economic development and environmental activities described above, Peace Corps volunteers also edited English-language textbooks for use in Russian schools, participated in language immersion camps and secured grants for the establishment of seven Internet and educational resource centers in Russia.

Preview of FY 1999 Programs

In FY 1999, U.S. Government assistance to Russia will continue to focus on private-sector development and civil society, two areas that were particularly hard hit by the August 1998 crisis. USAID will provide technical assistance to Russia's electoral commissions to help ensure that elections scheduled for 1999 and 2000 are free and fair. In addition, the development of infrastructure for the Russian capital markets system will continue in Moscow and 15 of Russia's regions. U.S. Government-funded programs will also continue to address significant obstacles to reform, such as corruption, organized crime, and the overall lack of an effective and comprehensive legal system that can ensure the rule of law. In FY 1999, USAID, the World Bank and other international donors will work together to develop a comprehensive plan to restructure the Russian banking system. The U.S. Government will continue to collaborate with the EU-TACIS, the European Union's technical assistance program for the NIS, in the areas of business development, environmental policy reform, and banking reform.

In FY 1999, the U.S. Government's Partnership for Freedom (PFF) and the companion Regional Initiative will continue to target funds away from the Russian Government and to Russia's reform-minded regions rather than Moscow, and will emphasize the creation and strengthening of sustainable partnerships between U.S. and Russian communities and organizations in all sectors. USAID-funded assistance programs will continue to focus on economic, democratic, health-care and social-sector reform. In the area of economic reform, activities will include support for the development of small and medium-size enterprises, the establishment of

alternative credit sources and loan guarantees for small and micro enterprise, assistance to local and regional governments interested in developing investor-friendly regulations, and implementation of environmentally sound business practices. USAID will continue to work with other donors in banking and tax reform. In the democratic reform area, USAID will support the further strengthening of civil society through activities designed to promote free and fair elections, political party development, human rights, NGO development, independent media, rule of law, and U.S.-Russian institutional partnerships. In the health and social sector reform area, USAID will work to stem the spread of infectious diseases, primarily HIV/AIDS and tuberculosis, increase the accessibility and quality of health care in Russia, and provide support to Russian orphanages. As in previous years, training and exchanges will offer a variety of Russians an opportunity to travel to the United States to see systems functioning in a free market democracy. The grant-making activities of the Eurasia Foundation and projects combating violence against women will continue. USAID will also continue its work to strengthen the legal profession through training and other assistance, while the U.S. Department of Justice, the Federal Bureau of Investigation and other U.S. law enforcement agencies will help their Russian counterparts combat transnational crime. In the area of security assistance, there will be a continued emphasis on the need to reduce the risks of proliferation of weapons of mass destruction through programs with science centers and similar efforts designed to employ former Russian weapons scientists in non-military programs.

TAJIKISTAN

Political and Economic Overview

In June 1997, Tajikistan took a significant step towards national reconciliation with the signing of a general peace accord after a violent civil war in 1992-93 and resulting continued instability. Under the provisions of the accord, a Commission on National Reconciliation (CNR) began work in July 1997, and made some progress in establishing peace in Tajikistan in FY 1998. The Government of Tajikistan fulfilled its obligation to name United Tajik Opposition (UTO) candidates to thirty percent of high-level government positions. For its part, the UTO had registered virtually all its fighters, in anticipation of their demobilization or reintegration into regular military units. The return of Tajik refugees from Afghanistan (completed this year) and of virtually all exiled leaders was a hopeful sign that the sides intend to make the peace agreement work.

On the other hand, implementation of the peace accord was chronically behind schedule, and basic issues such as constitutional reform, legalization of banned political parties, and disarming or reintegration of fighters remained unresolved. Parliamentary elections, scheduled for June 1998 under the agreement, are expected sometime in 1999. The United Nations Mission of Observers in Tajikistan (UNMOT) reported several cease-fire violations in 1998. UNMOT suspended operations in the Karotegin Valley and curtailed activities elsewhere following the July 20 killing of four UNMOT personnel in Labijar.

Tajikistan's economy remained extremely depressed in FY 1998, and government revenue remained highly dependent on the cotton and aluminum industries. Most Soviet-era factories worked little if at all. Small-scale privatization was over 60 percent completed, but medium- to large-scale privatization was stalled. Tajik Government statistics showed a 3.8 percent rise in GDP during the first eight months of 1998, but also indicated that nearly one-third of the population was unemployed or under-employed.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided an estimated $38.7 million in assistance to Tajikistan, consisting of $11.95 million in FREEDOM Support Act funds, over $22.1 million in other U.S. Government funds, and $4.62 million in Defense Department excess and privately donated humanitarian commodities. The largest component of this assistance was U.S. Department of Agriculture (USDA) commodity grants to the Tajik Government and U.S. private voluntary organizations (PVOs), valued at $22.0 million. Of the total amount of assistance managed by USAID ($10.6 million), 60 percent was technical assistance, 37 percent was humanitarian assistance, and three percent represented partnership activities.

U.S. Government-funded assistance to Tajikistan supported the peace process, focusing on returning and reintegrating refugees and demobilized fighters, providing humanitarian assistance to vulnerable groups and promoting privatization and private enterprise, and the development of non-governmental organizations (NGOs). As part of the U.S. Government's efforts to promote market reform in Tajikistan, USAID funded programs in fiscal policy, growth of private enterprise, and the private financial sector. USDA government-to-

government commodity grants supported agricultural reform, including the privatization of agricultural enterprises and the provision of agricultural credit. U.S. Government-funded democratic transition assistance aimed to increase citizens' participation in political and economic decision-making. Regional environmental and energy programs supported Tajikistan's role in the Syr-Darya/Naryn Cascade water management agreement and the Central Asian electric transmission grid agreement, as well as the Water and Energy Uses Roundtable. U.S. Government-funded training programs were aimed at developing a cadre of Tajikistani professionals who have been exposed to Western practices, while future Tajikistani leaders learned about the United States through USIA-sponsored high school, undergraduate, and graduate-level exchange programs.

In October 1998, the American staff of the U.S. Embassy in Dushanbe were relocated to Almaty, Kazakhstan, due to security concerns. This made it more difficult for the U.S. Government to implement and coordinate assistance programs on-site in Tajikistan; however, the grantee organizations implementing U.S. Government-funded assistance programs remained in-country and continued their work at previous levels. After the temporary suspension of U.S. Embassy activities, USAID was unable to launch some of its new programs in Tajikistan due to the difficulty in finding contractors willing to start operations there.

Trade and Investment Programs

In FY 1998, the U.S. Government continued to promote trade and investment in Tajikistan through a number of programs. The Central Asian - American Enterprise Fund (CAAEF) made loans totaling over $730,000 to private businesses in Tajikistan. With USAID and USDA support, a U.S. NGO, Mercy Corps International, established a small-loan program for farmers and others. Under the terms of the program, recipients of the loans repay them in-kind to local institutions such as hospitals and orphanages, resulting in a benefit not only to budding entrepreneurs but also to vulnerable groups.

Business and Economic Development Programs

In FY 1998, U.S. Government-funded assistance in this area was limited to a total of three person-months of technical assistance to the National Bank of Tajikistan and an additional three person-months of technical assistance to support privatization. The latter played a critical role in Tajikistan's satisfactory compliance with International Monetary Fund (IMF) and World Bank targets.

Training and Exchange Programs

In FY 1998, U.S. Government-funded training and exchange programs continued to provide Tajiks with an opportunity to observe developments elsewhere and to gain international experience, and contributed to progress in a variety of sectors. To encourage economic reform, **USAID** and the **U.S. Commerce Department's Special American Business Internship Training (SABIT) Program** have sent hundreds of Tajiks to the United States or to other NIS countries for short-term training in a number of areas related to economic reform. Specialized in-country training was also provided. Tajiks trained under these programs now form a cadre of reform-minded officials who are taking the lead in crafting long-term stabilization and structural adjustment programs. Targeted training was also provided to key officials and policy-makers, including government officials, members of the United Tajik Opposition, and others.

USIA Exchange Programs: In FY 1998, 50 Tajiks traveled to the United States under USIA exchange programs, including three graduate students, four undergraduates, three scholars, 10 professionals, and 30 secondary school students. USIA continued to support a university partnership between the University of Nebraska and Hodjent State University, which have an ongoing partnership supporting the development of degree and extension programs in business education. In FY 1999, the partnership will conducting outreach activities to share programs with other institutions in Tajikistan. One particularly thorny political issue in Tajikistan is the question of secular government. A USIA-sponsored delegation comprised of both government and United Tajik Opposition leaders visited the United States in early 1998 to gain a first-hand perspective on the role of religion in democracy. Upon returning home, participants in this program, who spanned Tajikistan's political spectrum (from the leader of the Islamic Revival Party to the President's office to the Communist Party), used their experiences in the United States as a basis for discussion, and some published follow-up articles on the subject.

Democracy Programs

The U.S. Government's strategy for improving citizen participation in economic and political decision-making in Tajikistan combines three development goals: strengthening NGOs, increasing information availability, and increasing government accountability and responsiveness. Because post-civil war reconciliation was the country's most pressing concern in FY 1998, democracy programs were focused on this issue as part of the U.S. Government's broader effort to move the peace process forward. However, progress in this area was mixed, with some areas moving very slowly while others exceeded expectations. USAID no longer targeted the full spectrum of Tajikistani NGOs, but rather only those which were contributing directly to the peace process. All U.S. Government-funded NGO assistance focused on four aspects of the peace process: political reconciliation and democratization, demobilization and reintegration of ex-combatants, repatriation and reintegration of refugees and internally displaced persons, and rehabilitation and development in areas most affected by returnee inflows. For example, USAID-funded assistance to independent television stations continued, but with a strong emphasis on how those stations could contribute to public understanding of peace initiatives, upcoming elections, and proposed constitutional changes.

USAID Constitutional Development Programs: USAID's rule-of-law and election-related activities were also refocused to include working with the Commission on National Reconciliation (CNR) on amending Tajikistan's constitution. The USAID-funded International Foundation for Election Systems (IFES) and the American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI) held a conference on constitutional development to move this process forward. Participants included representatives from the CNR and the President's office, and leading parliamentarians.

Energy and Environmental Programs

USAID Power- and Water-Sector Programs: U.S. Government-funded programs in this area sought to help develop an effective policy framework for an environmentally sound, regionally efficient, and market-oriented energy sector, and to reduce economic and political tensions generated by transnational environmental issues. The focus of these programs was on promoting participation in regional meetings or regional committees on water sharing, electricity, and energy issues. Progress was greater than expected in this area in FY 1998. USAID technical assistance on power pooling and international power contracting facilitated negotiations towards an agreement on parallel operation and frequency regulation of the five national Central Asian power systems. Also with USAID assistance, Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan made significant progress in developing an agreement on water management for the Syr Darya-Naryn cascade. To prevent the mistakes that caused environmental crises such as the Aral Sea disaster, all five Central Asian countries participated in seminars for regional water cooperation, conducted analyses for the introduction of water pricing, and concluded short-term regional water-sharing agreements.

Social Sector and Humanitarian Programs

USAID Support for the Peace Process: USAID provided critically needed funding to the United Nations Mission of Observers in Tajikistan (UNMOT) and supported UNDP/UNOPS activities to promote community-based peace-and confidence-building measures in the Gharm Valley and elsewhere. A number of U.S. Government-funded PVOs assisted with population resettlement and implemented development activities which indirectly supported reconciliation efforts by helping communities become economically viable. Initial peace process support funding helped restore potable water supplies and aided the joint commission charged with monitoring the cease-fire. Subsequent funding helped provide new private farmers with reimbursable supplies of seed and fertilizer, as well as technical advice, in order to expand wheat production in mountainous areas damaged by fighting during 1995-96. Funding was also provided for a small hydroelectric power plant in the isolated Gorno-Badakhshan region.

U.S. Department of Agriculture (USDA) - Food Assistance: Although U.S. Government assistance continued to shift away from humanitarian assistance in FY 1998, U.S. Department of Agriculture (USDA) food assistance continued to represent 65 percent of total U.S. Government assistance to Tajikistan. USDA provided a total of $22 million in food aid to Tajikistan, consisting of $8.2 million in government-to-government grants for the purchase of USDA commodities, and $13.8 million through four U.S.-based NGOs: CARE, Save the Children, Mercy Corps International, and the Aga Khan Foundation. The NGO programs were particularly effective, producing some beneficial spin-offs. For example, CARE's food distribution to needy pregnant and lactating mothers was combined with a required medical screening, so women who might not otherwise have visited a doctor had a chance to learn the importance of prenatal and other medical care. Save the Children's

school-based feeding program boosted school attendance two to four times higher than in schools not covered by the program.

USAID Humanitarian Assistance: In FY 1998, USAID provided $4.1 million in food assistance to Tajikistan under its Food for Peace program.

Coordinator's Office Humanitarian Assistance: In FY 1998, the State Department's Operation Provide Hope provided approximately $4.6 million in humanitarian assistance to Tajikistan through U.S. private voluntary organizations (PVOs) at a cost to the U.S. Government of approximately $260,000.

U.S. Government Flood Assistance: In FY 1998, the Coordinator's Office and USAID coordinated and furnished over $1 million in flood assistance and flood prevention programs for Tajikistan.

Security Programs

In FY 1998, the U.S. Department of Defense funded under the Defense and Military Contact Program the participation of eight Tajiks, including two senior officials, in courses at the George C. Marshall European Center for Security Studies in Germany. As a direct result of this training, the Tajikistani Government developed its first national security strategy, which was drafted by a Marshall Center alumnus.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1998, the USAID-supported Eurasia Foundation awarded grants totaling approximately $300,000 in Tajikistan. The primary areas of the Foundation's grant-making emphasis were economics education and research, business education, NGO development and independent media. Although the country continued to be plagued by civil strife, there was political will for reform and a growing grassroots movement that the Foundation sought to encourage through its activities. The Eurasia Foundation also managed the distribution of over $30,000 in grants under the U.S. Embassy' s Democracy Fund Small Grants Program, which seeks to support NGO development, media and communications and rule of law in Tajikistan. For example, the International Ecological Association of Oriental Women received a grant to establish an NGO development information and consulting center, which will develop, publish and distribute information on NGO-sector development issues (in Russian, Tajik and English), set up e-mail communications and conduct e-mail training programs, and conduct short-term seminars on NGO management issues. A Democracy Fund grant was also awarded to Tajik State University to conduct a democracy education program for university faculty and senior students, consisting of seminars, roundtables and a university-wide conference on topics including democracy and power, the consensus principle, international organizations, decision-making, and human rights.

Preview of FY 1999 Programs

Despite the October 1998 temporary relocation of the American staff of the U.S. Embassy in Dushanbe to Almaty, Kazakhstan, due to security concerns, the U.S. Government remains committed to maintaining strong U.S.-Tajikistani relations, and U.S. Government-funded assistance programs will continue at their previous levels wherever possible and appropriate in FY 1999. In particular, USDA food assistance via NGOs, training and exchange programs implemented by USIA and other agencies, and most USAID programs will remain virtually unchanged. However, USAID support in the area of economic restructuring will largely be suspended.

In FY 1999, the U.S. Government will continue to focus on providing support to the peace process. The USAID-funded International Foundation for Election Systems (IFES), in cooperation with the Organization for Security and Cooperation in Europe (OSCE), will provide assistance in administering elections expected in 1999. Given the large number of displaced persons and returning refugees in Tajikistan, election-related assistance will be focused on modifying the country's voter registration system. USAID will also provide political party-building assistance, and USIA will train Tajikistani NGO activists in human rights and voter education. The U.S. Government will continue to support UNMOT and other United Nations agencies and NGOs working toward peace-accord implementation and reconciliation.

TURKMENISTAN

Political and Economic Overview

President Niyazov and the Cabinet of Ministers continued to exercise strong control over Turkmenistan's political life in FY 1998. Nonetheless, some plans were announced, which, if implemented, will constitute positive steps toward democratic reform. In July, President Niyazov stated that the December 1999 elections to Turkmenistan's parliament, the Mejlis, will be held on a "broad democratic basis," with the involvement of international observers, and that measures will be taken to give the Mejlis a greater role in political decision-making. A more concrete step towards democratic reform was the adoption of a new civil code which enhances property rights and the right to free economic association.

FY 1998 witnessed slower movement on economic reform on the part of the Turkmen Government. This hesitancy to proceed with reform was caused in part by the failure of some top-level officials to appreciate the need for reform, and in part by the inability of those who support reform to produce effective policies. Nevertheless, there were encouraging signs that the government was gearing up to move forward on agricultural sector privatization and on restructuring the oil and gas sector, although these efforts were still in their early stages.

Turkmenistan's financial situation continued to worsen in FY 1998, as export revenues remained depressed following the March 1997 decision to suspend gas exports through the Russian pipeline system. Oil production and export were on the rise, but the global decline in oil prices undercut those gains. The prospect of a trans-Caspian pipeline enabling the export of Turkmen gas to Turkey offered promise for the future, but the near-term outlook remained bleak.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided an estimated $13.2 million to Turkmenistan, consisting of $5.29 million in FREEDOM Support Act funds, over $2.9 million in other U.S. Government funds, and $4.95 million in Defense Department excess and privately donated humanitarian commodities. Of the FREEDOM Support Act assistance, 85 percent was technical assistance, 10 percent humanitarian assistance, and five percent partnership activities. USAID assistance accounted for $4 million. In addition, Turkmenistan benefited from several regional USAID programs for the Central Asian countries addressing oil and gas, water and energy-related issues.

Economic Restructuring Programs

A central objective of U.S. Government-funded assistance in this area was to restructure and reduce the role and operations of the Turkmen Government in the country's economy, so as to promote private-sector growth and international trade and investment. USAID-funded efforts to help create sound fiscal policies and management practices, improve commercial and business laws, and accelerate the privatization of selected medium- and large-scale enterprises were aimed at creating a favorable business environment in Turkmenistan.

USAID Privatization Support: In FY 1998, USAID initiated technical support to the privatization unit in Turkmenistan's Ministry of Economy and Finance and expanded support to a similar unit in the State Agency for Foreign Investment (SAFI). By providing this support, USAID established strong relationships with Turkmen Government counterparts working on privatization issues, thus increasing USAID's ability to provide advice and training on privatization strategies and methods. However, after the early privatization of most small-scale enterprises was completed, progress in the area of privatization came to a halt. As of the end of FY 1998, USAID was trying to renew the Turkmen Government's commitment to privatization by working with key senior-level officials.

Trade and Investment Programs

Progress in reforming Turkmenistan's legal and policy regime for trade and investment continued to be incremental in FY 1998. Most of the suggested trade and investment reform themes were included in the recently enacted civil code. The U.S. Government continued to work with the Turkmen Government to curtail administrative barriers to trade, enact greater protection and clearer remedies for foreign investors, simplify and make more transparent the process of business registration and reduce the degree of state regulation. However, the Turkmen Government wavered on the issue of adopting the comprehensive reform package

required for accession to the World Trade Organization (WTO). USAID-funded efforts to promote Turkmenistan's accession to the WTO focused on explaining the consequences of accession (or non-accession) in terms of benefits (or costs) to the government.

Central Asian - American Enterprise Fund (CAAEF): In FY 1998, the CAAEF made steady progress in supporting private-sector development in Turkmenistan. The CAAEF implemented two direct investment projects, to which it committed $9 million in financing. As of the end of FY 1998, the CAAEF's loan program had disbursed over $3.7 million to 30 borrowers. In June, the CAAEF signed a strategic cooperative agreement with the Government of Turkmenistan with the aim of improving the CAAEF's operating conditions there. However, in the near term, the CAAEF's activities will to be somewhat constrained by the weak legal and regulatory system and by restrictions on the convertibility of local currency.

Business Development Programs

While the government-to-government activities noted above aimed to create a better overall environment for business and entrepreneurial growth in Turkmenistan, other U.S. Government-funded projects directly targeted Turkmenistan's private sector in an effort to foster its growth and development.

USAID Farmer-to-Farmer (FTF) Program: Under the FTF Program, the U.S. NGO Winrock International fielded 18 U.S. volunteers on 12 assignments involving 410 Turkmen farmers, entrepreneurs and government employees. The FTF volunteers worked with three local businesses to increase their productivity and income, and advised Turkmen Government officials and local farmers on the use of environmentally sound, biological pest-control measures, also to increase productivity and income. The FTF Program also provided assistance to several farmers' unions and producers' groups on topics such as production, marketing and water conservation, and supported the formation of irrigation associations, with the hope that such groups will eventually play a key role in water management in Turkmenistan.

International Executive Service Corps (IESC): IESC's USAID-funded Ashgabat office hosted five U.S. volunteer executives in Turkmenistan from February through October. With the assistance of USAID's Global Training for Development (GTD) Program, IESC volunteers assisted clients of the Central Asian - American Enterprise Fund (CAAEF) and its Turkmen partner banks with business planning and strategies, accounting, bank training and marketing. IESC's work with local entrepreneurs and private commercial banks helped increase basic management and financial analysis skills, thus contributing to the development of private entrepreneurship in Turkmenistan.

Democracy Programs

In FY 1998, the U.S. Government's democracy-building efforts in Turkmenistan sought to encourage citizen participation, foster democratic concepts, and expand the free flow of information. These objectives were pursued through the provision of training and small grants to local non-governmental organizations (NGOs).

NGO Development Assistance: In an effort to make the role of NGOs better understood and appreciated in Turkmenistan—especially by the Turkmen Government—the U.S. Government provided opportunities for over 40 Turkmen to participate in regional and international events promoting the NGO sector. U.S. Government-funded programs in this area stressed the importance of creating social partnerships through which the government, NGOs and private businesses can work collaboratively to achieve shared social objectives. Given the newness of NGOs to Turkmenistan, a high priority was placed on drafting new legislation that will bolster NGOs' right to exist and will guarantee them an important role in Turkmen society.

USAID NGO Development Programs: USAID-funded NGO development assistance provided by Counterpart Consortium began in Turkmenistan in early FY 1998. The program was launched with a conference for civil society organizations, cosponsored by the United Nations Development Program (UNDP). As of the end of FY 1998, over 400 Turkmenistanis had participated in Counterpart's NGO training programs, representing over 70 organizations ranging from unstructured community groups to well-organized NGOs. NGO training and capacity-building activities were also conducted in Turkmenistan's Dashowuz Province for 14 members of a local women's union, with the goal of promoting increased collaboration with government services. This effort was specifically related to improving health through cleaner potable water. In addition, nine NGOs received small grants totaling over $60,000 in the areas of environmental protection, women's health, civic education, disabled and refugee health services, English language training, disaster relief and agriculture.

USAID also provided assistance to the Turkmen Government's new Institute of Democracy and Human Rights (IDHR), which has a mandate to foster democratization of the state and society and to monitor the protection of human rights.

Energy and Environmental Programs

U.S. Government-funded efforts in this area sought to develop an effective policy framework for an environmentally sound, regionally efficient, and market-oriented energy sector and to reduce economic and political tensions generated by trans-border environmental issues. The U.S. Government's regional approach to these issues yielded greater-than-expected results not only regionally but for each of the five Central Asian countries as well.

USAID Energy-Sector Programs: USAID technical assistance in power pooling and international electricity contracting facilitated negotiations towards an agreement on parallel cooperation and frequency regulation for the five countries' national power systems. USAID-funded advisors in Turkmenistan used experience gained elsewhere in Central Asia to develop rules and regulations for operating Turkmenistan's oil and gas sector. USAID also supported the drafting and implementation of environmental rules and regulations on petroleum production and transportation in Kazakhstan, Uzbekistan and Turkmenistan.

USAID Environmental Programs: As of the end of FY 1998, the U.S. Government's Aral Sea Initiative had provided safe drinking water and improved the health and sanitation practices for an estimated 1.5 million people, and resulted in significant policy changes for more efficient water use. Concrete results were achieved in the Aral Sea disaster zone by providing local officials with water treatment and transmission facilities, equipment and related training in Kazakhstan, Turkmenistan, and Uzbekistan. All five Central Asian countries participated in seminars on regional water cooperation, conducted analyses for the introduction of water pricing, and established short-term regional water-sharing activities.

Social Sector and Humanitarian Programs

U.S. Government-funded efforts in these areas focused on improving Turkmenistan's health sector through medical partnerships, reproductive health programs, and infectious disease surveillance. Humanitarian assistance, which commenced in FY 1998, specifically targeted vulnerable groups such as the aged and the infirm, the disabled and disaster victims. The U.S. Government sought to team Turkmen Government services with local NGOs in the provision of social services.

USAID Health-Care Reform and Infectious Disease Programs: In FY 1998, USAID assessed the reproductive health situation in Turkmenistan and developed a program for future USAID assistance. With USAID funding, the Centers for Disease Control and Prevention (CDC) began working with Turkmenistan's Ministry of Health to improve its infectious disease control, prevention and surveillance systems. In addition, the emergency services department of the Ashgabat City Health Department benefited from a USAID-funded medical partnership with the Department of Emergency Services of Richmond, Virginia. As a result of this partnership, services were improved and an emergency assistance training center was opened.

Coordinator's Office Humanitarian Assistance: In FY 1998, the State Department's Operation Provide Hope provided over $4.9 million in humanitarian assistance to Turkmenistan through the U.S. private voluntary organizations (PVOs) Counterpart and CitiHope.

Counterpart Humanitarian Assistance Program (CHAP): In FY 1998, CHAP received its initial USAID and State Department funding for Turkmenistan and concluded partnership agreements with the Red Crescent Society and the Ministries of Social Welfare and Health for the provision of humanitarian assistance to flood victims, the elderly and the disabled. Most of the assistance provided to the Ministry of Health has been in the form of hospital supplies and equipment and is being placed in regional hospitals outside of Ashgabat. As economic conditions in Turkmenistan have worsened, the need for this type of humanitarian assistance has increased.

Security Programs

In FY 1998, Turkmenistan's Ministry of Defense maintained its relationship with the U.S. Department of Defense (DOD) by participating in the International Military Education and Training (IMET) and Expanded IMET Programs, as well as through its first attempts at participating in the Defense Department's Foreign Military Financing (FMF) Program. Preparatory work to support Turkmenistan's participation in FMF had not been completed by the end of FY 1998, necessitating further work in FY 1999. The Defense Department planned and coordinated the arrival of the first mobile training team (MTT) to train Turkmen soldiers, scheduled to take place in FY 1999, when U.S. soldiers of the 5th Special Forces Group will be providing counter-drug training to Turkmenistan's Border Guard Service. Partnership For Peace (PFP) activities gained visibility in Turkmenistan in FY 1998, thanks to the pledges of the country's new Minister of Defense to participate in a larger fashion. PFP funding enabled a Turkmen officer to observe the exercises of the Central Asian Battalion (CENTRASBAT).

Training and Exchange Programs

USAID: Initially, USAID-funded training programs consisted mainly of seminars and study tours outside of Turkmenistan. While very popular with Turkmenistani participants, these programs produced few results in terms of political, social or economic reform. USAID's training programs are now designed to support the in-country efforts of USAID-funded technical advisors, and most training takes place either in Turkmenistan or in other Central Asian countries.

U.S. Department of Agriculture (USDA) - Cochran Fellowship Program: Under USDA's Cochran Fellowship Program in FY 1998, four Turkmen agricultural specialists participated in short-term U.S.-based training programs in animal health, farm management and agricultural finance.

U.S. Information Agency (USIA): In FY 1998, USIA's Future Leaders' Exchange (FLEX) Program for secondary school students continued to be one of the most popular programs in Turkmenistan, with thousands of students applying for only 30 slots. Nine Turkmen students participated in USIA undergraduate and graduate exchange programs, and 11 Turkmen traveled to the United States on USIA International Visitor (IV) and FREEDOM Support Grant Programs to address priority topics such as human rights, civic education, substance abuse, business and finance. Turkmen participants also benefited from two locally offered USIA programs in English language instruction and American studies.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1998, the USAID-supported Eurasia Foundation made twelve grants totaling almost $300,000 in Turkmenistan, representing a doubling of its grant-making activities from the previous year. The Foundation's grants supported information and technology transfers related to economic, political and social reform. Many of the grants include the provision of much-needed information technology. Grants support business development and economic reform, women's rights and welfare, and education reform. In addition, the Foundation managed the disbursement of over $42,000 in grants under the U.S. Embassy's Democracy Funds Small Grants Program. Under the Democracy Fund program, the Secular Gymnasium of General Education received support for the creation of a student government system that will include civics education seminars for students and teachers in four schools in the capital city of Ashgabat. To increase citizen participation in decision-making, the Gurbansoltan Women's Union received a Democracy Fund grant to create a women's legal resource center that will provide free information on various legal issues and women's rights and offer seminars on women's rights and the role of women in a market economy.

Peace Corps: As of the end of FY 1998, there were 60 Peace Corps volunteers in Turkmenistan: 17 in the health sector (working on community health, maternal and child health and teaching English for medical professionals), 39 teaching English as a foreign language (as classroom teachers or teacher trainers); and four in business education. Four community projects were funded under the Peace Corps' Small Projects Assistance (SPA) Program, including an educational resource center and library, two computer-training projects and one English-language immersion program. Peace Corps volunteers worked with other U.S. Government-funded programs such as Farmer-to-Farmer, Counterpart Consortium, Aid-to-Artisans and the Central Asian - American Enterprise Fund (CAAEF), as well as other donors, to identify and support Turkmen interested in developing their own businesses or establishing community-based NGOs.

Preview of FY 1999 Programs

In FY 1999, U.S. Government assistance will address the same basic areas of market transition, social reform and regional energy and environment issues. Efforts to promote civil society will focus on building social partnerships between the Turkmen Government, local NGOs and the private sector. U.S. Government-funded privatization assistance is expected to increase in the agriculture sector.

The specific mix of U.S. Government-funded economic reform programs in Turkmenistan will be reassessed in light of the Turkmen Government's spotty record on economic reform. Development assistance will be focused in those areas that offer the best prospects for achieving meaningful and sustainable results. A thorough review of the USAID program is planned for FY 1999.

As in previous years, promoting democratic reform in Turkmenistan will not be an easy task in FY 1999. The Turkmen Government is likely to remain highly centralized and, at times, fearful that democratic reform will undermine stability. Assistance to the NGO sector will be continued in ways that illustrate that democracy and rule of law need not threaten social order. Proposed rule-of-law activities for Turkmenistan in FY 1999 include assistance in developing a cadre of professional, ethical lawyers and increasing citizens' and officials' access to information on both Turkmen and foreign legislation. Both of these much-needed activities have received the support of the Turkmen Government.

In the health sector, USAID will support a policy advisor at the national level to coordinate and assist with the development of policy and regulations for promoting quality reproductive health services. USAID will also work to strengthen the involvement of local NGOs in women's health advocacy issues. The infectious disease program will continue to work on strengthening disease surveillance, with an emphasis on hepatitis and other vaccine-preventable diseases. In addition, the establishment of a new U.S.-Turkmen medical partnership will be considered.

In the area of economic reform, USAID expects to increase its activities in the agriculture sector, following the important merging of the Ministries of Agriculture and Water Resources. USAID-funded advisors will work with the new combined Ministry in two crucial areas of reform: land and agribusiness privatization. USAID's regional environmental efforts will begin to work with the Ministry in an effort to change its water pricing policy.

UKRAINE

Political and Economic Overview

FY 1998 saw new accomplishments and new challenges in Ukraine. On the positive side, Ukraine continued gradually to consolidate its democratic reforms and foreign relations. In March, the Ukrainian people chose a new parliament through free and fair elections. The new parliament subsequently ratified a friendship treaty with Russia and concluded cooperation agreements with Moldova, Belarus and other neighboring countries. Development of closer ties with the European Union (EU), the North Atlantic Treaty Organization (NATO), and other Euro-Atlantic institutions remained a priority of the Ukrainian Government.

Also on the positive side, economic growth in the formal sector showed signs of a modest recovery after a decade of decline. Inflation remained low, at less than ten percent per year during most of FY 1998. In July, Ukraine and the International Monetary Fund (IMF) negotiated a three-year extended fund facility (EFF), a long-time goal of the Ukrainian Government. The $2.2 billion EFF program stipulated that the Ukrainian Government take steps towards tax reform, a lower budget deficit, and further progress in privatization, deregulation, and other measures to encourage private investment.

Nevertheless, the Ukrainian Government's financial problems continued. The Asian financial crisis was felt in Ukraine, as the country's previously easy access to private foreign financing diminished. The government's high budget deficit led to a suspension of its previous IMF standby agreement in early 1998. The Russian financial crisis of August 1998 subsequently led to a delay in the approval of Ukraine's EFF and to a 33 percent drop in the value of Ukraine's national currency, the hryvnia. Deterioration of the important Russian market for Ukrainian exports appeared likely to end Ukraine's nascent economic recovery and to retard the hoped-for increase in government revenues.

Despite progress in deregulation in FY 1998, Ukraine still awaited a much-needed surge in new investment. Domestic and foreign investors remained discouraged by a confusing and burdensome array of tax, customs and certification requirements, corruption, and the absence of an effective system of commercial law.

Overview of U.S. Government Assistance

In FY 1998, the U.S. Government provided an estimated $372.3 million in assistance to Ukraine, consisting of $225 million in FREEDOM Support Act funds, over $107.7 million in other U.S. Government funds, and $39.52 million in Defense Department excess and privately donated humanitarian commodities. USAID assistance totaled $119 million in 1998, of which technical assistance represented 67 percent, partnership activities 32 percent, and humanitarian assistance almost one percent ($1 million). Privately donated, USAID-transported humanitarian commodities totaled approximately $10 million in FY 1998. The U.S. Government's assistance priorities for Ukraine included enterprise development, deregulation, macro-economic reform, and community-based programs. USAID began to phase out privatization support, shifting its emphasis to enterprise restructuring and development. Security assistance programs concentrated on the elimination of strategic nuclear arms, on military conversion, and on strengthening Ukraine's capability to operate jointly with NATO forces.

Kharkiv Initiative: In FY 1998, the U.S. Government made the Kharkiv region an assistance priority. Kharkiv is a center of Ukraine's nuclear industry, and the Kharkiv Initiative was conceived to help Ukraine in the wake of the Ukrainian Government's decision to end nuclear cooperation with Iran. The objective of the Initiative is to help diversify and develop the regional economy, particularly through assistance to small and medium-sized businesses. In November, an office was opened in Kharkiv that will assist local businesses and potential investors, and a joint statement on designing an economic development program for the region was signed. In October, the U.S. Department of Energy hosted a U.S.-Ukraine Nuclear Commerce Cooperation Conference in Washington, which involved numerous companies from Kharkiv's nuclear power industry. Other activities under this initiative are being implemented by USAID, USIA and the U.S. & Foreign Commercial Service.

Trade and Investment Programs

U.S. Department of Commerce: Under the Commerce Department's **Special American Business Internship Training (SABIT) Program**, 250 Ukrainians traveled to the United States in FY 1998 for one- to three-month internships in the following areas: middle-management training, defense conversion, technical standards, financial services, investment stimulation, environmental technologies, and science. Meanwhile, the Department's **Business Information Service for the NIS (BISNIS)** yielded over 500 specific trade and investment leads in Ukraine and produced 30 market-insight reports for U.S. companies on commercial and investment conditions in Ukraine. In October 1998, the U.S. and Foreign Commercial Service (US&FCS) Office in Kiev launched a **"Search for Partners"** Program in Ukraine with the goal of distributing trade and investment leads from interested U.S. companies among Ukrainian enterprises and trade associations. In addition, a Commerce Department-sponsored **American Business Center (ABC)** has been operating in Ukraine since May 1996 and is functioning as both a business information resource and a logistical resource for U.S. companies entering the Ukrainian market.

Business and Economic Development Programs

USAID Support for Small and Medium-Sized Enterprises (SMEs): USAID's SME support expanded significantly in FY 1998 to include direct business assistance, policy reform assistance and credit. Sixteen USAID-supported Business Support Centers (BSCs) served 15,000 clients in FY 1998. Support to the Ukrainian State Committee for Entrepreneurship Development (SCED) contributed to the passage of two decrees on reduced taxation and inspection burdens. Enterprise land privatization activities resulted in 120 land transactions, and a total of 1,500 plots are slated to be sold in 1998-99.

Peace Corps Business Development Program: In cooperation with National Agency of Ukraine for Reconstruction and European Integration (NAUREI), Peace Corps business development volunteers facilitated the transfer of free-market business skills and expertise at various levels by working with current and future entrepreneurs, as well as with institutions such as schools, universities, banks, business centers, business incubators, non-governmental organizations and government agencies at the regional and local levels. In FY 1998, 119 business development volunteers served in 45 communities. In addition, the Peace Corps started a pilot program in agribusiness support, which will be expanded to represent approximately 10 percent of the Peace Corps' entire Ukraine program by FY 2000.

USAID Macro-Economic Assistance: USAID provided crucial support to the Ukrainian Government in meeting the conditions of the IMF's extended fund facility (EFF) pertaining to taxes, budget, deregulation, and public administration, all of which are also key to Ukraine's pending World Bank loans. USAID continued to provide legislative drafting assistance in the areas of intergovernmental funds transfers and reform of local government finance.

USAID Financial Sector Programs: In January, all of Ukraine's commercial banks were required to convert to International Accounting Standards (IAS), and USAID helped implement the conversion. In August, the USAID-supported National Center for Bank Training graduated its second class—40 Ukrainian bankers received MBA degrees.

USAID Privatization Assistance: In FY 1998, USAID began to phase out support for mass privatization while concentrating on helping the Ukrainian Government meet World Bank conditions relating to privatization. The Ukrainian Government met its target of 8,500 firms privatized by summer 1998. To address the Ukrainian Government's critical need for cash, USAID helped design mass cash auctions. USAID also helped develop internationally accepted tender procedures agreed-to by the Ukrainian Government. In the area of small-scale privatization, USAID shifted its support to the privatization of unfinished construction sites.

USAID Capital Markets Programs: Created with USAID assistance, Ukraine's over-the-counter share trading system, PFTS, grew to over 180 firms valued at a total of $3 billion in FY 1998. PFTS's solid standards, internal controls, and arbitration procedures have made it the only market in Ukraine that has foreign brokers as members. Until the recent financial crisis, PFTS trades averaged $48 million per quarter, up from $13 million per quarter in 1997. The USAID-assisted Ukrainian Securities and Stock Market State Commission (SSMSC) strengthened its institutional role in FY 1998, taking action on over 1,300 cases. The SSMC's public information office holds the annual reports of 670 large-issuer companies. USAID also supported the drafting

of a law on joint-stock companies and regulations to improve corporate governance, as well as the establishment of national securities clearing and settlement system.

USAID Commercial Law Assistance: In FY 1998, USAID supported regulatory, collateral and bankruptcy reform by providing deregulation assistance to the Ukrainian State Committee for Entrepreneurship Development (SCED) and performing pilot municipal regulatory audits. An amendment to the law on pledges paved the way for the establishment of a nationwide pledge registry for movable property, which is scheduled to be implemented by March 1999. USAID-funded pilot enterprise restructuring and bankruptcy law drafting efforts also got under way.

U.S. Department of Commerce - Commercial Law Development Program (CLDP): In FY 1998, a CLDP resident advisor placed at Ukraine's Ministry of Foreign Economic Relations and Trade coordinated a series of short-term programs, both in Ukraine and the United States, involving U.S. Government and private-sector experts who consulted with close to 200 Ukrainian government officials and representatives of public organizations on topics including customs valuation and procedures (with the U.S. Customs Service), the protection of intellectual property rights (with the U.S. Patent and Trademark Office and the U.S. Customs Service), sanitary and phyto-sanitary measures (with the U.S. Food and Drug Administration and the U.S. Department of Agriculture), and technical barriers to trade (with National Institute of Standards and Technology).

USAID Agricultural Reform Programs: In FY 1998, the pace of agricultural reform in Ukraine remained slow. Nevertheless, USAID's programs showed some positive results. USAID-funded farm restructuring efforts were expanded, with 340 farms restructured to date and 210 in the process of being restructured. Also with USAID assistance, land titles were issued to nearly 8,000 Ukrainians by the end of FY 1998, with over 40,000 more to have received them by the end of 1998. USAID initiated 13 new agribusiness partnerships, bringing the total since 1994 to 28 partnerships. USAID also provided assistance in privatizing all but 100 grain handling facilities. As of the end of FY 1998, over 345 of 443 elevators eligible for privatization had begun selling shares; six were 100-percent sold and another 154 were 70-percent sold.

USAID Energy-Sector Programs: USAID's FY 1998 programs focused on helping Ukraine build a competitive, financially sustainable power delivery system and a stable fuel supply. Power-sector reform support resulted in abolishment of Ukraine's previous vertical electricity monopoly. Over 400 Ukrainian energy-sector professionals participated in USAID-funded exchange programs. The Ukrainian Government showed a strong interest in developing coal bed methane (CBM), which could potentially supplement Ukraine's natural gas supply substantially, making mines safer and benefiting the environment. A USAID-supported Alternative Fuels Center (AFC) opened in September 1998 to research and improve CBM investment procedures. USAID also linked Ukraine's Labor and Safety Committee with the U.S. Mine Safety and Health Administration.

Training and Exchange Programs

Thanks to active U.S. Government-funded exchange programs that have brought over 7,000 Ukrainians to the United States over the past six years for long-term study or shorter-term professional training, there is a growing cadre of people in leadership positions with an understanding of the basic elements of a democratic, free-market system.

U.S. Information Agency (USIA): Over 800 Ukrainians participated in USIA academic and professional exchange programs in FY 1998, bringing the cumulative total of Ukrainian participants in USIA exchanges since 1992 to 7,000. Of this number, approximately 2,500 participated in high-school or university-level programs. In FY 1998, two small but high-impact programs were established for Ukrainian secondary school teachers: the Teaching Excellence Awards, which recognize achievements in teaching American studies, and the Partnerships in Education program, which assists teachers of civic education. As for USIA's professional exchange programs, 334 senior-level leaders from fields such as government and independent media traveled to the United States on short-term FREEDOM Support Grants in 1997-98. Over 1,000 Ukrainian entrepreneurs, local government officials, legal specialists and NGO leaders have participated in USIA's Community Connections Program since its establishment in 1997.

USAID: A total of 800 Ukrainians participated in USAID training programs in FY 1998: 650 in U.S.-based programs, 75 in third countries (of which 25 were trained in Poland), and 70 in Ukraine. Training areas included economic and business training, democracy and civil society, health and environment, and agriculture. Female

participation in USAID training programs increased from 18 percent in FY 1994 to 49 percent in FY 1998. As of the end of FY 1998, over 3,000 Ukrainians had participated in USAID training programs.

Peace Corps English-Teaching Volunteers: The Peace Corps' English-language training program expanded in FY 1998 to 78 volunteers teaching in 43 communities around Ukraine. In addition to teaching English, the volunteers helped Ukrainian teachers improve their English fluency and gain exposure to Western-style teaching techniques and classroom activities. Peace Corps volunteers also helped Ukrainian teachers overcome their country's acute shortage of teaching materials by producing English-language materials for schools and working to acquire textbooks and other language materials from U.S. publishers, organizations and institutes for use in Ukrainian schools and communities. Since the beginning of the Peace Corps English-language program in 1994, volunteers have facilitated the donation of almost 500,000 books and periodicals to Ukrainian libraries and schools.

Democracy Programs

USAID Election-Related Assistance: During the lead-up to Ukraine's March 1998 parliamentary elections, USAID supported get-out-the-vote efforts and funded technical support to the Central Elections Commission through the International Foundation for Election Systems (IFES). The introduction of a new mixed parliamentary system and new voting procedures notwithstanding, Ukrainian voters were well-informed and the elections were generally well-conducted. Over 15,000 non-partisan domestic election observers were trained with USAID support.

Democracy Fund Small Grants Program: Under this USIA-administered program, the embassy-based Democracy Commission awarded 13 grants totaling over $81,000 to Ukrainian NGOs and independent media outlets, increasing the cumulative total since 1996 to 40 grants.

USAID Local Government Programs: In FY 1998, USAID continued to provide support to the Ukrainian Association of Cities (UAC), which has become Ukraine's strongest advocate for local government reform. Meanwhile, the U.S.-Ukraine Community Partnership Program implemented by the U.S.-Ukraine Foundation and Sister Cities International, completed its first year, establishing regional training centers and links between U.S. and Ukrainian partner cities, as well as organizing training activities for local government officials.

USAID Institutional Development, Civil Society and Rule-of-Law Programs: USAID strengthened Ukrainian "think tanks" by providing financial assistance, training, networking and technical assistance to NGOs active in research, development, advocacy, and implementation of political and economic reform initiatives. USAID continued to promote judicial independence by supporting an information network, training and other assistance for Ukraine's Supreme, High Arbitration, and Constitutional Courts. USAID helped promote citizens' rights in Ukraine through a program of grants to legal advocacy NGOs and media programs. Ukrainian lawyers, law professors, and other legal professionals continued to receive USAID-funded training, and USAID support to bar associations and law schools continued. In October 1997, USAID sponsored a conference in Lviv linking the 22 attending Western Ukrainian mayors with USAID and other donors.

USAID Anti-Corruption Programs: Across all sectors, USAID's assistance programs have sought to reduce opportunities for corruption by promoting efficiency, coherency, and accountability. USAID-funded public awareness activities, legal advocacy, investigative journalism training, and regional workshops supported broader U.S. Government-funded efforts to reduce corruption in Ukraine.

Anti-Crime Training and Technical Assistance (ACTTA) Program: In FY 1998, the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) funded a resident legal advisor (RLA) in Kiev to provide technical assistance to the Ukrainian Government and to coordinate U.S. Government-funded criminal justice and law enforcement programs in Ukraine.

- Courses and seminars were held in international narcotics matters and alcohol and tobacco excise tax and diversion training. The RLA also worked with the Ukrainian Government on new criminal law procedures and money-laundering legislation.

- A criminal law liaison was placed in Kiev by the American Bar Association's Central and East European Law Initiative (ABA/CEELI) with funding from the U.S. Department of Justice. An extensive ABA/CEELI

and Justice Department criminal law training program for the judiciary was established, and training seminars were held on bail reform.

- The U.S. Embassy's Office of the Legal Attaché sponsored a seminar on law enforcement safety and survival, involving one week of instruction by FBI instructors to approximately 35 employees of the Ministry of Internal Affairs (MVD), as well as a seminar on financial institution fraud. The U.S. Government sponsored the travel of three Ukrainian law enforcement officials to the San Francisco office of the FBI for a practical case-training initiative, and the travel of two Ukrainian law enforcement officials for meetings at FBI headquarters in Washington and to testify before one of the congressional appropriations committees.

- In addition, the American University in Washington established a Center for the Study of Organized Crime at the National Law Academy in Kharkiv, with funding from the Department of Justice.

- As part of the U.S. Government's efforts to promote enforcement cooperation, a U.S.-Ukrainian Treaty on Mutual Legal Assistance in Criminal Matters was signed in July 1998 in Kiev by Vice President Gore and President Kuchma, and a bilateral Law Enforcement Working Group of the U.S.-Ukraine Binational Commission was formed to coordinate criminal justice programs and training activities.

USAID Independent Media Programs: Ukraine's independent media faced increasing difficulties in operating free from government and other pressures in FY 1998. Several news programs, newspapers and television stations were forced to close in 1998. USAID's independent media programs addressed media-related issues such as libel suits, persistent inspections, and self-censorship. USAID provided training and technical assistance to independent regional television and radio stations for the production of news programs, as well as training in management, investigative journalism, financial sustainability, and other areas.

Environmental Programs

USAID Environmental Programs: USAID support to Ukraine's Environmental Council continued in FY 1998. Six key policy recommendations were made in 1998, four of which were enacted into law. A grant to the United Nations Development Program (UNDP) will improve the Council's coordination and sustainability. USAID's Lviv pilot water-sector project resulted in energy-efficient municipal water services for 70,000 people. USAID's Waste Management and Energy Conservation Program generated $3.4 million in annual savings in 10 Ukrainian enterprises, and the Energy Efficiency Program established eight private energy service companies to carry on work begun in 24 enterprises. A USAID-funded pilot program promoted energy efficiency in public buildings. Newly initiated USAID-funded activities focused on heating system efficiency, the Global Climate Change Initiative, and remote geographic information systems.

Peace Corps Environmental Program: The goals of this program, which began in FY 1998, were to increase the organizational capacity of Ukraine's environmental institutions; supporting environmental protection efforts at Ukraine's national parks and reserves; and helping Ukrainian educators and environmental program leaders to develop and implement environmental awareness projects in their local communities. Working in cooperation with Ukraine's Ministry of Environmental Protection and Nuclear Safety, 27 volunteers began work in 19 communities in FY 1998.

Social Sector Humanitarian Programs

USAID Women's Programs: In FY 1998, USAID continued to support the U.S.-based NIS-US Women's Consortium, which is working with over 100 Ukrainian women's organizations. Over 2,200 women and 120 men have participated in USAID-funded training programs on women's leadership, women's rights, conflict resolution and fundraising. Female Ukrainian entrepreneurs trained in the United States and Poland formed an association to lobby for deregulation in Odesa and Dnipropetrovsk. USAID also trained women in small-business creation and operations.

USAID Programs to Combat Trafficking in Women: As part of the worldwide U.S. Government effort to combat trafficking in women, USAID organized an anti-trafficking training program in Ukraine in summer 1998, which spurred the creation of a working group that is helping raise Ukrainian public awareness of the problem of trafficking in women. USAID also supported the creation of trafficking prevention centers to increase economic opportunities for women, assist victims, and increase public information.

USAID Health-Care Reform Programs: In September 1998, USAID completed and disseminated a new health strategy for Ukraine, centered on primary care, finance and policy reform, and healthy lifestyles. In FY 1998, USAID-funded U.S.-Ukrainian hospital partnerships opened several women's wellness centers and emergency training centers, and enhanced infection control procedures in partner hospitals. The USAID-supported Chornobyl Childhood Illness Project established a new thyroid cancer screening and mental-health outreach center. USAID-supported training in mammography and clinical breast cancer care was completed as part of the first stage of a nationwide screening program, and USAID's Rational Pharmaceutical Management Project set up a pilot drug selection system in a hospital in Zhytomyr. A USAID-funded health information surveillance pilot project began in Lviv, and a cadre of trained health finance specialists worked with municipal governments to rationalize Ukraine's municipal health-care systems. USAID's Women's Reproductive Health Initiative helped develop and distribute national guidelines on contraceptive service delivery.

USAID Social Sector Programs: In partnership with U.S. and Ukrainian NGOs, USAID continued to assist those Ukrainians most in need by supporting the development of social service NGOs and providing housing, health care, and emergency humanitarian assistance. USAID-supported U.S. private voluntary organizations (PVOs) helped transfer expertise in serving the needs of children, the elderly, and the disabled. In FY 1998, more than $1.1 million in seed grants was awarded to 85 grantees, with over $250,000 in recipient cost-sharing. USAID also implemented a corporate challenge grant program, under which 34 of the first 35 challenge grants were from Ukrainian-owned firms.

U.S. Government Humanitarian Assistance: Since 1992, the U.S. Government has provided over $340 million in excess military commodities and other humanitarian donations to Ukraine, including $500,000 in relief to flood victims in Lviv and Ivano-Frankivsk and Donetsk mine blast victims. In FY 1998, USAID negotiated a letter system whereby U.S. Government-transported humanitarian cargoes approved by the Ukrainian Government will be recognized as subject to the U.S.-Ukraine Bilateral Assistance Agreement, and thus exempt from taxes and customs fees.

U.S. Department of Defense - Humanitarian Assistance: Humanitarian assistance funded under U.S. Government security assistance supported a children's pulmonary tuberculosis sanitarium and a regional burn center in Odesa. This assistance was provided by components of the U.S. European Command while on operational deployments or training exercises. In FY 1998, the children's tuberculosis sanitarium and the regional burn clinic received over $80,000 worth of excess property. The delivery was made in early September and included blankets, sheets, computers, beds, mattresses, night stands, wardrobes and medical supplies.

U.S. Department of Agriculture (USDA) - Food Assistance: In FY 1998, USDA halted additional program activities with the Ukrainian Government because of a continuing impasse with Ukrainian authorities on an FY 1995 USDA Food for Progress monetization program allocation involving 20,000 tons of U.S. soybean meal. The purpose of this program was to encourage Ukrainian authorities to invest in the revitalization of Ukraine's agricultural sector by implementing a producer-input credit facility. However, USDA did provide approximately 7,200 metric tons of food assistance valued at $14.9 million to Ukraine through two U.S. private voluntary organizations (PVOs) for monetization purposes in support of developing facilities for medical care and housing for the elderly. The projects also addressed the need for improved feeding of livestock and poultry in Ukraine.

Coordinator's Office Humanitarian Assistance: In FY 1998, the State Department's Operation Provide Hope provided approximately $40 million in humanitarian assistance to Ukraine.

Security Programs

A number of security-related assistance programs with Ukraine made significant progress in FY 1998.

Science and Technology Center in Ukraine (STCU): The STCU was established in 1995 under an international agreement among the United States, Canada, Sweden and Ukraine. In FY 1998, the STCU completed its third year of operations at its headquarters in Kiev. The STCU also has three branch offices in major Ukrainian research complexes in Kharkiv, Dnipropetrovsk and Lviv, thereby facilitating participation in the STCU by a broader spectrum of the former Soviet weapons research establishment in Ukraine. As of the end of FY 1998, the STCU had funded 170 projects across Ukraine, valued at $22 million and employing over 3,400 former Soviet weapons scientists, plus substantial numbers of other technical and support personnel. The STCU also runs a range of other activities, including a partnership program that brings in additional funding from the private sector and other sources.

U.S. Department of Defense - Cooperative Threat Reduction (CTR) Program: From FY 1992 - FY 1998, the U.S. had budgeted over $521.6 million in CTR assistance for Ukraine, of which $452.1 million had been obligated as of October 1998. Almost two-thirds of Ukraine's CTR resources have been devoted to the elimination of strategic nuclear arms. By June 1996, the landmark goal of removing all nuclear warheads from Ukrainian territory had been achieved with the help of CTR. Among the work to be completed in FY 1998 in accordance with the START Treaty was nuclear missile dismantlement and storage, as well as silo destruction. Through CTR, the U.S. Government continued to provide assistance to Ukraine to deactivate SS-19 and SS-24 missiles. By November 1998, nearly all of the 130 SS-19 missiles, launch silos (including one training silo), and all 13 SS-19 launch control center silos had been eliminated. Other components of Ukraine's CTR program included industrial partnerships to redirect resources from the production of weapons of mass destruction to peaceful ends, the control of nuclear materials and weapons technology, and emergency-response training.

International Military Education and Training (IMET) Program: As part of U.S. Government-funded security assistance to Ukraine, the U.S. Defense Department's IMET Program continued to provide training in the United States to selected Ukrainian military and related civilian personnel on a grant basis. The IMET Program emphasizes training that demonstrates the proper role of the military in a civilian-led democratic government, training that promotes effective military justice systems and emphasizes an understanding of internationally recognized human rights, training that promotes effective defense resource management, training of individuals likely to hold key positions in government, and training that promotes military professionalism. In addition, the **Expanded IMET Program (E-IMET)** trained military and civilian officials, including civilian personnel from non-defense ministries and personnel from the country's legislative branch who are involved in military matters, in managing and administering military establishments and budgets, promoting civilian control of the military, and creating and maintaining effective military justice systems and military codes of conduct. The FY 1998 IMET budget of $1.25 million paid for approximately 50 students to attend 90 courses in the United States and for approximately 83 participants to be trained by U.S. Defense Department in-country mobile education teams.

Foreign Military Financing (FMF) Program: In FY 1997, Ukraine became eligible to receive U.S. Foreign Military Financing (FMF) grants for the purchase or lease of U.S. defense articles and services. The U.S. Department of State provided $5.25 million for Ukraine in FY 1997 and $3.8 million in FY 1998 to advance Partnership for Peace (PFP) objectives and to enhance Ukrainian capabilities to operate jointly with NATO forces in peacekeeping, search and rescue operations, and other humanitarian exercises. Assistance activities included language laboratories, language lab instructor training, computers, night-vision devices, non-commissioned officer (NCO) training, army medical training, and navy international health resource management training.

Warsaw Initiative/Partnership for Peace (PFP): In FY 1998, Ukraine received approximately $2 million under the Defense Department's Warsaw Initiative to facilitate Ukraine's participation in PFP events. In FY 1998, these funds supported Ukraine's hosting of the "In-the-Spirit-of-PFP" exercises Peace Shield '98 and Sea Breeze '98, a multilateral PFP maritime exercise in the Black Sea. Ukraine also participated in other PFP activities, including a defense public affairs exchange and a logistics exchange. Warsaw Initiative funds helped Ukraine's Ministries of Defense and Emergencies to participate in numerous NATO-sponsored small-scale, non-exercise events.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1998, the USAID-supported Eurasia Foundation issued $3.3 million in grants in Ukraine in support of business development and education, management training, economic education and research, electronic communications, independent media, NGO development, public administration, and the rule of law. In addition, the Foundation worked with the USAID-funded ARD/Checchi Rule of Law Consortium (RLC) to conduct a grant competition to support legal education and dissemination of information on citizens' rights. Grants were awarded to local civic organizations for projects designed to inform citizens of their rights and to educate citizens on how to protect their rights and resolve violations of their rights through legal recourse. Future Eurasia-supported activities will include the launching of a two-year small business support initiative focused on small towns and rural areas.

- The Foundation's Small Business Loan Program (SBLP) sought to develop Ukraine's small business sector by supporting local bank lending for capital expenditure investment and long term working capital, and the country's banking sector through the implementation of a credit analysis and collection methodology that allows participant banks to lend profitably in the small business sector with low loan loss ratios. In FY 1998, SBLP disbursed 13 loans totaling $636,000 in Ukraine, creating 182 new jobs.

- The Economics Education Research Consortium (EERC), of which the Eurasia Foundation is a member, continued to administer a master's-degree program in economics in conjunction with the National University of Kyiv-Mohyla Academy. This is the first such program to be internationally recognized for the quality of its teaching and its graduates. In FY 1998, 20 students graduated from the EERC's Ukraine program. For the 1999 academic year, the EERC program has enrolled 56 first-year and 31 second-year students.

Poland-America-Ukraine Cooperative Initiative (PAUCI): In late FY 1998, the U.S. Government prepared for the formal establishment, in October 1998, of the trilateral Poland-America-Ukraine Cooperative Initiative. USAID fostered trilateral cooperation among Poland, Ukraine and the United States by sending journalists and female entrepreneurs to Poland for training, sponsoring Polish advisors in Ukraine's Ministry of Economy, and linking Polish and Ukrainian agribusinesses. Several other USAID-funded programs trained Ukrainian participants in Poland or utilized Polish consultants. USAID-funded projects in the area of Lviv were active in building and expanding linkages with Poland.

Preview of FY 1999 Programs

In FY 1999, the top priority for U.S. Government assistance to Ukraine will be to support critical economic structural reforms, which in turn will help Ukraine secure financing from international financial institutions. Other key areas will include civil society, anti-corruption, small business, agriculture and land reform, and special initiatives such as global warming, community-based programs, the Kharkiv Initiative, the Poland-America-Ukraine Cooperative Initiative, and combating trafficking in women. USIA expects increased emphasis on exchange programs in FY 1999 as a cost-effective way to enhance the pace of reform in Ukraine. Some of these USIA programs will be conducted within the framework of a three-way partnership between the United States, Ukraine and the European Union.

UZBEKISTAN

Political and Economic Overview

The Uzbekistani Government proved to be a reluctant reform partner in several key areas in FY 1998, keeping a dominant role for the state in its program of gradual, incremental reform. Moreover, Uzbekistan exhibited inconsistent performance in the areas of democracy and human rights in FY 1998. As regards freedom of the press, the existence of more than 45 independent television stations, 30 of which were broadcasting as of the end of FY 1998, and several independent radio stations, pointed to the Uzbek Government's tolerance for activities not in direct opposition to official policies. On the other hand, future development of independent media in Uzbekistan was threatened by the passage of a media law in late FY 1998 that allows the Uzbek Government to shut down media outlets without giving them any immediate recourse. This effectively limits the likelihood of investigative and political reporting. Similarly, a growing NGO sector consisting of more than 300 grassroots NGOs was evidence of the Uzbek Government's tolerance for citizen activities in less controversial areas, such as artisans', lawyers' and judges' associations, but the registration applications of two human rights NGOs continued to languish within the government bureaucracy. A new law on non-governmental organizations (NGOs) drafted with United Nations assistance received parliamentary approval in late December 1998, but remained to be officially published.

On the economic front, the reluctance of Uzbek officials to relinquish control to market forces has led to a series of unsuccessful policies over the past two years. After movement in 1995-96 towards a free-market economy, the Uzbek Government took significant steps backward, notably in fall 1996 when it restricted access to foreign currency. Since then, the government has been unwilling to address its problematic foreign exchange regime, and as a result, international donors such as the International Monetary Fund (IMF) and World Bank have provided only limited support to Uzbekistan.

Overview of U.S. Government Assistance

The U.S. Government provided an estimated $31.06 million in assistance to Uzbekistan in FY 1998, consisting of $20.98 million in FREEDOM Support Act funds, over $5.4 million in other U.S. Government funds, and $4.59 million in Defense Department excess and privately donated humanitarian commodities. Of the FREEDOM Support Act assistance, 85 percent was technical assistance, 10 percent was humanitarian assistance, and five percent represented partnership activities. USAID assistance accounted for $17 million and was focused on the broad sectors of market transition, social transition, democratic transition, and energy and environment.

Trade and Investment Programs

In FY 1998, U.S. Government-funded efforts sought to promote trade and investment by supporting market reform and addressing WTO accession and budget law reform. USAID focused on improving tax administration, providing loans for private businesses, and promoting reforms in Uzbekistan's private financial sector. However, progress did not meet expectations on most fronts because of the Uzbek Government's cautious approach to the economic reforms needed to create a free-market economy in Uzbekistan. Also, the most pressing near-term barrier to trade and investment in Uzbekistan, namely the government's restrictions on access to foreign currency, was beyond the scope of our assistance programs, although an integral part of our policy dialogue. Nevertheless, some progress was made in modernizing and improving the country's tax administration system, developing a new customs code, and drafting procurement, foreign investment, and insurance laws.

USAID Support for WTO Accession: USAID initiated a program designed to educate Uzbek officials on the benefits and requirements of accession to the World Trade Organization (WTO) and assist in the preparation and adoption of changes to the country's legal and regulatory framework necessary for WTO accession. In late FY 1998, the Uzbek Government submitted a memorandum of foreign trade regime to the WTO, a major step forward in the accession process.

Central Asian - American Enterprise Fund (CAAEF): In FY 1998, the U.S. Government continued to support the CAAEF's operations in Uzbekistan. Given the lack of reliable access to foreign exchange by current and potential customers, the CAAEF began working only with clients whose investments will produce foreign exchange earnings, and as of the end of FY 1998 was considering a complete cessation of new investment

projects. The CAAEF recently re-focused its lending efforts in Uzbekistan on the small- to medium-sized enterprise (SME) sector, helping it achieve much more success than it had achieved in other sectors of Uzbekistan's economy.

Business and Economic Development Programs

USAID-funded efforts in this area focused on creating modern tax and customs systems, providing loans to private enterprises, and assisting in the development of a market-responsive private financial sector. However, progress was mixed in FY 1998. On the fiscal side, the Uzbek Government made solid progress in improving its tax administration system, but little in reforming its inefficient budgeting system. In the banking sector, the Uzbek Government responded somewhat positively to reform efforts proposed by USAID-funded bank supervision advisors, although USAID's related bank accounting reform program had little impact at the central-bank level, despite progress at the commercial-bank level. The Uzbek Government failed to move forward on reforming its state pension system; consequently, USAID ended its assistance in this area in FY 1998. A proposed USAID-funded securities market program was also canceled in the face of similar resistance to reform on the part of the Uzbek Government.

Training and Exchange Programs

USAID: USAID training programs have made slow and incremental, but measurable progress in Uzbekistan over the past several years. In the area of market transition, USAID developed an aggressive training strategy which targeted an extremely wide-ranging audience of Uzbeks who occupy important legal and administrative positions in their country. USAID's market-transition training programs have involved significant training of and collaboration with senior legal staff in the presidential staff or *apparat*. This may signal increasing awareness among at least some officials in the upper levels of the Uzbek Government that significant steps must be taken to stabilize and improve the country's business climate. USAID technical assistance in the energy sector was complemented by training in electric-power and oil and gas development.

In the social sector, USAID supported training in contraceptive technology expansion, counseling, clinical skills, and infection prevention. Intensive training in family practice has been supplied to strengthen primary health care.

U.S. Information Agency (USIA): In FY 1998, 109 Uzbeks traveled to the United States under USIA exchange programs, including five graduate students, nine undergraduates, 21 professionals, and 74 secondary school students. USIA also supported a university partnership between Oklahoma State University and the University of World Economy and Diplomacy in Tashkent that aims to strengthen Uzbekistan's expertise in tourism by sharing U.S. expertise across a broad spectrum of disciplines (business, journalism, political science, and geography) through curriculum development and faculty exchanges. Nineteen U.S. participants and twelve Uzbek participants will participate in exchange programs under this partnership, which will also produce a comprehensive textbook on tourism that will be used by future generations of Uzbek professionals in the field of tourism economics. The activities of this project and the expertise developed will contribute to Uzbekistan's economic development and transition to a market economy.

Democracy Programs

In FY 1998, increased, better-informed citizen participation in economic and political decision-making remained the central element of the U.S. Government's democracy-building strategy in Uzbekistan, which focused on three activities: strengthening citizen participation through the development of non-governmental organizations (NGOs), increasing the availability of information, and increasing government accountability and responsiveness. Progress towards meeting these objectives lived up to the programs' realistically modest expectations.

Democracy Fund Small Grants Program: Under this USIA-administered program, the U.S. Embassy's Democracy Commission awarded 11 grants totaling almost $106,000 to Uzbekistani NGOs, independent media outlets and other democratically oriented organizations in FY 1998.

USAID Democracy Programs: USAID's NGO development efforts encouraged Uzbek NGOs to educate Uzbek Government officials on the role of NGOs, thus strengthening their capacity to elicit policy responses from government officials. USAID-funded assistance providers established productive relationships with two

new government entities, the National Commission on Human Rights in the presidential apparat and an Ombudsman's Office in the Uzbek Parliament. USAID, in collaboration with the Organization for Security and Cooperation in Europe (OSCE), also provided assistance in electoral law reform and voter education in preparation for Uzbekistan's December 1999 parliamentary elections and January 2000 presidential elections.

Security Programs

FY 1998 marked the second year that Uzbekistan, along with seven other NIS countries, became eligible to receive **Foreign Military Financing (FMF)** under the Partnership for Peace program. A number of FY 1998 PFP activities included Uzbekistan, among them a defense resource management study focused on defense budgeting and procurement issues. In addition, in FY 1998, Uzbekistan formally acceded to the Science and Technology Center in Ukraine.

Energy and Environmental Programs

U.S. Government-funded efforts in this area sought to develop an effective policy framework for an environmentally sound, regionally efficient, and market-oriented energy sector and to reduce economic and political tensions generated by trans-border environmental issues. As of the end of FY 1998, legislation was being prepared with USAID support to establish air pollution standards in Uzbekistan that would have a positive impact on global climate change.

USAID Energy-Sector Programs: USAID-funded technical assistance in power pooling and international power contracting facilitated negotiations towards an agreement on parallel operation and frequency regulation of the five national power systems of the Central Asian countries. Also with USAID support, a petroleum law was drafted and was being considered by the Cabinet of Ministers, and coordinated implementing rules and regulations were prepared. In addition, a draft protocol for privatizing selected components of Uzbekistan's oil and gas sector were under review.

USAID Water Management Programs: With USAID-funded technical assistance, Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan made significant progress in developing a draft agreement on the management of the Syr Darya-Naryn cascade. As of the end of FY 1998, the U.S. Government's Aral Sea Initiative had provided safe drinking water for 1.1 million people, improved the health and sanitation practices of an additional 1.5 million people, and resulted in significant policy changes contributing to more efficient water use. All five Central Asian countries participated in seminars for regional water cooperation, were conducting analyses for the introduction of water pricing, and had established short-term regional water-sharing agreements.

Social Sector and Humanitarian Programs

USAID Health-Care Reform Programs: U.S. Government-funded programs in this area focused on demonstrating efficient health care models, building a policy consensus and legal framework for health-care reforms, providing technical assistance to develop and implement specific products or interventions, providing training to make change a reality, and informing the public about the impact of these reforms on their daily lives.

- A USAID-funded **health partnership** focused on various medical specialties and clinic administration. With the help of a USAID **infectious disease program**, Uzbekistan introduced more effective, efficient, and cost-effective surveillance measures, and completed demonstration activities in acute respiratory infection and childhood diarrheal morbidity and mortality reduction in the Ferghana Oblast.

- USAID's efforts to strengthen local health-care capacity contributed to the establishment of 38 **rural community-based primary health care centers** in three demonstration rayons (counties). All 38 of these independent primary care practices will participate in the implementation of new payment methods. In addition, a national policy and legal framework was established for a health-care reform demonstration project in the Ferghana Oblast (Region). Agreement was reached on developing a legal framework for health insurance in collaboration with the World Bank, based on USAID's health-care reform experience in the NIS.

- USAID also worked with customers, private pharmacies, distributors, and international manufacturers to market modern **contraceptives** and provide information on their use to customers and health professionals in Uzbekistan. However, the implementation of USAID contraceptive social marketing program was adversely affected by currency conversion problems.

Coordinator's Office Humanitarian Assistance: In FY 1998, the State Department's Operation Provide Hope provided approximately $4.6 million in humanitarian assistance to Uzbekistan.

Cross-Sectoral Programs

Eurasia Foundation: In FY 1998, the USAID-supported Eurasia Foundation awarded grants totaling approximately $500,000 in Uzbekistan in the fields of business development and education, rule of law, public administration, NGO development, electronic communications, and economics education and research. In the area of electronic communications, the Foundation has provided grants to numerous organizations to conduct training programs and to increase public access to the Internet. One such organization received a Foundation grant for the establishment of an Internet training and access center for the employees, researchers and students of the university and colleges in the Chilanzar District of Tashkent. Some 60 Uzbek journalists from the print and electronic media will also have open access to the center's facilities and services.

Preview of FY 1999 Programs

In FY 1999, U.S. Government assistance to Uzbekistan will continue to focus on improving the environment for reform in all sectors, with additional new activities related to the implementation of a modern tax code, regulatory and accounting reforms, election assistance, and a public information campaign for Uzbekistan's health care system. USAID will continue to focus on economic development, partnership activities, health-care reform, regional energy and environmental activities, and market transition assistance, anticipating positive developments in Uzbekistan's attitude toward reform.

In the area of economic reform, USAID's modest efforts will continue in FY 1999 with several changes. First, USAID will not be providing any technical assistance in the areas of pension reform or securities-market development, due to the Uzbek Government's lack of response to reform initiatives in these sectors. Second, USAID will begin a new accounting reform project that will attempt to establish international accounting standards and practices in Uzbekistan. Uzbek Government support for this activity appears to be very strong.

USAID will continue to press for increased citizen participation in economic and political decision-making by working to form a coalition to advocate amendments to the new media law. A civic education/voter education program will seek to increase the level of meaningful voter participation in Uzbekistan's 1999-2000 elections.

Now that the Uzbek Government has developed an interest in systemic health system reform, USAID will increase its assistance efforts in this area. In collaboration with the World Bank, USAID expects to expand its pilot primary health care model of family group practices to cover three of Uzbekistan's oblasts (regions) and to begin focusing program resources on a comprehensive information dissemination strategy to share lessons learned with policy makers, professionals at all levels of Uzbekistan's health care system, and to other donors. USAID hopes to direct future U.S.-Uzbek medical partnerships to support the overall health-care reform agenda and the strengthening of primary health care in Uzbekistan. Efforts under USAID's infectious disease program will continue to strengthen disease surveillance, with an emphasis on hepatitis, typhoid, tuberculosis and other vaccine-preventable diseases. USAID intends to redesign its reproductive health program to fit the overall reform framework.

III. ASSESSMENTS OF MAJOR PROGRAMS

The following section describes the objectives of the major regional U.S. Government-funded NIS assistance programs by category, summarizes their achievements and assesses their effectiveness.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) - BUREAU FOR EUROPE AND THE NIS (ENI)

The USAID-funded assistance activities described in the above country assessments fit into the ENI Bureau's strategic framework for the NIS, which consists of 11 strategic objectives divided into four broad strategic assistance areas. Descriptions of these strategic objectives, as well as summaries of the progress achieved under each of them in FY 1998, are provided below:

STRATEGIC ASSISTANCE AREA 1: ECONOMIC RESTRUCTURING

Goal: To foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed

STRATEGIC OBJECTIVE 1.1: The increased transfer of state-owned assets to the private sector

This objective involves USAID support for the transfer of public enterprises and other state-owned assets (e.g., land, housing stock, financial institutions and utilities) to private ownership and management. Areas of emphasis include the following:

- policy, legislative and regulatory actions to facilitate and provide confidence in privatization;
- technical assistance, training, and policy advice to strengthen local institutional capabilities to manage privatization programs;
- assistance in organizing and financing privatization arrangements (e.g., mass privatization, auctions, competitive tenders and employee ownership);
- assistance in providing public education on privatization; and
- post-privatization assistance as part of a continuum of privatization assistance for a specific state-owned enterprise (SOE);

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 1.1:
The increased transfer of state-owned assets to the private sector

After nearly seven years of USAID support for privatization in the NIS, the vast majority of enterprises in the region have been transferred from state ownership to some form of private ownership. FY 1998 witnessed continued forward movement of many, but not all NIS countries along the path of economic reform. The privatization efforts of every reformist NIS country have led to a transfer of property from state-ownership to private hands, and the early stages of privatization have been completed in almost all twelve NIS countries. According to the most recent estimates available, the private sector in the NIS accounted for nearly 60 percent of GDP by mid-1997, up from 49 percent in 1996.

USAID's focus changed in FY 1998 from looking at the *quantity* of enterprises and assets privatized to questioning the *quality* of privatization and post-privatization support for restructuring. USAID's FY 1998 programs thus reflected a turning point in privatization efforts, as the initial phase of mass privatization programs neared its completion in most of the NIS countries, which began moving into the second phase of market reform: improving shareholders' rights and corporate governance, ensuring that effective pledge and collateral laws give businesses

sufficient access to capital, creating a conducive business environment, and decollectivizing the agriculture and energy sectors.

Completed Work in Mass and Small-Scale Privatization

By the end of 1998, Ukraine and Moldova had essentially completed their mass privatization programs.

Ukraine: In Ukraine, more than 9,500 out of a total 10,000 large and medium-sized enterprises had been privatized through mass auctions by December 1998, and over 47,000 small enterprises had been transferred to the private sector. Remaining USAID-funded work on small-scale privatization in Ukraine will primarily focus on the privatization of unfinished construction sites. USAID helped develop internationally accepted tender procedures that were agreed to by the Ukrainian Government and were used to privatize 40 of the 200 largest enterprises through open tenders for cash or through investment tenders to strategic investors. Land privatization remained an unresolved question in Ukraine, where there was still only limited *de jure* land ownership, and state-monopolized control over grain elevators and farm inputs continued to stifle private enterprise growth in the agricultural sector.

Moldova: Moldova has completed its mass privatization program, with more than 2,200 small, medium-sized and large enterprises totally or partially privatized. In FY 1998, the Government of Moldova continued to make progress in privatization reforms, as the parliament passed significant legislation to continue the privatization of land. As a result, land in Moldova is now fully tradable, and a national land registry exists for land titling and ownership registration. USAID-funded advisors helped the Moldovan Government complete the decollectivization of 72 pilot farms, resulting in the issuance of 185,000 individual legally recognized titles and the formation of more than 3,000 new private farms. With continued USAID support, the expected completion of Moldova's national farm privatization program in 1999 will result in the distribution of more than 1.6 million individual land titles.

Remaining Issues

The quality of privatized enterprises continues to be a problem for most NIS countries, with a significant proportion of large enterprises sold to insiders (i.e., management or employees) in many countries, and the state retaining a controlling share of many supposedly "privatized" firms. Insider control over newly privatized enterprises often prevents them from undergoing necessary restructuring, as employees and management have an interest in retaining the current stock of employees.

State control over private holding companies in the energy or agricultural sectors tends to create monopolistic power, and constrains the growth of enterprises that depend on these sectors as suppliers of inputs. Shareholders' rights and corporate governance are concepts that are still not well understood in the developing markets of the NIS countries, and USAID will need to continue to support the introduction of legislation to ensure protection and strength of these market institutions in order to guarantee that the positive benefits from privatization will be fully realized in the NIS.

As USAID moves closer towards completion of all Strategic Objective 1.1 activities in the NIS, it has become more clear that successful privatization does not consist of simply transferring property from state to private hands. Rather, the transfer of property is merely a first step in a long path of creating the rules, institutions and environment necessary for a market economy to prosper, and USAID will need to remain engaged in issues concerning quality of privatization and post-privatization assistance for several more years in order to guarantee the sustainability of the reforms that it has helped set in motion.

STRATEGIC OBJECTIVE 1.2: Increased soundness of fiscal policies and fiscal management practices

This objective seeks to establish a supportive environment for private-sector growth and financial market development. It focuses on increasing the stability and predictability of prices at low inflation levels to preserve the real value of earnings; reducing public-sector demand for and preemption of financial resources outside market channels; and improving public-sector resource allocation, cost-effectiveness, and accountability. Areas of emphasis include the following:

- better alignment of revenue policies and budget allocation with economic objectives, particularly to promote private savings, investment, and earnings;
- modernization of tax codes and systems to emphasize transparency, simplicity and equity;
- improvement of tax administration, leading to more widespread taxpayer compliance, reduced delinquencies and increased tax collections;
- reduction of public-sector budget deficits;
- development of performance-based public-sector budgeting systems, with an emphasis on improved budget planning, execution and controls;
- rationalization of government transfers to state-owned enterprises, leading to reduced subsidies, increased budget transparency and improved accountability; and
- broad-based reduction of government subsidies, with a policy shift from generalized to targeted subsidies.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 1.2:
Increased soundness of fiscal policies and fiscal management practices

The fundamental objective of USAID's fiscal reform programs in the NIS is to help these countries reach fiscal sustainability within a democratic, market-based system—a critical step towards achieving macroeconomic stability more broadly. Conversely, as recently underscored in Russia, fiscal imbalances can figure prominently in economic crises.

While the NIS countries' fiscal balances have improved significantly since the beginning of the post-Soviet transition, many NIS countries continue to maintain unsustainably high deficits. Six countries (Kyrgyzstan, Armenia, Russia, Moldova, Kazakhstan and Turkmenistan) incurred fiscal deficits equal to or greater than five percent of GDP in 1998. In contrast, eight post-Communist transition countries have been able to achieve the European Union's fiscal deficit target of three percent of GDP or less since 1995. Ironically, Belarus is the only NIS country to have done so, but Belarusian Government officials were only able to claim economic growth because of massive credits to the debt-ridden state sector.

On one level, the NIS countries' generally poor fiscal discipline stems from the inability of the NIS governments to raise adequate revenues and to target and administer expenditures appropriately. However, the NIS countries also face some deeper fundamental constraints. In particular, their chances for achieving fiscal sustainability remain limited by inadequate economic restructuring and an incomplete shift of responsibilities from the state to the private sector. Unprofitable state-owned enterprises and bankrupt private firms continue to exist and, in doing so, drain public coffers. Further, much economic activity takes place outside the realm of the official economy and, hence, outside the government's taxation domain. Informal economic activity, in fact, may be as high as 40 percent of official GDP in the NIS. Many economic transactions are barter-based, and crime and corruption are pervasive.

In the more advanced Central European countries, fiscal priorities tend to be focused more on the expenditure side, and on the cost-effectiveness of social spending in particular. However, for the NIS countries, the focus is one step removed, i.e., the more basic consideration of revenue generation. Perhaps an even more fundamental problem in the NIS is that of societal perceptions and goals. In most of the region, there does not appear to be a clear public consensus as to what the role of government should be, nor is there a clear understanding as to what it feasibly can be, nor is there consensus on the type of economic system desired.

In this challenging context, USAID is pursuing fiscal reform in five principal areas in all of the NIS countries except Azerbaijan and Belarus: tax policy, tax administration, budget formulation and execution, pension reform, and inter-governmental fiscal relations. A recent USAID effort to rate progress in the first four of these areas across the transition countries revealed some interesting trends. First, overall progress in fiscal reform in the NIS lags considerably behind the northern-tier Central and East European (CEE) countries, and slightly behind fiscal

progress in the southern-tier CEE countries. In terms of reform areas, tax reform is the most advanced, and in general, a solid base for modern fiscal systems is in place in many NIS countries, including unified tax codes and comprehensive tax laws. Across the NIS, progress is least evident in tax administration and is only slightly better in the area of pension reform.

Progress in inter-governmental fiscal relations was assessed in the broader context of local governance and public administration by the U.S. non-governmental organization Freedom House in its USAID-commissioned study *Nations in Transit, 1998*. According to the study, the progress gap between the northern-tier CEE countries and the NIS is large and growing; in fact, seven NIS countries have recently experienced backsliding in this reform area, while only Kyrgyzstan has moved forward. Turkmenistan, Uzbekistan, Tajikistan, Belarus and Azerbaijan lag the farthest behind in this area.

According to USAID's rating scheme, Moldova and Kazakhstan, their relatively high fiscal deficits notwithstanding, have shown the most progress in fiscal reforms in the NIS. Kazakhstan was the first NIS country to adopt a comprehensive tax code, and it is also the NIS leader in pension reform, putting into place a Chilean-style two-pillar pension system. Since 1996, Moldova has undertaken significant fiscal tax reform, including the establishment of a new invoice-credit VAT, a single VAT rate, a global personal income tax, and an enterprise profits tax based on self-assessment. In addition, substantial work has been undertaken in tax administration, particularly in strengthening the audit and collections function.

Tajikistan, followed by Turkmenistan, Armenia and Georgia, has made the least progress in fiscal reform. Burdened by civil war and natural disasters, Tajikistan is unquestionably the furthest behind in reforming tax policy, tax administration and public expenditure management. Unconventional tax provisions for the country's key commodities—cotton and aluminum—have contributed to falling tax revenues, and tax administration and expenditure controls are extremely weak. The other poor performers also face a variety of constraints, including a lack of political will and consensus for reform in Turkmenistan, corruption in tax collection (particularly in Georgia) and/or adverse macroeconomic spillovers from the Russian crisis (in Georgia and Armenia).

Finally, as underscored by the current financial crisis, fiscal reform has far to go in Russia as well. Tax reform, though farther along than other fiscal reforms, remains inadequate. While important reforms in Russia's tax laws occurred in the early 1990s, a comprehensive tax code has not yet been adopted. Tax administration reform has been particularly slow and has contributed to significant tax arrears; insufficient political will to reform has contributed to a growing use of barter arrangements for tax payments. Significant institutional weaknesses underpin a distorted structure of expenditures and deteriorating intergovernmental fiscal relations. These fiscal issues are among the main policy challenges currently confronted by Russia. USAID is helping Russia tackle these problems. Economic and legal assistance has been provided to the Russian Government and Duma to evaluate strengths and weaknesses of the proposed tax code, and economic analysis has been provided to the Ministry of Finance to show the impacts of potential tax changes, including how income tax changes would affect individuals. In addition, USAID has helped strengthen the State Tax Service's unit for collecting taxes from large enterprises, and is helping implement a property tax system in the cities of Tver and Novgorod.

STRATEGIC OBJECTIVE 1.3: Accelerated development and growth of private enterprises

This objective encompasses the policy reforms, legislation and regulatory actions necessary to create an enabling environment for private enterprise. It also emphasizes assistance to individual enterprises, with the goal of improving their productivity and competitiveness, and the development of business service institutions that will continue to support the growth of private firms. Micro-level assistance is directed at broad-based improvement of business practices in such areas as planning, management, production, marketing, accounting, resource mobilization, etc. Representative policy, legislative, and regulatory activities include the following:

- developing commercial law and associated regulatory procedures on such topics as formation of corporations and partnerships, contracts, bankruptcy;

- promoting the protection of land ownership and intellectual property;

- promoting trade-enhancing improvements in customs administration and tariff reform;

- promoting simplified laws and regulations on foreign investment;
- promoting competition, control of monopolies, and protection of consumer rights;
- helping to establish the legal framework and conditions for a private housing market; and
- helping to remove environment-related barriers to investment, including greater reliance on market-based, incentive-oriented environmental management policies; use of environmental audits and government indemnification to reduce new-investor liability risks; and simplified environmental compliance procedures.

Assistance to firms may be provided directly or channeled through business service organizations. Such assistance includes the following:

- establishment/strengthening of business development centers, producer and trade associations, small business incubator facilities, management consulting and training organizations, etc.;
- small and medium-sized enterprise development;
- technical assistance, training, and equipment for improved agricultural production, processing, and marketing, including farmer-to-farmer assistance;
- enterprise fund assistance directly to firms, including equity investments, credit, investment insurance, etc.;
- Eurasia Foundation activities in business education, management training, agribusiness promotion, small and medium enterprise development, defense conversion, etc.
- help in strengthening the capabilities of private land developers, housing contractors, and realtors;
- assistance for condominium development and management; and
- assistance to individual firms in the areas of environmental audits, cost-effective compliance with environmental regulations, and waste recycling.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 1.3:
Accelerated development and growth of private enterprises

This objective encompasses the broadest scope of any of USAID's strategic objectives for the NIS, with related activities taking place in 11 of the 12 NIS countries. It incorporates the fostering of policy reforms, legislation and regulatory actions necessary to create an enabling environment for private enterprise; providing assistance, including finance capital, to enterprises to help them improve their productivity and competitiveness; and creating and supporting indigenous organizations that furnish business services.

Although the NIS countries have made progress in the areas of liberalization and privatization, the more challenging reforms and institution-building have moved much more slowly. In addition, the Asian and Russian financial crises have had a significant impact on market conditions throughout the region and are a reflection of the volatility of many of these transition economies.

Nevertheless, the picture is a positive one in many respects. Nine of the NIS economies (all except Moldova, Russia and Ukraine) expanded in FY 1998. Six of the 12 have a private-sector share that is greater than 50 percent of GDP, with an average of almost 60 percent. Despite the Russian crisis and significant outflows of external short-term portfolio investment, foreign direct investment flows have remained relatively stable in the region and, in fact, have increased in some countries.

In FY 1998, USAID assistance had significant results in promoting private enterprise, despite the lags in reform and the Asian and Russian crises. These results are summarized below under two broad categories: (1) fostering supportive policy, legal and regulatory environments, and (2) promoting the development and growth of businesses.

Policy, Legal and Regulatory Environments

Central Asia: Results in FY 1998 ranged from major successes in Kazakhstan to backward movement in Uzbekistan. In Kazakhstan, a number of laws crucial to the improvement of the business climate were passed, including laws on natural monopolies, registration of pledges of moveable property, unfair competition, and an amendment to the government procurement law. In Turkmenistan, progress continued, and most of the suggested trade and investment reform issues were included in a recently enacted civil code. However, in Uzbekistan, after some movement in 1995-96 toward a free-market economy, the Government of Uzbekistan reversed itself. Nevertheless, a new customs code has been enacted in Uzbekistan, along with drafts of procurement and foreign investment laws.

Caucasus: In FY 1998, the Armenian Government took positive legal and regulatory steps in support of accelerated private-sector development. Although Georgia was hard-hit by the Russian crisis, reforms encouraging private enterprise continued at a rapid pace, and the country's 1998 GDP growth of eight percent was the highest in the NIS.

Russia: Russia's lagging fiscal and land reforms, as well as the development of a legal framework for foreign investment, were all slowed even further by the economic and political crises of the last half of 1998.

Western NIS: Though also hard-hit by the Russian crisis, Moldova and Ukraine continued to make progress in policy and legal reform. In Ukraine, a recent presidential decree granted authority to deregulate business development, and an amendment to the law on pledge was passed, creating the basis for a national registry of moveable property. In addition, amendments to the law on bankruptcy were completed and were being considered in Ukraine.

Business Development

Central Asia: In Central Asia, micro-enterprises and small to medium-sized enterprises (SMEs) were the main targets of USAID assistance. In Kazakhstan, USAID devoted $2 million to micro-enterprise development. In Kyrgyzstan, the Foundation for International Community Assistance (FINCA) administered a $6 million project, which through August 1998 had provided over $2 million in loans to 7,263 recipients. In Tajikistan, USAID-funded Mercy Corps established a small-loan program for farmers. The Central Asian - American Enterprise Fund (CAAEF) shifted its focus to the micro and SME sectors, where it has been more successful than in other investment areas.

Caucasus: The same emphasis on micro-enterprises and SMEs applied to USAID's programs in the Caucasus region. In Armenia, the Eurasia Foundation loaned over $3.4 million to 130 SMEs, and FINCA was active in Azerbaijan. In Georgia, a highly effective program helped create businesses that can provide improved quality seed, with the goal of re-establishing the country's seed industry; to date, 15 new seed enterprises are active.

Russia: Despite great difficulties, USAID's programs made a substantial amount of progress in FY 1998. USAID's $5 million contribution to EBRD's Russian Small Business Fund (RSBF) helped facilitate 22,000 loans to entrepreneurs. The RSBF achieved a repayment rate of 99.5 percent before the August crisis. USAID's Small Business Program provided training to over 250,000 entrepreneurs, facilitating the establishment of over 1,000 new businesses in 1998, and over 5,000 since 1994. USAID assistance has helped create 12 institutions outside the formal banking sector that finance small and micro businesses, and a cumulative total of 3,500 enterprises since 1994 (over 1,000 in 1998). Under the U.S. Government's Novgorod Regional Initiative, USAID helped the Novgorod Regional Government refine and accelerate its economic growth and investment strategy, resulting in over $100 million of new foreign investment.

Western NIS: In Moldova, SME development programs supported over 450 enterprises in the service and production sectors, and in agribusiness, USAID resources leveraged $5 million in private-sector investment. In

Ukraine, an important development in 1998 was the creation of a new program to promote micro-enterprises and SMEs. Despite the lack of an enabling policy environment, a weak financial system, and the lack of access to finance by entrepreneurs, analyses showed that significant opportunities existed for accelerating SME development and that SMEs could play a critical role in absorbing the large number of unemployed and underemployed workers in Ukraine.

In addition, considerable progress was achieved in helping Kazakhstan, Kyrgyzstan, Georgia and Moldova convert to international accounting standards (IAS) and practices.

STRATEGIC OBJECTIVE 1.4: A more competitive and market-responsive private financial sector

This objective seeks to improve the private sector's accessibility to a wide array of financial instruments at competitive, market-determined rates. It places an emphasis on strengthening the efficiency, reliability and transparency of financial markets. Representative activities include the following:

- helping to establish efficient, well-regulated private banking operations;
- strengthening Central Bank functions and regulatory oversight of commercial banking;
- improving security of the banking system through bank guaranty funds, deposit insurance facilities, etc.;
- promoting the creation, expansion and regulation of capital markets, commodity exchanges, and market-based mortgage lending;
- promoting the diversification of financial instruments;
- promoting the development of municipal bond markets and other instruments for local government resource mobilization; and
- helping to establish sustainable credit facilities for small and medium-sized enterprise where they constitute a segment of a broader financial market.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 1.4:
A more competitive and market-responsive private financial sector

USAID's financial sector reform programs in the NIS facilitate the sustainable development of capital markets and a market-oriented banking sector. In the case of capital markets, the task has largely been one of starting from scratch, as no capital markets existed during the Soviet period. Even though banks did nominally exist, these were not banks according to the Western definition. As a result, replacing existing Soviet-era banking institutions (either through privatization, restructuring or liquidation) with a market-oriented system has been even more challenging than creating new capital markets.

In general, financial sector reforms still have a long way to go in the NIS countries, whose banking sectors are characterized by a large state presence, low financial intermediation, a high proportion of bad loans, and weak central bank supervision. According to some estimates, the average volume of credit to enterprises in the NIS countries is as low as ten percent of GDP. This compares to an average volume of credit of more than 50 percent of GDP in the European Union, and closer to 25 percent of GDP in Central and Eastern Europe. While bank privatization has moved forward in some countries—Kazakhstan in particular—state control of the banking sector remains a significant problem. This is particularly the case in Azerbaijan, Uzbekistan and Turkmenistan.

Despite gradual improvements in the regulatory and institutional framework, the non-bank financial sectors of the NIS countries remain as underdeveloped as the banking sectors. The relatively low market capitalization on stock exchanges throughout most of the NIS countries in 1997 decreased further in 1998, in part from the contagion effects of the global financial crisis. Of the fifteen NIS and Central European countries with sovereign credit ratings, six have had their ratings downgraded (none were upgraded) since June 1998, four of them being NIS countries: Kazakhstan, Moldova, Russia and Ukraine. The contagion effects from the financial crises impart new

risks and vulnerabilities from exposure to foreign capital, particularly short-term capital, and particularly to those exposed countries with poorly developed banking systems and capital markets.

USAID has been working to promote financial sector development in all of the NIS countries except Azerbaijan, Belarus and Turkmenistan in a variety of ways. USAID's fundamental focus is on helping build the basic building-block financial institutions: privatized and/or restructured banks and new capital markets. A related emphasis has been placed on establishing and helping to enforce the necessary legal and regulatory framework. A third focus is on developing professional associations to promote industry, help train participants, and educate the general public. USAID also trained financial sector participants at all levels, both public and private.

Several regional trends can be discerned from recent efforts to rate progress in the financial sector in the NIS and Central European countries. First, there is a large gap in progress in financial sector reform (both in banking and capital markets) between the NIS countries and the "transition leaders," the northern-tier Central and East European (CEE) countries. According to the European Bank for Reconstruction and Development (EBRD), the gap in this area is as large as it is in any other area of economic reform. Second, progress in capital market reforms in the NIS is comparable to that in the southern-tier CEE countries. This is not the case, however, in banking sector reform, where NIS progress lags notably behind southern-tier CEE standards.

According to both the EBRD's and USAID's rating schemes, Kyrgyzstan, Kazakhstan and Moldova are among the NIS leaders in financial sector reform. Most if not all banks in Kyrgyzstan and Moldova are now in general conformity with prudential requirements, and the banking sectors are relatively healthy overall. The banking sector in Kazakhstan remains highly concentrated, although it has recently been strengthened by privatization and foreign participation. Capital markets are underdeveloped but are growing. Pension reform in Kazakhstan and Kyrgyzstan, and large-scale privatization in Kazakhstan are facilitating this growth.

Tajikistan, Turkmenistan and Belarus continue to lag behind all other NIS countries in financial sector reform. State control of the financial sector is pervasive. To a large extent, banks continue to function in Soviet ways by intermediating (through directed credits) between the government and its identified priority sectors in the economy. In addition, capital markets remain largely undeveloped.

In Russia, the crisis triggered by the August 1998 devaluation and forced restructuring of government debt plunged much of the country's banking sector into insolvency and brought securities market trading to a halt. A very weak regulatory structure contributed to the resulting bank runs and the collapse of financial intermediation. The Russian stock market dropped by ninety percent from October 1997 to October 1998, and the market turmoil in Russia has had a significant adverse impact on financial markets elsewhere in the NIS. USAID is working with the World Bank and other donors to develop a bank restructuring plan and to strengthen economic policy think tanks. The level of future assistance will depend on the degree to which Russia demonstrates a commitment to financial sector reform.

STRATEGIC OBJECTIVE 1.5: A more economically sound and environmentally sustainable energy system

Energy is closely linked to important U.S. foreign policy interests in the NIS region, including the security of energy supplies from the Caspian Sea Basin and Russia, nuclear plant safety, the increased economic and political independence of the NIS countries through decreased dependence on oil and gas imports from Russia, and in support of the Global Climate Change Initiative, a reduction in greenhouse gas emissions (the NIS countries account for nearly one quarter of the world's total carbon dioxide emissions).

This objective focuses on achieving greater efficiency in energy production and use through the development of competitive, market-based energy systems that reduce environmental pollution and risk. Representative activities include the following:

- promulgation of policies, laws and regulations critical to restructuring and privatizing the energy sector, particularly the electric power sector;
- promoting the development of commercially viable private-sector capabilities in energy services;

- introducing efficient energy and environmental-control technologies;
- introducing energy conservation measures in heat generation and consumption; and
- industrial energy-efficiency and demand-side management programs.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 1.5:
A more economically sound and environmentally sustainable energy system

In FY 1998, USAID provided bilateral energy assistance to seven NIS countries: Armenia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia and Ukraine. Efforts in energy restructuring have been plagued by serious financial weaknesses, non-payment problems, and retrenched political interests wanting to maintain monopoly structures and central government control of the energy sector. Nevertheless, significant progress was made in FY 1998. The most aggressive reformers have been Moldova, Armenia, Georgia and Kazakhstan. Despite some setbacks, Ukraine has taken important steps to reform its energy sector and rationalize energy prices. In contrast, energy reform in Russia has been stalled, and Kyrgyzstan's commendable energy-sector reform plan faced significant political opposition.

Russia: In FY 1998, USAID developed a final report on the restructuring and privatization of Russia's electrical power sector. About 40 percent of Russia's energy sector is now owned by private companies and individuals, but further privatization appears to be on hold. USAID-funded advisors continued to engage the Russian Federal Energy Commission (FEC) on issues of transparency, consistency and fairness in developing an energy-sector regulatory regime. The U.S. Department of Energy and USAID co-sponsored a conference on natural gas regulation. In the area of nuclear safety, Russia adopted a policy of extending the lives of older high-risk reactors without in-depth safety assessments or regulatory reviews, raising concern among the G-7 countries.

Ukraine, Moldova: Both Ukraine and Moldova have established energy regulatory commissions that have sufficient authority, significant autonomy and operate effectively. Both countries are moving to rationalize energy tariffs, although the Ukrainian Government is struggling with the parliament on this issue. Moldova has passed modern electricity and gas laws, as well as a sound privatization plan oriented towards international investors. However, Ukraine's efforts in the area of energy-sector privatization have also been plagued by struggles between reformers and their opponents. Nevertheless, Ukraine's energy efficiency initiatives showed initial results in industrial and municipal projects and the establishment of private energy-efficiency service companies. In the area of nuclear safety, Ukraine has cooperated under the framework of the G-7/Ukraine Memorandum of Understanding on the closure of the Chornobyl nuclear power plant.

Armenia, Georgia: With USAID assistance, Armenia and Georgia have made significant advancements in energy reform over the past two years, despite their difficult financial positions. Both countries have created effective energy regulatory commissions that are developing transparent tariff methodologies. While USAID has continued to provide substantial support to help these two countries meet their winter fuel needs, both governments have taken steps to break up their national power monopolies, have improved commercial operations and have begun the privatization of distribution companies, including the sale of a distribution company in Tbilisi, Georgia, to a U.S. utility investor (see Georgia country assessment in Section II). Georgia has cooperated closely with international and Azerbaijani efforts to develop export oil and gas pipelines from the Caspian Sea, endorsing the U.S. position on the desirability of a Baku-Ceyhan pipeline.

Kazakhstan, Kyrgyzstan: USAID's continued work in the power sectors in these two countries has contributed to policy reforms which have led to the sale of over 90 percent of the Kazakhstani electric generation system to private investors since 1995, and the establishment of a more independent regulatory commission in Kyrgyzstan. However, Kyrgyzstan has been struggling to overcome strong internal opposition to de-monopolizing the country's power holding company, with the privatization of distribution companies planned for 1999; moreover, political pressure to keep tariffs low has led to the adoption of policies with the unintended effects of encouraging consumer energy waste and inefficient space heating. In contrast, Kazakhstan is more committed to improving energy efficiency and has recently agreed to participate in the section of the Kyoto Protocol involving binding commitments to reduce greenhouse gas emissions.

Central Asian Regional Energy Initiatives: In addition to its bilateral energy programs, USAID has also supported regional energy cooperation in Central Asia. Given the globally significant oil and gas potential of this region, USAID has worked in collaboration with the European Union to help establish a sound legal and regulatory framework conducive to private foreign investment and export. Progress has been made in developing petroleum legislation and implementing regulations in Kazakhstan and Turkmenistan, but Uzbekistan has been slower in this regard. Considerable progress has also been made over the past two years on regional electricity and water protocols, enabling the Central Asian countries to operate the region's power system more in line with the region's water and irrigation needs.

STRATEGIC OBJECTIVE 1.6: Increased environmental management capacity to support sustainable economic growth

This objective was introduced in late 1997 in order to articulate the important linkages between environmental issues and economic reform and growth objectives. It focuses on creating the necessary building blocks for sound environmental management as a crucial component and precursor of sustainable economic development. The objective focuses on increasing public- and private-sector capacity to address environmental constraints to development, including pollution, industrial waste, greenhouse gas emissions, deforestation, and other threats to the natural resource base. Program approaches include the following:

Public sector:

- promoting policy, legislative and regulatory actions to improve environmental and natural resource management;
- strengthening government capabilities to manage and regulate environmental activities in a manner compatible with free-market principles; and
- promoting the use of economic instruments to supplement regulation, including emissions trading, environmental charges and tax incentives for the adoption of improved technologies.

Private sector:

- promoting public-private partnerships for infrastructure investment to improve environmental conditions;
- promoting increased finance, trade and investment in more efficient and effective environmental technologies;
- assistance to firms in conducting environmental audits, leading to cost-effective compliance with environmental standards; and
- strengthening the involvement of NGOs and civic groups in environmental policy and action programs.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 1.6:
Increased environmental management capacity to support sustainable economic growth

USAID's environment programs in the NIS have contributed to improvements in the quality of life in selected areas by promoting environmental legislative policy and regulatory reform, as well as by demonstrating environmental control and management to individual firms. These programs facilitate the transition to a viable and sustainable economy and democratic political system by increasing the capacity of government officials at all levels, concerned citizens and industry to address and resolve environmental problems using democratic and market-based tools. USAID has been pursuing Strategic Objective 1.6 in Russia, Ukraine, and region-wide in Central Asia.

Russia: USAID's environmental programs in Russia are grouped around three main program goals: (1) increased capacity to deal with environmental pollution as a threat to public health, (2) improved management of natural resources and biodiversity protection, and (3) improved economic mechanisms for natural resources management,

environmental protection and emissions trading. Successes were achieved in all three areas in FY 1998. USAID helped introduce new technologies and approaches to reducing pollution. In many cities, the introduction of water filtration and leakage control systems not only made tap water safer to drink, it also helped city governments realize significant cost savings. USAID programs have spurred the implementation of reforestation programs for land stripped by unrestricted logging and forest fires. In addition, USAID has helped private enterprises and municipalities develop environmental projects and investment packages for financing through domestic and international financial institutions.

Ukraine: In Ukraine, USAID's environmental activities are centered around five main goals: (1) the promotion of national policies and plans that integrate environmental, economic and social goals; (2) the creation of a safer and more economically and environmentally sustainable water structure; (3) the development of a more environmentally sustainable safer agriculture sector; (4) the development of a safer, more environmentally sound and efficient industrial sector; and (5) the adoption of international environmental agreements. USAID's regional mission in Ukraine reported progress toward these goals in FY 1998. Technology replications occurred in industry, urban water and agriculture activities. Several Ukrainian enterprises participated on a cost-share basis in pilot projects in waste minimization and energy conservation. Ukrainian utilities adopted performance management initiatives to improve water supply services. USAID's recommendations on environmental legislation were adopted. USAID-funded water purification projects in Lviv and other cities greatly increased Ukraine's capacity to provide access to water services. USAID's work in the agriculture sector has helped streamline and make transparent the agrochemical registration process. USAID also supported environmentally sound small business development in the Carpathian region, specifically in the wood processing industry. USAID was actively working with the Ukrainian Government to promote sustainable forest management as a means of increasing the productive capacity of natural resources that involve ecological, economic, social and political factors.

Central Asia: USAID's environmental programs in Central Asia focus on three main goals: (1) establishing sustainable water use and management of the Aral Sea Basin, (2) promoting appropriate environmental policies and practices in oil and gas industry activities in the Caspian Sea Basin, and (3) promoting mitigation measures through national climate change action plans and similar environmental planning activities. USAID's regional mission in Central Asia judged progress towards these objectives as satisfactory in FY 1998. With USAID assistance, Uzbekistan, Kazakhstan, Kyrgyzstan and Tajikistan have made significant progress in developing an agreement on the management of the Syr Darya-Naryn cascade. All five Central Asian countries have participated in seminars for regional water cooperation, are conducting analyses for the introduction of water pricing, and have concluded short-term regional water-sharing agreements.

STRATEGIC ASSISTANCE AREA 2: DEMOCRATIC TRANSITION

Goal: To support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes

STRATEGIC OBJECTIVE 2.1: Increased, better-informed citizen participation in political and economic decision-making

This objective encompasses USAID assistance directed towards strengthening systems of democratic representation and open information, developing an informed citizenry, and organizing citizen participation through effective advocacy groups. These programs seek to increase citizens' influence on public policy decisions, and improve government oversight. Representative activities include the following:

- promoting free and fair elections;
- supporting political party development;
- supporting the development of independent, responsible media;
- promoting improved access to government information;

- increasing the breadth, vitality, and impact of civic associations and NGOs concerned with public policy, human rights, and environmental management; and

- strengthening independent, representative labor unions.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 2.1:
Increased, better-informed citizen participation in political and economic decision-making

When the NIS countries gained their independence following the Soviet collapse, civil society was either nascent or non-existent in these countries. Their citizens lacked many of the basics of a democratic society, including the right to free expression, the right to organize and advocate for their own interests, and the right to form independent political parties and hold free and fair elections. Consequently, the building of a vibrant civil society, in which citizens can engage freely in debating the political, economic and social issues that affect their lives, has been a critical component of USAID assistance to the NIS countries.

In FY 1998, USAID pursued this strategic objective in all NIS countries except Belarus and Turkmenistan, where the political environment remained hostile to progress in this area. Ongoing USAID-funded activities were successfully laying the foundations for future progress towards this objective in FY 1998; however, a great deal of work remains to be done. Russia, Kyrgyzstan, Moldova, Georgia and Ukraine made substantially more progress in this area than Tajikistan, Uzbekistan and Azerbaijan. USAID's efforts under this objective are carried out by U.S. non-governmental organizations (NGOs).

Political Processes: Democratic electoral practices continued to take root in the region, with free and fair parliamentary elections in Ukraine and Moldova, while Georgia held its first local elections, a process that was also judged relatively problem-free. However, this encouraging progress was offset by presidential elections in Armenia, Azerbaijan and Kazakhstan (January 1999), countries where power remained largely concentrated in the executive branch and civil society remained comparatively underdeveloped. Political parties continue to evolve in Russia and Ukraine but remain relatively weak throughout the rest of the region. Assistance to strengthen political processes is provided through the National Democratic Institute (NDI), the International Republican Institute (IRI), and the International Foundation for Election Systems (IFES).

Independent Media: Despite the demonstrated ability of USAID-funded programs to strengthen independent media, the sector as a whole suffered a dramatic setback in 1998 with the onset of the financial crisis that spilled over from Russia. The precipitous decline in advertising revenues caused by the crisis has pushed many previously independent media—both print and broadcast media—closer to well-placed political patrons eager to use the media to further their self-interested agendas. Internews and the International Research and Exchanges Board (IREX) have been the primary implementing organizations for USAID's assistance to promote independent media.

Non-Governmental Organizations (NGOs): NGOs continued to make progress in aggregating the interests of citizens in order to influence the direction of public policy, but achieving financial and organizational sustainability is still a formidable challenge. Even in Central Asia and Azerbaijan, where the political climate is less conducive to the emergence of a robust civil society, NGOs are providing citizens with an increasingly effective voice with which to engage governing elites. Across the region, service-oriented NGOs, with support from USAID and other donors, focused more on meeting some of the basic material needs of vulnerable populations. The Initiative for Social Action and Renewal in Eurasia (ISAR), World Learning, Save the Children Foundation, Winrock International, Counterpart International, and the Eurasia Foundation implemented USAID's NGO development activities.

STRATEGIC OBJECTIVE 2.2: Legal systems that better support democratic processes and market reforms.

This objective seeks to establish the rule of law, protect civil, political and property rights, and place limits on arbitrary government actions. The fair, objective and consistent rule of law requires the development of an independent judiciary, professional and honest prosecutors, effective legal representation, and well-defined legal procedures that help ensure uniform and timely enforcement of laws. Representative activities include the following:

- support for the drafting of civil codes;
- programs to strengthen parliamentary processes and build the institutional capacity of parliaments, including legislative research/information databases;
- programs to strengthen the judiciary, bar associations and court administration;
- programs to promote the introduction of systems for alternative dispute resolution;
- support in improving criminal statutes and law enforcement procedures; and
- programs to help establish processes and organizations that limit government corruption and human-rights violations.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 2.2:
Legal systems that better support democratic processes and market reforms.

Among the four NIS countries in which USAID was pursuing this objective in FY 1998 (Armenia, Georgia, Russia and Ukraine), Armenia has been the slowest to establish legal systems that better protect its citizens' human rights, and support democratic processes and free market reform. In comparison, Georgia, Russia and Ukraine are further along in reforming their legal systems. For example, in these three countries, fundamental legislation is in place, within the framework of a post-Soviet constitution, to provide for human and civil rights. However, even these three countries have been slow in deepening and consolidating legal reform, especially the implementation and enforcement of existing laws. The critical obstacles to furthering the rule of law in all four of these countries include corruption, inadequate institutional capacity, inadequate commitment of government resources, and limited cultural and political will to reform.

Ultimately, the effectiveness of legal reform efforts in these countries depends on the will of their institutions and citizens to adhere to concepts of fairness, transparency, accountability and legal predictability. USAID continues to channel assistance towards areas in which it is most likely to make a difference, with the recognition that creating legal systems that ensure the rule of law in these countries is a long-term, generational process. Nevertheless, significant progress was made in several areas in FY 1998.

Armenia: Obstacles to the rule of law in Armenia continued to be sizeable in FY 1998, including a constitution that places disproportionate authority over the judiciary in the hands of the executive, hesitance among some in the judiciary to issue politically unpopular decisions for fear of adverse employment consequences, uneven enforcement of judicial decisions, pervasive corruption at many levels of government, and public cynicism about material improvements for the country's legal system. Nevertheless, there were promising signs that the pace of legal reform may accelerate in Armenia. After being elected president in March 1998, former Prime Minister Kocharian created new institutions to reform Armenia's constitution and strengthen human rights, and Armenia made progress in establishing a legal framework for a well-functioning judiciary, as well as a viable legal profession able to support the implementation of legislation. With the help of USAID-funded advisors, Armenia adopted more than 10 new laws related to the administration of justice in 1998, including a highly regarded civil code and laws on the status of judges, the judiciary and the advocate service. USAID also provided curriculum and faculty development assistance and funded a modern electronic research law library for the Law School of Yerevan State University. As a result, Armenian law school students received training in new laws, as well as information on the role of law in a democratic, free-market system. USAID also facilitated the establishment of a judges' association

and a lawyers' association in 1998, each of which has a substantial membership and whose mission is to strengthen professional standards and enforce professional ethics.

Georgia: Despite the achievement of initial reforms, there are still serious constraints to rule of law in Georgia. Corruption is pervasive throughout the government, including judges. The judiciary is not fully independent and is still subject to the influence of the executive branch. There is no code of ethics for judges and lawyers, and the judiciary does not regulate itself. Judges need training in new laws to better perform their functions. Judicial decisions are not uniformly enforced. Courtroom advocacy to address human rights abuses is not commonplace, and human rights abuses are not uncommon. Nevertheless, with USAID assistance, Georgia has enacted many laws critical to improvement of the judiciary, including a law on the procuracy, a pending law establishing a criminal procedure code, and a law on Courts of General Jurisdiction. The latter was particularly important for increasing the independence of the courts, and establishing a process for selection of judges through a mandatory qualification examination. The first such examination, held in summer 1998 and facilitated by USAID assistance, received extensive media coverage and was deemed fair and transparent. However, the examinations are currently being used only to qualify new judges, as sitting judges were exempted from this process by the Georgian Constitutional Court in late 1998. The Georgian Parliament is considering several measures to moderate the impact of the Court's decision on efforts to ensure merit-based selection, promotion and retention of judges.

Russia and Ukraine: In both Russia and Ukraine, legal reform and the rule of law remained at a very fragile stage in FY 1998. Implementation and enforcement of laws was uneven, and institutions were slow to implement and enforce enacted legislation. Corruption in Russia and Ukraine continued to be endemic at all levels of society, and continued to have a deleterious economic effect, as well as a corrosive effect on citizen confidence in public institutions. There was growing cynicism about the Russian and Ukrainian Governments' commitment to establishing the rule of law and protecting civil rights.

- **Russia:** In FY 1998, USAID assistance facilitated the adoption of a constitutional law on the judiciary, and the establishment of a new Judicial Department to administer the Courts of General Jurisdiction. USAID continued to provide training to Russian lawyers in commercial, civil, criminal and constitutional law, and implemented a training program to help court bailiffs enforce court decisions. USAID also provided support to women's rights groups in the areas of legal issues and advocacy. A USAID-funded gender-based analysis was conducted in four areas—employment, reproductive rights, mass media and migration—to provide recommendations for amending laws identified as discriminatory and for enforcing anti-discriminatory legislation. USAID continued to work with government officials, independent media, legal professionals and NGOs on anti-corruption and anti-crime initiatives. These initiatives promoted uniform, predictable and expeditious judicial decisions, competent and accessible legal counsel, support for enforcement services to induce greater compliance with court judgments, and protection of human rights and gender equity in conformance with international commitments.

- **Ukraine:** In Ukraine, USAID continued to support judicial independence in FY 1998 through information networks, training and other assistance for Ukraine's Supreme, High Arbitration and Constitutional Courts. USAID also promoted citizens' rights through grants to legal advocacy NGOs and media programs. USAID continued to provide training to Ukrainian lawyers, law professors and other legal professionals, as well as support to bar associations and law schools. USAID-funded regional workshops on public awareness, legal advocacy and investigative journalism supported USAID's broader efforts to address crime and corruption issues. USAID sponsored a course on the issue of trafficking in women (which spurred the creation of a working group) and supported the creation of anti-trafficking centers whose mission is to increase economic opportunities for women, assist victims of trafficking, and increase public information and awareness of the problem.

STRATEGIC OBJECTIVE 2.3: More effective, responsible, and accountable local government.

Improved local governance is at the core of this objective, requiring rationalization of intergovernmental roles and responsibilities, decentralization of authority (including financial authority) to the local level, improved capacity of local government, and improved channels for citizen participation in local government affairs. The development of effective responsible and accountable government at the local level is pivotal to the consolidation of free-market democracy in the NIS countries. This lesson in post-communist transition is evidenced by the significant progress

in the devolution of decision-making authority to local governments undertaken by the northern-tier countries of Central Europe—the countries that are furthest along in the reform process.

Representative activities under this objective include the following:

- programs to promote the establishment of laws and regulations enhancing local government authority;
- assistance in improving the arrangements for revenue-sharing with central government and local government revenue generation;
- programs to help establish competitive and transparent procurement procedures;
- programs to strengthen local technical and managerial capabilities;
- programs to help improve urban services such as water supply and waste management, when viewed primarily as local government-strengthening activities;
- programs to promote greater reliance on private contracts for the provision of urban services and for the management and maintenance of municipally owned housing;
- programs to promote local government interaction with citizens through the publishing of local government decisions, public hearings, appointments of citizens to planning boards, etc.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 2.3:
More effective, responsible, and accountable local government

In FY 1998, USAID-funded programs under this objective contributed to the rationalization of inter-governmental roles and responsibilities, the decentralization of administrative and financial authority, increased financial and managerial capacity, and greater opportunity for citizen participation in policy decisions that directly impact their lives. These programs have helped empower local leaders in societies where economic and political decision-making has historically been concentrated in the hands of central authorities. In those countries which have made the most progress in strengthening democratic local governance, the result has been a demonstrable improvement in the quality of life, including better public services and new economic opportunities brought about by community development strategies. In contrast, where devolution of authority to the local level has lagged, municipal administrations have lacked the resources and technical competence to take on the responsibilities that central governments have largely abdicated.

Predictably, progress toward more capable democratic local governance has been uneven across the NIS, generally following the overall pattern of political and economic reform in the region. While a few NIS countries have made some headway in bolstering the capacity of municipal government, their overall record in this area is mediocre. Post-Soviet leaders throughout the NIS have been reluctant to devolve meaningful power to the local level, especially in the area of fiscal federalism, where control over tangible material resources is at stake. Resource-depleted state coffers have resulted in a *de facto* devolution of responsibility to municipalities for basic services but without the commensurate decision-making authority, including greater control over locally generated revenues derived, for example, from the privatization of municipally owned assets. At the same time, local elected officials, while under increasing pressure from citizens to improve services (ranging from transportation infrastructure, water supply and waste management to social welfare and health care) and stimulate economic growth, have neither the resources nor the requisite technical expertise to carry out these functions. In addition, these officials are often wary of opening up the decision-making process to allow systematic citizen participation in budget allocation and other decisions that tangibly affect their lives.

With the help of USAID assistance, Russia, Armenia and Kyrgyzstan have taken modest steps in the direction of strengthening local and regional government, most notably in holding free and fair local elections, enacting necessary legislation, and training government officials. However, USAID's efforts to stimulate demand for the devolution of authority to local governments have met with limited success in Kazakhstan, as well as in Ukraine, where the implementation of reform-oriented legislation has been weak and the limited capacity of local officials

has impeded reform. Encouraging developments in Moldova led USAID to consider launching a local government program there, while recent municipal elections in Georgia (where national decision-makers have been very cautious about decentralization) may also bode well for a future effort to strengthen local governments.

Overall, USAID's efforts to strengthen democratic local governance have yielded tangible results in the NIS countries, despite the inhospitable environment for such reform in most of these countries. USAID's strategic approach has involved boosting the capacity of municipal administrations to deliver services and govern effectively and to empower citizens, while simultaneously engaging national decision-makers in a policy dialogue on erecting a legal and political framework to support decentralization. USAID will focus increasingly on community development by helping to facilitate a three-way partnership among local government, the emerging small-business sector and NGOs and citizen groups. This effort will also include a continuing emphasis on developing institutions such as municipal and professional associations, as part of a larger effort to engage local government officials in a policy dialogue while also providing a conduit for spreading lessons learned in democratic local governance.

STRATEGIC ASSISTANCE AREA 3: SOCIAL STABILIZATION

Goal: Respond to humanitarian crises and strengthen the capacity to manage the human dimension of the transition to democracy

STRATEGIC OBJECTIVE 3.1: Reduced human suffering and crisis impact

This objective encompasses actions to address critical humanitarian needs and strengthen organizational capabilities to anticipate, prevent and manage future crises. Representative activities include the following:

- emergency food distribution and establishment of food safety nets for vulnerable populations;
- assistance to war trauma victims, refugees and displaced persons;
- the provision of emergency supplies of medicines, vaccines and medical equipment;
- winter fuel distribution;
- improvement of support services for handicapped and abandoned children;
- development of early warning systems for humanitarian crises; and
- improvement of emergency response capabilities.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 3.1: Reduced human suffering and crisis impact

In FY 1998, USAID pursued this strategic objective in five of the twelve NIS countries: Armenia, Azerbaijan, Georgia, Tajikistan and Ukraine. USAID has developed a proactive, developmental strategy to reduce the need for more extensive (and much more expensive) assistance, should these countries subsequently slip into deeper social and political chaos.

Armenia: The ethnic conflict between Armenia and Azerbaijan over Nagorno-Karabakh has caused refugee movements in both directions and, consequently, a continuing need for humanitarian assistance. However, even as USAID's programs under this objective continue to meet immediate humanitarian needs, they have begun shifting from direct humanitarian relief to more development-oriented activities. In FY 1998, USAID helped establish a national computerized registry of vulnerable households, funded the initial phase of a social investment fund in conjunction with the World Bank, and helped empower local communities to identify and solve their own problems. USAID also supported micro-credit programs to help create jobs and combat dependency on humanitarian aid.

Azerbaijan: In FY 1998, USAID continued to provide basic shelter to internally displaced persons (IDPs) in rural areas and to rehabilitate public shelter facilities in urban areas. A USAID-funded U.S. private voluntary organization (PVO) awarded small grants under the Azerbaijan Humanitarian Assistance Program in the areas of health and nutrition, shelter and economic opportunity. The health-related grants supported programs implemented through existing and newly created Azerbaijani Government health facilities and health-care providers, introducing an important element of sustainability and reducing reliance on parallel donor-provided health care delivery systems.

Georgia: The regional ethnic fighting since Georgia gained its independence in 1991 has created as many as 270,000 internally displaced persons (IDPs), including 40,000 in Abkhazia in FY 1998. USAID is supporting the development of a beneficiary database to identify vulnerable groups throughout Georgia and facilitate the provision of humanitarian assistance.

Ukraine: In Ukraine, USAID continued to target its humanitarian assistance at the most vulnerable segments of the population. In partnership with U.S. and Ukrainian NGOs, USAID continued to provide social-service NGO development, housing, health and emergency humanitarian assistance. U.S. PVOs helped transfer expertise in serving children, the elderly and the disabled. More than $1.1 million in seed grants was awarded to 85 grantees, with over $250,000 in recipient cost-sharing. A corporate challenge grant program was begun, with 34 of the first 35 challenge grants coming from Ukrainian-owned firms. Under USAID's U.S.-Ukraine Health Partnership Program, several women's wellness centers and emergency training centers were opened, and the Chernobyl Childhood Illness project established a new thyroid cancer screening and mental health outreach center.

Tajikistan: In FY 1998, USAID's social sector and humanitarian assistance programs supported the activities of the United Nations Mission of Observers in Tajikistan (UNMOT) to promote community-based peace and confidence building measures in the Gharm Valley and elsewhere in Tajikistan. A number of U.S. Government-funded PVOs assisted with population resettlement and development activities which indirectly supported reconciliation efforts. Initial funding helped restore potable water supplies, while subsequent funding helped provide new, previously dispossessed farmers with reimbursable supplies of seed and fertilizer, as well as technical advice in order to increase wheat production in mountainous areas. With USAID and USDA support, the U.S.-based NGO Mercy Corps International established a small loan program for farmers. Under this program, farmers receiving the loans repay them in-kind to local institutions such as hospitals and orphanages, so the program benefits vulnerable groups as well as budding entrepreneurs.

STRATEGIC OBJECTIVE 3.2: Improved sustainability of health and other social benefits and services

This objective addresses social issues in transition. These issues include making labor markets more effective, improving education and training, reducing unemployment and poverty, and promoting better health. USAID's assistance comprises a range of policy reform initiatives and pilot activities to redefine governments' roles in the delivery of social services and benefits (at the national and local levels), introduce private sector concepts and management practices into the public provision of services, and create conditions and incentives for an enlarged private-sector role in service delivery and financing. Intended results include the following:

- helping to implement consumer-oriented health care services and efficient financing models to improve the quality of care and to maximize scarce health resources;
- building a cadre of health care leaders in the NIS equipped with modern clinical, management and public health skills to continue reforms without U.S. Government support;
- helping to restructure public housing subsidies to emphasize need-based allowances; and
- helping to formulate affordable, cost-shared social security and unemployment insurance systems.

PROGRESS IN FY 1998 UNDER STRATEGIC OBJECTIVE 3.2:
Improved sustainability of health and other social benefits and services

The collapse of the Soviet system was so severe that poverty remained high in the NIS region in FY 1998, despite modest progress in economic and social reforms. According to World Bank estimates for 1993-95, 50 percent or more of the populations of seven NIS countries (Azerbaijan, Moldova, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Ukraine) were poor. In Russia, the incidence of poverty was 44 percent. Other indicators have also illustrated the severity of social hardships in the NIS. Infant mortality rates continue to be high, especially in the Central Asian countries, and Ukraine saw an increase in infant mortality rates between 1989 and 1996. Throughout the NIS, life expectancy has fallen, especially for men. These declines have been the greatest in Russia, Kazakhstan, Ukraine and Belarus.

In response to this situation, USAID is seeking to foster systemic changes to achieve sustainable improvements in social services that will lead to improvements in incomes, health and social welfare. In FY 1998, many of USAID's social sector programs moved from humanitarian assistance into more long-term social safety net development and employment creation programs.

Health Care: Encouraging results from USAID's pilot efforts may lead to broader replication of health care reforms. For example, in Kazakhstan, Kyrgyzstan, Uzbekistan, Russia and Ukraine, independent family medicine group practices are providing cost-effective, quality health care. In Russia, an estimated three million couples now have access to safe and effective family planning services, and U.S. Government assistance has been credited with bringing down abortion rates. USAID also supports health care partnerships between U.S. institutions and counterpart institutions in the NIS. Through peer-to-peer exchanges, NIS counterparts are building the clinical and management skills needed to address significant health problems such as maternal and child health, reproductive health, infection control, emergency medical services and primary care.

Health Reform: USAID worked closely with the World Bank in Russia, Kazakhstan, Kyrgyzstan and Uzbekistan to support and expand USAID-supported pilot health reform projects. World Bank health resources have supported the expansion of USAID primary care projects to additional regions, and in Kyrgyzstan, have spread USAID reforms nationwide.

Pension Reform: In Kazakhstan, USAID is providing training in support of a larger effort to reform the pension system. Notably, one of the training participants spent five weeks in the United States focusing on the impact of increasing the retirement age and establishing non-government pension funds. Upon returning home, he helped draft laws on welfare, independent pension funds, and state pension funds.

STRATEGIC ASSISTANCE AREA 4: CROSS-CUTTING PROGRAMS AND SPECIAL INITIATIVES

This assistance area includes the following types of programs:

- activities that do not contribute directly to other strategic objectives, but nevertheless serve strong Administration or Congressional interests or address an extraordinary circumstance requiring USAID assistance in a particular country;

- activities that relate directly to a particular ENI Bureau strategic objective, but are too limited in scope or impact to be designated as a separate strategic objective in the country program; and,

- cross-cutting activities that contribute to more than one strategic objective, such as general training.

The following table shows the objectives pursued by each USAID country program in FY 1998:

USAID/ENI STRATEGIC OBJECTIVES IN THE NIS - FY 1998

	1.1	1.2	1.3	1.4	1.5	1.6	2.1	2.2	2.3	3.1	3.2	4
Armenia		X	X	X	X		X	X		X		X
Azerbaijan			X				X			X		X
Belarus												X
Georgia	X	X	X	X	X		X	X	X	X		X
Kazakhstan		X	X	X	X[1]	X[1]	X		X		X	X
Kyrgyzstan		X	X	X	X[1]	X[1]	X		X		X	X
Moldova	X	X	X	X	X		X					X
Russia		X	X	X	X	X	X	X			X	X
Tajikistan		X	X	X	X[1]	X[1]	X			X		X
Turkmenistan		X	X		X[1]	X[1]						X
Ukraine	X	X	X	X	X	X	X	X	X	X		X
Uzbekistan		X	X	X	X[1]	X[1]	X				X	X

[1] In FY 1998, USAID was pursuing Strategic Objectives 1.5 and 1.6 on a regional basis in the Central Asian countries.

Key to USAID/ENI Strategic Objectives

1.1 Privatization
1.2 Fiscal Reform
1.3 Strengthening Private Enterprises
1.4 Financial Sector Reform
1.5 Sustainable Energy Systems
1.6 Environmental Management

2.1 Citizen Participation
2.2 Rule of Law
2.3 Local Government

3.1 Reduced Human Suffering
3.2 Sustainable Social Services

4 Cross-Cutting Activities and Special Initiatives

TRADE AND INVESTMENT PROGRAMS

U.S. EXPORT-IMPORT BANK (EX-IM BANK)

In FY 1998, Ex-Im Bank authorized $1.2 billion in final commitments to the NIS under its loan, guarantee and insurance programs, accounting for a total of $215 million in subsidies charged to Ex-Im Bank's appropriation. A breakdown by country is provided below:

COUNTRY	AUTHORIZATIONS
Georgia	$ 2,394,977
Russia	$ 636,944,341
Turkmenistan	$ 102,988,645
Ukraine	$ 82,373,089
Uzbekistan	$ 379,040,624
TOTAL	**$1,203,741,676**

As of the end of 1998, Ex-Im Bank had total exposure of $3.940 billion in the NIS.

Russia

Nearly $1 billion in final commitments has been authorized to finance U.S. exports in support of the rehabilitation of Russia's oil sector under the Oil and Gas Framework Agreement (OGFA). Financing under the OGFA program continues to remain available and is secured by the assignment of hard currency generating contracts for the sale of existing Russian oil and gas production to reliable third-party off-takers located outside Russia. In addition to the OGFA program, Ex-Im Bank has a similar arrangement with RosLesProm, the Russian Government entity that oversees the country's timber industry, to support transactions involving the export of U.S. goods and services for the modernization of Russia's forestry sector. In May 1998, Ex-Im Bank signed a memorandum of understanding with Almazy Rossii Sakha (ALROSA, or Diamonds of Russia) and Lazare Kaplan International, Inc., based on the structure agreed for a previous deal to create a continuing off-take arrangement that will enable Ex-Im Bank to provide support for future purchases of U.S. goods and services by ALROSA to modernize its diamond mining operations.

During most of FY 1998, Ex-Im Bank continued to do business with Russia's private sector. Ex-Im Bank approved four transactions totaling $25 million based on the direct obligation or guarantee of a Russian commercial bank. The four transactions involved three different Russian commercial banks. During the Gore-Chernomyrdin Commission meeting in Washington in March 1998, Ex-Im Bank, the State Committee of the Russian Federation for the Support and Development of Small Business and the Federal Fund for Small Business Support signed a Small Business Framework Agreement designed to provide medium-term financing to small and medium-sized enterprises in Russia for their purchases of U.S. goods and services. The program was designed to use the commercial banking sector as a delivery mechanism; however, the ability of the Russian banking sector to play such a role has been virtually eliminated for the time being as a result of the Russian banking and financial crisis of August 1998.

In an effort to work directly with Russia's regions, Ex-Im Bank signed a memorandum of understanding (MOU) with the Government of Tatarstan, an autonomous republic within the Russian Federation, for the creation of a regional development bank to assist the development of Tatarstan's economy through the financing of purchases of U.S. goods and services by Tatarstani companies. The Republic of Tatarstan is currently working with outside consultants to create the development bank envisioned in the MOU.

Central Asia

Apart from Russia, Ex-Im Bank's greatest amount of activity in FY 1998 occurred in Central Asia. For economic reasons, Ex-Im is only open in the public sector in these countries.

Uzbekistan: In FY 1998, Ex-Im Bank signed a cooperative agreement with the National Bank of Uzbekistan, indicating Ex-Im's willingness to consider applications which are not backed by a sovereign guarantee. Uzbekistan was an active market for Ex-Im, with multiple financing projects for agricultural equipment. The need for financing in this sector is expected to continue in FY 1999. As part of an $800 million project involving the Japanese and other donors, Ex-Im Bank provided $215 million in financing to a polyethylene plant in Uzbekistan. More such co-financing is expected in Uzbekistan in the future.

Turkmenistan: No new credits have been approved for Turkmenistan since summer 1998. Although a number of projects in Turkmenistan subsequently sought the support of Ex-Im Bank or other export credit agencies, the country's worsening problem with arrearages limited Ex-Im's ability to provide additional assistance. However, Ex-Im Bank did work closely with Turkmenistan on the trans-Caspian gas pipeline.

Ukraine

Ex-Im Bank's total of $82.3 million in financing for Ukraine was attributable to a single transaction for crop-planting and harvesting equipment and related services. This was Ex-Im's fourth such transaction authorized in Ukraine, whose Export-Import Bank served as the obligor, guaranteed by the Cabinet of Ministers acting in its sovereign capacity.

Caucasus

In the Caucasus region, an increase in financing was approved for an air traffic control system in Georgia. This financing was secured by offshore hard-currency earnings. Some follow-on business is expected in future years.

NIS-Regional

Also in FY 1998, Ex-Im Bank was in the process of concluding project incentive agreements (PIAs) with two NIS countries. By requiring a host government to provide sufficient assurances with regard to political risk, the PIA mechanism enables Ex-Im Bank to consider financing for creditworthy projects secured by export earnings, or as asset-based financing, without the need for a government repayment guarantee.

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

OPIC provides political risk insurance to U.S. investors to mitigate the risks of overseas business ventures in developing countries and emerging markets. In FY 1998, OPIC's insurance portfolio continued to grow in Russia and the other NIS countries. The demand for insurance was greatest from U.S. companies investing in the NIS telecommunications, mining and financial-services sectors, although OPIC insurance exposure to general manufacturing projects also grew. Russia continued to dominate OPIC's business in the NIS region, both in terms of aggregate insurance issued and number of projects. OPIC clients continued to struggle with the difficult operating environment in the NIS. As of the end of FY 1998, OPIC was actively working to avert a number of potential claims from clients in Russia and other NIS countries.

In FY 1998, OPIC provided insurance to nine projects in the NIS, five of which were new projects and four of which were expansions of existing OPIC-sponsored projects. Four of the projects were sponsored by U.S. small businesses. OPIC's FY 1998 insurance project support in the NIS represents $361.88 million of assistance to U.S. companies.

In FY 1998, OPIC's Finance Department committed to four projects in the NIS:

- **Georgia:** The Georgia Hospitality project in Georgia, to which OPIC has committed up to $20 million, will establish four tourism and business hotels in Tbilisi, Poti, Kutaisi and Borjomi. This is OPIC's first finance commitment in Georgia. The project is sponsored by Conlan & Associates (a U.S. small business headed by John Conlan, a former U.S. Congressman from Arizona), Cartu (a privately owned Georgian investment management company) and SAS International Hotels, and will be managed by Radisson/SAS. The project is designed to reinvigorate Georgia's tourism industry and is highly endorsed by the Georgian Government.

- **Moldova:** The Redeco project in Moldova, OPIC's first financing project in Moldova, involves the development and production of gas under an exclusive concession agreement granted to Redeco by the Government of Moldova in July 1995. OPIC has committed up to $3.3 million in financing to this project. Redeco is 100-percent owned indirectly by Costilla Energy, Inc., a small U.S. business located in Midland, Texas. The project is expected to provide significant benefits to Moldova by reducing its reliance on imported fuel and thus helping the country's effort to become economically independent of Russia.

- **Ukraine:** The Winner Group project, to which OPIC has committed $6.45 million, will distribute Ford automobiles in Ukraine. The project is sponsored by John Hynansky, whose operations are based in Delaware. The group has been operating successfully since 1992 in Ukraine and is likely to expand its operations in FY 1999.

- **Caucasus:** The Caucasus Fund, which will invest in Armenia, Azerbaijan and Georgia, is a $92 million fund jointly sponsored by Commonwealth Property Investors (CPI) and Junction Investors, Ltd. Both Junction and CPI, whose parent firm is AEW International, are Boston-based investment advisory firms active in Georgia and Russia. The equity portion of the fund, $32 million, will be partially underwritten by the sponsors. OPIC's Board approved a loan guaranty of up to $60 million, and OPIC has stipulated that no more than 40 percent can be invested in any one country. The minimum investment per country is 20 percent. The Fund will focus its investment activities primarily on real estate and agribusiness. The Fund will be headquartered in Tbilisi, Georgia, with offices in Yerevan, Armenia and Baku, Azerbaijan.

OPIC has over 36 projects "in the pipeline" for Russia. These deals are in a number of new sectors such as hotels, manufacturing and transportation, as well as natural resources sectors. Interest is also picking up for investment in other NIS countries, for which OPIC has more than 24 projects in its pipeline. Most of this interest has focused on oil and gas, general manufacturing and infrastructure lending.

Cumulative OPIC Financing and Insurance Commitments as of 9/30/98
(millions of dollars)

Country	Finance Project Support	Insurance Project Support*	Funds Support	Total	
NIS-Regional	-	-	1125.0**	1125.0	
Russia	1010.7	2518.89	-	3529.59	
Armenia	-	0.62	92.0***	92.0***	0.62
Azerbaijan	-	-			-
Georgia	23.8	20.97			44.77
Kazakhstan	-	74.48	-	74.48	
Kyrgyzstan	87.0	216.5	-	303.5	
Moldova	5.7	0.23	-	5.93	
Tajikistan	-	-	-	-	
Turkmenistan	-	5.0	-	5.0	
Ukraine	21.95	138.82	-	160.77	
Uzbekistan	3.0	278.28	-	281.28	
TOTAL	**1152.15**	**3253.79**	**1217.0**	**5622.94**	

* maximum contingent liability
** OPIC region-wide equity funds capitalization
*** OPIC equity funds capitalization

OPIC Finance Commitments Signed in FY 1998

Project Name	Country	Committed (millions $)	Commitment Date	New or Expansion?	Industry
Georgia Hospitality	Georgia	20	9/24/98	New	Tourism
Redeco	Moldova	3.3	9/28/98	New	Natural resource development
Winner Group	Ukraine	6.45	9/25/98	Expansion	Auto distribution
Caucasus Fund, LLC	Georgia, Armenia, Azerbaijan	92	5/22/98, 9/30/98	New	Real estate, agribusiness, transportation

OPIC Insurance Issuance in FY 1998

Insured Investor	Country	Investment by Small Business?	New or Expansion ?	Maximum Contingent Liability (millions $)	Industry
Citibank, N.A.	Russia	No	New	$135	Financial services
E.I. Corporation	Ukraine	No	New	$9.28	General manufacturing
Qualcomm, Inc.	Ukraine	No	New	$85	Telecommunications
MCT of Russia	Uzbekistan	Yes	New	$33.17	Telecommunications

U.S. TRADE AND DEVELOPMENT AGENCY (TDA)

The U.S. Trade and Development Agency (TDA), a small, independent federal agency, has been a pioneer in providing trade and investment assistance to the NIS. TDA moved quickly to establish its program in the region after the breakup of the Soviet Union, and provided its first feasibility study grant in 1992. Since that time, TDA's NIS initiatives have continued to grow. Much of TDA's activity in the NIS has been concentrated in Russia, but its regional team has made a continued effort to increase TDA's program activities in Central Asia, the Caucasus, and Ukraine. In FY 1998, TDA became particularly active in the Caspian Sea region, supporting several projects in the oil and gas sector. As part of this effort, TDA sponsored a highly successful "Crossroads of the World" Conference in Istanbul last May, which focused on infrastructure project opportunities in the Black Sea, Caspian and Caucasus regions.

In the few short years since opening for business in the NIS, TDA has funded studies on over 180 major infrastructure and industrial projects. These projects present export opportunities of more than $5 billion for U.S. companies. Exports of U.S. goods and services related to those projects already total about $600 million. In FY 1998, program funds obligated for the NIS totaled $9.97 million and funded 23 feasibility studies for projects in the areas of oil and gas development, health care, power generation, waste-water treatment and telecommunications.

Russia: In early FY 1998, the demand for TDA funding in Russia began to increase steadily. However, by mid-summer 1998, TDA experienced a slowdown in Russia as the economic situation there began to deteriorate rapidly. Towards the end of FY 1998, immediate concern over Russia's recent economic crisis appeared to lessen somewhat, and TDA witnessed a moderate increase in proposal submissions. These submissions were primarily

from medium- and large-sized U.S. companies that have adopted a long-term investment strategy and, have the determination to weather Russia's political and economic ups and downs. TDA's project pipeline for FY 1999 includes, among others, the establishment of a cargo tracking and fleet management system, the development of information systems for Moscow's Sheremetyevo and Domodedovo airports, and co-production of tapered roller bearings for Russian Railways. Highlights of FY 1998 projects include a $350,000 feasibility study on the development of an oil-spill prevention association, a $300,000 study on an oil terminal at the western Caspian port of Makhachkala, and a $270,000 study to develop a municipal solid waste facility in Moscow.

Central Asia: Unquestionably the most noteworthy event of FY 1998 for TDA in Central Asia was the provision of a $750,000 grant to the Government of Turkmenistan for a feasibility study on the Trans-Caspian Gas Pipeline Project. Turkmenistan's President Niyazov signed this grant at the White House in April 1998. The study will evaluate a gas pipeline across Turkmenistan, under the Caspian Sea, to Azerbaijan, through Georgia, to Turkey. TDA was also fairly active in Kazakhstan and Uzbekistan, funding a feasibility study for a health care project ($125,000) and a water supply/sewer project ($389,000) in Kazakhstan and an aircraft co-production study ($600,000) in Uzbekistan.

Caucasus: In FY 1998, TDA provided the Government of Armenia a $422,661 grant for a feasibility study on water system upgrades. Funding in the amount of $250,000 was awarded by TDA in Georgia for a study on the development of hotels in four cities. TDA's program in Azerbaijan opened in FY 1998, adding a new dimension to the agency's growing portfolio of projects in the Caucasus. TDA's program activities in Azerbaijan have been growing steadily, with interest mainly in the petroleum and power industries.

Ukraine: TDA signed a $750,000 grant in FY 1998 with the Government of Ukraine for a feasibility study on the Yuzhniy-Brody oil pipeline project. The study will evaluate the construction of the pipeline, which would serve as a connector between a new oil terminal at the port of Yuzhniy (near Odesa) and the existing Druzhba pipeline system. TDA also approved $150,000 in funding for an orientation visit by Ukrainian manufacturers of power plant equipment to the United States in early 1999. This Kharkiv Initiative request follows TDA's participation in an interagency technical exploratory mission to Kharkiv, Ukraine, in mid-June to identify commercial opportunities for U.S. companies. This effort was carried out under the auspices of the Sustainable Economic Cooperation Committee of the Gore-Kuchma Commission and was in response to a request by the Ukrainian Government.

ENTERPRISE FUNDS

The enterprise fund concept, which grew out of the U.S. Government's commitment to help develop the indigenous private sectors of the Central and East European countries from 1989 on, was extended to the NIS after the collapse of the former Soviet Union in 1991. The U.S. Government-funded enterprise funds are designed to promote private-sector development, including small businesses, joint ventures and the agricultural sector, as well as policies and practices conducive to private-sector development. The funds are authorized to provide loans, grants, and equity investments, and to support feasibility studies, technical assistance, training, insurance, guarantees and other mechanisms to achieve the above-mentioned objectives. The enterprise funds have provided venture capital in situations where financial markets are still evolving and the business environment is so fragile that foreign investors are reluctant to commit funds to emerging small and medium-sized enterprises. The programs offered by the funds range from venture capital to lending for micro-enterprises. The funds have also assisted enterprises by providing limited technical assistance and training.

As of the end of FY 1998, USAID had authorized $815 million for enterprise fund activities in the NIS, of which $482 million had been obligated and an estimated $337 million expended. A total of $740 million was authorized for three enterprise funds: $440 million for the U.S.-Russia Investment Fund (TUSRIF), $150 million for the Central Asian - American Enterprise Fund (CAAEF) and $150 million for the Western NIS Enterprise Fund (WNISEF). An additional $50 million is supporting two funds which are co-funded by the European Bank for Reconstruction and Development (EBRD)—$30 million for the G-7's Russia Small Business Fund (RSBF) and $20 million for the U.S.-EBRD Regional Venture Fund for the Lower Volga Region. In addition, USAID has authorized $25 million for the creation of a new Trans-Caucasus Enterprise Fund.

Trans-Caucasus Enterprise Fund

In FY 1996, the U.S. Congress earmarked $15 million for the creation of a Trans-Caucasus Enterprise Fund for the purpose of promoting regional cooperation and private-sector development in Armenia, Azerbaijan and Georgia. In the FY 1997 Omnibus Appropriations Bill, an additional $10 million was earmarked for the Fund. The Administration requested, and was granted by Congress in the FY 1997 Appropriations Bill, the authority to meet these earmarks through "investment in a Trans-Caucasus Enterprise Fund or in another fund established by a public or private organization, or transferred to the Overseas Private Investment Corporation (OPIC), to be available to subsidize the costs of direct and guaranteed loans, subject to the requirements of the Federal Credit Reform Act." In late FY 1997, USAID transferred $5 million to OPIC, and granted Shorebank and the Foundation for International Community Assistance (FINCA) $15 million to implement a micro- and small-business lending activity in the Caucasus countries. In late FY 1998, USAID granted the remaining $5.0 million in earmarked funds to Shorebank and FINCA to expand their micro- and small-business lending activities.
As of the end of FY 1998, OPIC had expended $3 million of its trans-Caucasus funds, and Shorebank and FINCA had fully established operations in each of the Caucasus countries. Shorebank had disbursed over $700,000 in loans ranging from $10,000 to $40,000 to 22 clients through its small lending program, and FINCA had disbursed over $400,000 in 4,400 loans averaging $90 to over 1,700 clients through its micro-lending program.

Central Asian - American Enterprise Fund (CAAEF)

Upon its establishment in August 1994 to promote the creation of small- and medium-sized businesses in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, the Central Asian - American Enterprise Fund (CAAEF) began investing aggressively in the liquidity-starved region. The CAAEF's initial funding was subsequently increased from $30 million to $45 million in December 1994. In addition to establishing offices in all five Central Asian countries, the CAAEF set up a small-business lending subsidiary, the Asian Crossroads Loan Company (ACLC), with assistance from South Shore Bank of Chicago.

As of the end of FY 1998, the CAAEF had approved $69.1 million in loans and equity investments (above $100,000 each) for 34 large enterprises in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. In addition, the CAAEF had also approved $25.1 million in small-business loans for 438 small businesses in the region. After four years of little or no institutional change or improvement in the business climate in the Central Asian countries, the CAAEF's directors revised the fund's investment strategy to create better controls and lower risk. Non-performing assets were been further reserved and written down, and new investments will favor structured lending over equity. The CAAEF hired a new president and a chief investment officer, who in turn have been improving the staffing of the Fund's regional offices.

DISTRIBUTION BY COUNTRY OF CAAEF LARGE-ENTERPRISE TRANSACTIONS

	APPROVED		DISBURSED	
COUNTRY	AMOUNT	NUMBER	AMOUNT	NUMBER
Kazakhstan	$21.8 m	14	$15.6 m	10
Kyrgyzstan	$ 6.3 m	5	$ 4.1 m	4
Tajikistan	$ 0.5 m	1	$ 0.5 m	1
Turkmenistan	$13.8 m	4	$10.6 m	4
Uzbekistan	$26.7 m	10	$23.7 m	20
TOTAL	**$69.1 m**	**34**	**$54.5 m**	**29**

As of September 30, 1998, the CAAEF had $19.8 million in large-enterprise investments outstanding, and net reserves of $10.4 million.

The CAAEF's small-business lending subsidiary, the Asian Crossroads Loan Company (ACLC), made 400 small business loans in FY 1998.

DISTRIBUTION BY COUNTRY OF ACLC SMALL-BUSINESS LOANS

	APPROVED		DISBURSED	
COUNTRY	AMOUNT	NUMBER	AMOUNT	NUMBER
Kazakhstan	$8.5 m	262	$7.0 m	252
Kyrgyzstan	$2.5 m	43	$1.4 m	37
Tajikistan	$3.9 m	29	$3.1 m	24
Turkmenistan	$5.3 m	53	$3.6 m	39
Uzbekistan	$4.9 m	51	$3.8 m	48
TOTAL	**$25.1 m**	**438**	**$18.9 m**	**400**

As of September 30, 1998, the ACLC had $10.7 million in small-business loans outstanding, and net reserves of $1.5 million.

The U.S.-Russia Investment Fund (TUSRIF)

The U.S.-Russia Investment Fund (TUSRIF) was created in April 1995 as the result of a decision by the Coordinator of U.S. Assistance to the NIS to consolidate two predecessor funds: the Russian American Enterprise Fund (RAEF) and the Fund for Large Enterprises in Russia (FLER). In addition to its New York headquarters, TUSRIF has offices in Moscow, the Ural region (Yekaterinburg), the Russian Far East (Khabarovsk), southeast Russia (Rostov-on-Don), and northwest Russia (St. Petersburg). As of October 31, 1998, TUSRIF had funded a total of $25.8 million in loans to 368 small businesses, and $99.4 million in direct financing to 29 firms.

TUSRIF's investments encompass a wide variety of industries, including broadcast radio and television, publishing, beverages, plywood manufacturing, textiles, retailing services, agriculture and food processing. Beyond providing capital to its portfolio companies, TUSRIF is adding value to its investees by funding a variety of technical assistance initiatives aimed principally at management training, information system development, and advisory services. At a meeting of the TUSRIF Board of Directors in early June, David A. Jones was elected as TUSRIF's president and chief executive officer, succeeding Bruce W. Shewmaker.

The Lower Volga Regional Venture Fund (LVRVF)

The Lower Volga Regional Venture Fund (LVRVF) is one of 12 EBRD regional venture funds in Russia. The LVRVF is part of a 1993 initiative of the G-7 governments and the European Union to support enterprises newly privatized under the Russian Government's mass privatization program. The LVRVF became operational in May 1995 with a $30 million capital commitment from EBRD, a $3 million commitment from the fund's manager, and a pledge of $20 million from USAID to cover technical assistance expenses and operating costs during the ten-year life of the fund. A contract to manage the fund was awarded to HP Russia LP, a Boston-based venture management group.

The LVRVF's primary areas of operation are the oblasts (regions) of Volgograd, Samara and Saratov. The LVRVF strives to adapt a Western-style, early-stage venture capital investment strategy to Russia challenging business environment. The LVRVF's fund manager seeks to identify highly qualified management teams that embrace the Fund's active participation in corporate governance and to invest in companies that will experience above-average growth relative to the Russian economy. Seventy-five percent of the Fund's capital must be invested in the Lower Volga Region and in newly privatized companies.

As of the end of FY 1998, the LVRVF had disbursed $19.4 million to eight companies: the Saratov Wallpaper Mill ($1.1 million), the Povolzhye Brewery ($3.2 million), the Saransk Brewery ($3.3 million), Rolti Wood Processing ($2.3 million), the Lada Khleb Bakery ($2.7 million), Alpha Cement ($3.2 million), Natur Produkt ($3.0 million), and FlexoPrint ($600,000). An additional $450,000 was approved by the investment committee but had not yet been disbursed. The LVRVF's fund manager firmly believes the fund would not be successful without the substantial technical assistance funding provided by USAID; to date, approximately $2 million has been approved and/or disbursed for technical assistance to investee firms.

The Russia Small Business Fund (RSBF)

At the Tokyo Summit in July 1993, the G-7 donors decided to create a Russia Small Business Fund (RSBF) to provide small and micro-enterprises in Russia with access to capital and technical assistance. Total projected funding for the RSBF is $300 million, half of which will be provided by the EBRD, and the remainder of which will be provided by other G-7 nations, Switzerland and the European Union. The U.S. Government has pledged to contribute $35 million to the RSBF over the life of the fund. At the end of FY 1998, the RSBF had disbursed $320.4 million (including reflows) to micro- and small enterprises. Of this amount, $57 million was outstanding as of the end of 1998.

FY 1998 was inevitably a difficult year for the RSBF. Until the August financial crisis, the RSBF had built upon the solid progress achieved in 1997, with consistently increasing lending volumes and expanding regional outreach. In July, arrears reached an all-time low of 2.7 percent for small loans and 1.6 percent for micro-loans. However, the Russian Government's default and subsequent banking crisis had a profound effect on the RSBF's activities, since most of its main partner banks became financially paralyzed.

The EBRD is seeking to preserve the RSBF program in several ways. Intensive cooperation with the Savings Bank of the Russian Federation (Sberbank) has continued, with the goal of ensuring that pre-crisis progress is sustained. Significantly, by December 1998, Sberbank had managed to achieve pre-crisis lending volumes. Work will also continue with the smaller regional banks, which were less affected by the financial crisis. The EBRD will invest in a newly established Russia Microfinance Bank (RMB), which will be a best-practice institution targeting financial services to micro-and small enterprises. RMB will absorb a proportion of the loan portfolios from the RSBF's defunct partner banks and hire many of the loan officers who received training through the RSBF. In this way, the human capital built up over the first four years of the RSBF activities will be preserved within the Russian banking system.

During the post-August period, Russia's micro and small enterprises have shown resilience and adaptability, proving to be more flexible than their larger competitors and seizing opportunities and market niches that have opened up as a result of the crisis. For example, opportunities abound for substituting imports with domestically produced goods, and already the RSBF is seeing some very strong proposals, with higher margins and stronger cashflows than previously. In analyzing these clients' proposals, it is becoming clear that the reduced competition from imports and the opportunities that arise in periods of economic downturn are providing fertile ground for profitable activities. This is also true for producers, traders and service-sector companies that operate at the lower end of the market or who have been able to shift their product mix quickly to less expensive items. As a result of this flexibility, the RSBF has not seen the expected large increase in real arrears. About half of the new arrears are linked to the failure of the banking system to make payments. The fund managers maintain a degree of optimism, although 1999 will be a year for rebuilding rather than expansion.

Western NIS Enterprise Fund (WNISEF)

The Western NIS Enterprise Fund (WNISEF) completed its third full year of operations in Ukraine and Moldova with over $57 million committed to 19 companies through the Fund's early-stage venture capital operations. The WNISEF has a representative office in Belarus, but has made no investments or loans there due to the Belarusian Government's retrogressive economic policies.

The following table summarizes the WNISEF's investment and loan activity during FY 1998:

	Total as of 9/30/97	FY 1998 Activity	Total as of 9/30/98
VENTURE CAPITAL			
Closed Investments	$26	$15	$41
Value (millions of dollars)	12	3	15
Number	2.985	951	3.936
Employees			
Committed Investments	$19	($3)	$16
Value (millions of dollars)	8	(4)	4
Number			
SMALL BUSINESS LOANS	$1.2	($0.4)	$0.8
Outstanding, (millions of dollars)	36	16	52
Number Approved to Date	978	310	1.288
Employees			

After the Russian economic crisis in August, the value of Ukraine's national currency, the hryvnia, fell by about 60 percent relative to the dollar, and many Russian companies and banks defaulted on debts to Ukrainian and Moldovan suppliers. In response, the National Bank of Ukraine made it harder for people and businesses to buy foreign exchange. The WNISEF's approach proved resilient in the face of these adverse economic conditions. The WNISEF's strategy of directly investing in companies protected it from the huge losses incurred by investors in stocks and government bonds. As a U.S. Government-funded entity, the WNISEF is staying in the region while those with private financing have exited the market. In some ways, the recent economic difficulties have actually improved the WNISEF's opportunities for private equity investments, as more private companies are looking to venture capital for financing, following the downturn in the public markets and the credit crunch in the commercial banking sector. In addition, the WNISEF has the competitive advantage of having a staff of experienced investment professionals and a substantial amount of capital available for new investment.

The financial turmoil in the region has had a limited impact on most of the WNISEF's portfolio companies, although two of these companies were hit very hard. The WNISEF's portfolio companies in Ukraine have generally weathered the financial storm quite well, because they produce basic commodities that are cheaper and better than anything else available in Ukraine. The majority of these companies are in the agribusiness and construction sectors, and they boast some of the best managers in Ukraine. The WNISEF picks these companies carefully and provides training and technical assistance to their key managers. Six of the companies have installed new management information systems, and three others are in the process of doing so. Virtually all of the WNISEF's portfolio companies have received valuable technical assistance provided by the USAID-funded International Executive Service Corps (IESC) and Volunteers in Overseas Cooperative Assistance (VOCA).

The WNISEF's 19 portfolio companies were also exerting a growing economic impact on their communities, with estimated sales of about $70 million in FY 1998, compared to $30 million last year. Together, they employed about 7,000 people. The WNISEF surveyed eight of its companies and found that between salaries paid and taxes remitted, they accounted (on average) for about two-thirds of all income generated by their municipalities.

The region's difficult economic situation hurt the WNISEF's Small Business Loan Fund (SBLF) more than it did the Fund's venture capital programs. About 30 percent of the SBLF's clients experienced decreased sales and creditor defaults. Another 30 percent had trouble purchasing foreign exchange from banks in order to service their SBLF loans. Many banks used the Ukrainian Government's foreign exchange controls as an excuse to take weeks to convert local currency, in effect borrowing illegally at zero interest. As the drop in the value of the hryvnia increased the debt-service burden for the SBLF's clients, the Fund extended the terms of some of its loans to decrease the burden. However, despite these difficulties, the SBLF approved $900,000 in new loans to 16 businesses employing a total of 310 people.

The WNISEF has been instrumental in attracting other capital to the region. The WNISEF's portfolio companies have received approximately $7.6 million in loans from third parties, ranging from the EBRD to the Ukrainian State

Innovation Fund. Suppliers provided over $3 million in credits during the FY 1998. To date, joint-venture partners have invested more than $15 million in the WNISEF's portfolio companies.

In the area of policy reform, the WNISEF's president, worked through the Finance and Investment Committee of the American Chamber of Commerce to prepare four suggestions for specific legislative changes and presented them to the U.S. and Ukrainian Governments. The WNISEF also engaged the Ukrainian Government informally on a variety of policy issues. Most importantly, the management and employees of the WNISEF's portfolio companies comprised a growing grassroots constituency for improving Ukraine's commercial environment.

Defense Enterprise Fund (DEF)

In FY 1995, the U.S. Defense Department's Cooperative Threat Reduction (CTR) Program shifted the focus of its defense conversion efforts from the direct creation of joint ventures to the Defense Enterprise Fund (DEF). Congress established the DEF to assist Russia, Ukraine, Kazakhstan, and Belarus in the privatization of defense industries and conversion of military technologies and capabilities into civilian activities. In practice, the DEF provides loans and grants and makes equity investments in joint defense conversion projects involving U.S. companies and NIS enterprises formerly involved in producing weapons of mass destruction (WMD). These activities support the U.S. national security objectives of eliminating weapons production capability and promoting the development of democratic, market-based systems in the NIS.

In FY 1997, funding responsibility for the DEF was transferred from the Department of Defense to the Department of State under the FREEDOM Support Act. The DEF has received a total of $66.7 million from the Departments of Defense and State. While no Defense Department funding has been appropriated for the DEF since FY 1995, and no State Department funding since FY 1997, the DEF has been extremely effective. It has invested in a total of 10 projects in Russia, two in Kazakhstan, and one in Ukraine. Due to difficulties related to privatization laws and human rights abuses in Belarus, the DEF has been unable to invest in projects in that country. The DEF has invested almost all of the U.S. Government funds provided to it, and is now seeking to raise additional private capital. To facilitate private investment in defense conversion in the NIS, the DEF has established Global Partner Ventures as a private entity to manage the DEF's investment portfolio.

Distribution by Country of DEF Activities, 9/30/98

COUNTRY	PROJECTS	APPROVED COMMITMENTS	AMOUNTS FUNDED
Ukraine	1	$2.50m	$0.76m
Kazakhstan	2	$6.05m	$6.05m
Russia	9*	$34.84m	$31.34m
TOTAL	**12**	**$43.39m**	**$38.15m**

(*Excludes a $2.8 million project with Caterpillar and Nevamash that the DEF has already harvested.)

Russia: The DEF has continued and expanded the defense conversion efforts begun in Russia by the U.S. Department of Defense by providing financial support through loans, grants and equity investments for the demilitarization of industries and conversion of military technologies and capabilities into civilian activities. The DEF selects enterprises qualified for funding—such as privatized enterprises or spin-offs, defense enterprises or laboratories, with a priority placed on those enterprises previously engaged in WMD-related activities—which have partnerships with U.S. or other Western companies. The DEF has funded several successful conversion projects in Russia and has also helped the Russian Government and Russia's defense industry understand the requirements that conversion projects must meet in order to attract private-sector venture capital. As a direct result of DEF investments in Russia, a former manufacturer of nuclear submarine components is now building excavation equipment, satellite tracking technology is now employed in private telecommunications applications, and nuclear command and control system specialists are establishing a fiber optic telecommunications network across Russia. After a November 1988 trip to Russia that included a visit to a DEF-funded venture, RTN Corporation, Senator Richard Lugar praised the DEF's efforts as "economical, effective and deserving of Congressional and Administration support."

Kazakhstan: The Defense Department has provided a total of $7.0 million to the DEF for equity investments, grants, and loans in joint ventures with Kazakhstani WMD enterprises. The DEF has invested $3.0 million in a Lucent project to create a second national telecommunications carrier using satellite communications and $3.0 million in a KRAS Group venture to manufacture and market printed circuit boards and consumer electronics.

Ukraine: The DEF has committed to invest up to $2.5 million in Liform, a venture that is already reclaiming a large, low-cost supply of scrap aluminum, brass and other metals from military hardware for resale on the world market.

U.S. DEPARTMENT OF COMMERCE - BUSINESS DEVELOPMENT COMMITTEES (BDCs)

The Business Development Committee Initiatives (BDCI) Program supports programs and activities of the Business Development Committees (BDCs) established with Russia, Ukraine, Kazakhstan and Belarus. The BDCs are the U.S. Government's primary vehicle for accelerating the growth of trade and investment with these countries and aiding their transition into market economies. The BDCs work to remove legal, regulatory, and practical impediments hindering trade and investment; facilitate conclusion of commercial projects; develop information and contacts in key industries and regions; and create synergy between government and private sector resources and initiatives.

In FY 1998, BDC sessions were held with Russia, Ukraine and Kazakhstan. The Belarus BDC will remain inactive until Belarus resumes a policy of economic reform. In FY 1999, the Department of Commerce plans to have four meetings of the U.S.-Russia BDC, two meetings of the U.S.-Ukraine Committee on Trade and Investment, two meetings of the U.S.-Kazakhstan BDC and two meetings of the U.S.-Uzbekistan Trade, Investment and Energy Working Group. Issues and work programs adopted by the BDCs will be pursued on an ongoing basis. The BDCI program also supports efforts of the U.S. Ombudsman for Energy and Commercial Cooperation with the NIS and other programs to conduct commercial dialogue and expand bilateral trade and investment with NIS countries with whom the U.S. does not have BDCs. These are expanding to keep up with growing U.S. commercial interests in the region.

U.S.-Russia Business Development Committee (BDC)

In FY 1998, the U.S.-Russia BDC worked to strengthen bilateral trade and investment relations with Russia and advised the Russian Government on steps to improve the country's commercial climate through its joint working groups. The BDC held two Executive Council meetings in FY 1998 and presented a report to the Tenth Session of the Gore-Chernomyrdin Commission (GCC-10). BDC representatives participated in the July meeting between Vice President Gore and Prime Minister Kiriyenko and the presidential summit in September. In FY 1998, the U.S.-Russia BDC supported the U.S. Government's Regional Initiative through a series of bilateral meetings with Russian regional officials. Trade and investment consultations were held with officials from Leningrad Oblast, Krasnoyarsk, and the Russian Far East.

The BDC session at GCC-10 stressed that the U.S. Government's top commercial priority remains Russia's adoption of a fair tax regime which will allow deductibility of normal business expenses and ensure fair tax administration. Another priority continued to be enactment legislation on production-sharing agreements (PSAs) in the energy sector and implementation of recommendations of the *Joint Report on GCC Priority Energy Projects*. Progress has been made in both of these areas. In July, the Russian Duma passed Part I of the tax code and PSA-amending legislation. Unfortunately, the Russian financial crisis triggered by the August 17 ruble devaluation and debt moratorium has slowed the reform process. During the September summit, Secretary Daley, as chairman of the BDC, reinforced President Clinton's message that only through market reforms and continuing liberalization of its trade and investment regime can Russia overcome the financial crisis and spur economic growth.

In FY 1998, the U.S.-Russia BDC increased its programs promoting the rule of law in Russia. Achievements in FY 1998 include the following: (1) agreement was reached with the Russian Supreme Arbitration Court on developing a handbook on Russia's arbitration system and on procurement of a contractor to draft, edit and translate the handbook into Russian; (2) agreement was reached with the Russian Chamber of Commerce and Industry to jointly develop voluntary guidelines on principles of business conduct and corporate practices, and an initial draft of the guidelines was completed; (3) agreement was reached with the Supreme Arbitration Court for joint development of a manual for Russian judges on recognition and enforcement of arbitration awards; (4) an informal dialogue was initiated with the Russian Federal Securities Commission and the U.S. business community on investors' rights.

The BDC's 22 working groups and subgroups addressed the microeconomic and industry-specific factors that affect the expansion of trade and investment in Russia. The BDC Standards Working Group met with counterparts at the Russian Government's standards agency GosStandart and held a standards and certification roundtable in Moscow in June 1998. At this meeting, Russia made progress in its action plan to move towards more transparent and WTO-compatible conformity assessment procedures. The BDC's Taxation Working Group continued to urge reform in several important areas of tax administration, including expansion of allowable business deductions, development of a fair and consistent appeals mechanism, and clarification of discrepancies in administration of the VAT law. Several of the Taxation Working Group's recommendations were included in the Russian government's draft tax code. Other groups which were active in FY 1998 include the Micro-Electronics Subgroup; the Subgroup on Medical Equipment, Pharmaceuticals and Health Services, which participated in an American Chamber of Commerce medical regulatory roundtable in Moscow; and the Financial Services Subgroup, which held a regulatory roundtable on insurance in Moscow in July 1998. The Aerospace Subgroup had market-access consultations with the Russian Government in July on implementation of the 1996 Joint Memorandum of Understanding (MOU) on Aircraft Market Access.

In FY 1999, the U.S.-Russia BDC will continue to work with the Russian Government and Parliament on commercial tax reform through the U.S.-Russian Working Group on Taxation and to promote the legal framework necessary to promote U.S. investment in the energy sector through the BDC's Oil and Gas Working Group and the work of the Ombudsman. Other key goals will include customs reform through the BDC's Joint Commercial Customs Dialogue, reform of product standards and certification through the BDC Joint Standards Dialogue, approval of the U.S.-Russian Bilateral Investment Treaty by the Russian Duma, Russia's accession to the World Trade Organization (WTO), the protection of intellectual property rights, transition to international accounting standards, and development of effective dispute resolution mechanisms for commercial transactions. In addition, the BDC plans to invigorate the Market Access Working Group in order to facilitate cooperation on priority market access issues and promote Russia's movement towards trade liberalization.

U.S. West Coast - Russian Far East Ad Hoc Working Group: The U.S.-Russia BDC's U.S. West Coast - Russian Far East Ad Hoc Working Group (AHWG) has been an innovative illustration of interregional commercial cooperation and has offered lessons for expanding ties with other Russian regions. In FY 1998, the AHWG hosted several meetings, including a off-site meeting of the Gore-Chernomyrdin Commission in San Jose (California) in March, where the Tourism, Fisheries and Transportation sector chairs presented their top successes to Vice President Gore and then-Prime Minister Chernomyrdin. These successes included the establishment of a Russian Far East Tourism Industry Association and a 50-percent reduction in entry-processing time for crews of Russian ships being refitted in Seattle. Over 250 public and private sector representatives were in attendance at a Joint Subcommittee meeting in Tacoma (Washington) in April, and the AHWG pulled together a small Executive Committee meeting in Vladivostok, Russia, in September, with only two weeks' prior notice. The AHWG held its third annual meeting in Portland (Oregon), which was attended by over 350 Russian federal and regional agency officials, U.S. federal and state agency officials, and business people from both nations. The AHWG noted that trade between the two regions had increased in 1998, and called for increased investment in the Russian Far East, expressing the Group's desire to support the U.S. Government's Regional Initiative. In FY 1998, the AHWG completed the pilot phase of the CLEAR-PAC customs facilitation project (see below) and reported promising results in reducing the amount of time necessary for U.S. goods to clear Russian ports. The AHWG's private-sector industry groups worked on implementing several private-sector initiatives, including creation of a Russian Far East regional financial guarantee fund, a bilingual informational site on the World Wide Web that will help link Russian and U.S. entrepreneurs, and a Russian Far East Tourism Association. In FY 1999, the AWHG will continue its Expanded On-Line Project, a bilingual, independent website containing meeting minutes, sector proposals, industry updates, and sources for recent news on the Russian financial situation in Russian and in

English. The Fisheries Sector will continue to look for long-term solutions to support the $250 million industry of servicing Russian vessels in Northwest ports. The East-by-West Corridor (the Transportation Sector) has started research on creating a new trade corridor between West Coast ports and China through the Russian Far East, and is contemplating bringing Chinese and Russian representatives to the United States in 1999.

- **Clear-Pac:** From December 1997 through March 1998, the final phase of the Clear-Pac Pilot Study was completed. Clear-Pac electronically processed nine entry packages, and all nine shipments (159 containers containing 4,000 tons of cargo worth $6.2 million) cleared Russian Customs in one to two days. The shortened timeframe translated into $100,000 in savings to the importer, thanks to reduced processing and storage fees. During the April AHWG meeting in Tacoma, the joint U.S.-Russian Clear-Pac team reported the favorable results of the pilot study, namely that it is possible to reduce the time and expense required to clear cargo through Russian Customs. The group recommended that Clear-Pac be expanded to include other Russian ports, starting with the Ports of Sakhalin and Petropavlovsk-Kamchatka, and other Russian certifying agencies. The group also recommended expanding the marketing of Clear-Pac to U.S. and Russian shippers in other ports, with a wider range of commodities to be shipped, and identifying the functional specifications required in order to develop a software program that will further expedite the Russian clearance process. Progress has been made on all of the above four points.

U.S.-Ukraine Committee on Trade and Investment (CTI)

The CTI, one of four committees under the U.S.-Ukraine Binational Commission, held meetings in Kiev in January and in Washington in July, and prepared for a CTI executive session held in October 1998. In FY 1998, the CTI worked towards the resolution of long-standing U.S. investment disputes in Ukraine; identified systemic obstacles to U.S. trade and investment in Ukraine, developing a four-pronged initiative to improve transparency and strengthen the rule of law; and agreed on a work plan to address standards and certification issues, identified by the U.S. business community as a key obstacle to market access in Ukraine. In June 1998, a Commerce Department team headed to Kiev to promote dialogue on certification issues and to explore prospects for expanded cooperation in the health sector. In FY 1999, the CTI will continue to work to resolve outstanding U.S. investment disputes, promote regulatory reform (particularly in the area of certification), encourage structural reform in the agribusiness and energy sectors, and promote new business development.

U.S.-Uzbekistan Trade, Investment and Energy Committee

The U.S.-Uzbekistan Trade, Investment and Energy Committee convened its first meeting in February 1998 in Washington, in conjunction with the meeting of the U.S.-Uzbekistan Joint Commission. The U.S. delegation to the Committee pressed the Government of Uzbekistan to reinstate full currency convertibility as quickly as possible. The Committee also discussed outstanding commercial issues, including improvements which could be made to Uzbekistan's existing tax code to benefit business; the connection between currency convertibility and the attraction of foreign investment; the issue of streamlining import and business registration procedures; and the importance of a transparent tendering processes. The meeting prompted the Uzbek Government to pay its outstanding debt to several U.S. companies and conclude an agreement to eliminate a requirement to register import transactions. In FY 1999, the Trade, Investment and Energy Committee will hold its second meeting, and will continue to press for currency convertibility and provide active advocacy of U.S. business projects.

U.S.-Kazakhstan Business Development Committee (BDC)

In early October 1998, the U.S.-Kazakhstan BDC held the fifth meeting of its Executive Council in Almaty, in order to achieve progress prior to the subsequent meeting of the U.S.-Kazakhstan Joint Commission. The BDC focused on obtaining progress on the building blocks of commercial relations, including simplification of the work-permit procedures, implementation of customs regulations agreed upon during the November 1997 meeting of the BDC, and a reduction in the number of business activities subject to licensing. The meeting resulted in a Kazakhstani Government commitment to reduce the number of documents necessary to obtain a work permit for a foreign worker and a reduction in work-permit fees; the Kazakhstani Government's agreement to submit to the parliament by March 1, 1999, legislation necessary for World Trade Organization (WTO) accession; and a Kazakhstani Government commitment to resolve outstanding issues with the U.S. power company AES. In addition, the BDC saw progress in a number of areas discussed during the previous BDC meeting. The Kazakhstani Government

allowed the first imports to be shipped utilizing pre-arrival customs declarations regulations, and agreed to eliminate assessment of the VAT on goods imported from the NIS, eliminating the "double VAT" issue. In FY 1999, the BDC will focus on achieving progress in the priority areas of licensing, customs and work permits.

The Ombudsman's Dialogue with Central Asia and the Caucasus: The Department of Commerce and its Ombudsman for Energy and Commercial Cooperation with the NIS took an active role in the economic development of Central Asia and the Caucasus in FY 1998, traveling to Kazakhstan, Azerbaijan and Uzbekistan in April 1998, to Azerbaijan and Georgia in May-June 1998, and to Azerbaijan, Kazakhstan, and Turkmenistan in October 1998. The Ombudsman also met with officials in Washington, including Turkmen President Niyazov, Georgian Foreign Minister Mengarishvili, and a Turkmen finance delegation. Throughout these two regions, the Ombudsman sought to advance the U.S. Government's positions on regional energy development and transportation by engaging regional leaders in dialogues on these issues, including the Presidents of Azerbaijan, Georgia, Turkmenistan and Uzbekistan. The Ombudsman and the Commerce Department, in cooperation with senior State Department and Energy Department officials, sought foreign government commitments to move forward on multiple pipelines from the Caspian region, including the Caspian Pipeline Consortium (CPC) and trans-Caspian pipeline options. In cooperation with the Department of Energy, the Ombudsman and the Department of Commerce maintained an ongoing dialogue with U.S. industry on energy project development and transportation issues. The Ombudsman also sought to advance the U.S. Government's commercial priorities in each country. In Georgia, in meetings with the President, Foreign Minister, and other senior leaders, the Ombudsman urged progress in the legal and regulatory environment (including the adoption of an urban land law and a law on capital markets), sought progress on WTO accession, and advocated on behalf of U.S. company projects. In Turkmenistan, the Ombudsman pushed for increased regional cooperation on energy issues, urged the Turkmen Government to pursue cooperation with the IMF and seek membership in the WTO, encouraged movement on privatization and transparency in the tendering process, and advocated on behalf of U.S. companies. Turkmenistan has since begun preliminary discussions with the IMF. In Azerbaijan, the Ombudsman sought Azerbaijani Government commitments to address issues of corruption, simplify import contract registration procedures, adopt insurance regulation reform and allow U.S. insurance companies to register (which subsequently happened, enabling them to expand operations in Azerbaijan). In Kazakhstan and Uzbekistan, the Ombudsman sought to advance the agendas of the BDC and Trade, Investment and Energy Committee, respectively. In FY 1999, the Ombudsman will travel to the Caspian region in the spring and fall to advance U.S. Government interests on energy transportation issues and seek progress on outstanding commercial issues.

BUSINESS AND ECONOMIC DEVELOPMENT PROGRAMS

U.S. DEPARTMENT OF COMMERCE - BUSINESS INFORMATION SERVICE FOR THE NIS (BISNIS)

BISNIS was established in 1992 in response to the tremendous demand for information about commercial opportunities in the new emerging markets in the NIS. Washington-based BISNIS trade specialists work closely with the BISNIS Overseas Network, which prepares an extensive amount of market information each year. The BISNIS Overseas Network currently consists of 7 Russia-based representatives and 9 representatives in other NIS countries. Working together, BISNIS staff in the U.S. and NIS provide U.S. companies with time-sensitive trade leads, the latest information on export and project finance, including financing made available by TDA, OPIC, Eximbank, and the various NIS enterprise funds, as well as insight into developing long-term strategies for NIS markets.

In FY 1998, BISNIS continued to play a key role in fostering U.S. business entry and success in NIS markets by providing market information and guidance. U.S. companies credited BISNIS with facilitating at least $500 million dollars in U.S.-NIS trade and investment transactions (based on results reported by participating companies—the actual amount is probably much higher) through its ongoing and specialized activities during FY 1998. There is evidence that BISNIS is having an impact on small and medium-sized companies, although the companies assisted by BISNIS also include a number of large companies that play an important role in U.S.-NIS trade and investment. Examples of BISNIS's successes include a major U.S. computer company which credits BISNIS with a significant portion of its $40 million per year in computer-parts sales to Ukraine; a medium-sized U.S. West Coast company involved in construction and related services that has signed agreements potentially worth $20

million in Cherepovets and Vladivostok, Russia; a small U.S. company in the Midwest that won a $400,000 tender for Georgia's gas industry, and one that sold $200,000 in services to a fruit growing and processing venture in Georgia.

This past year, BISNIS implemented several innovations and expanded its coverage to meet the needs and interests of its 30,000 U.S. clients (company representatives):

- BISNIS established a regional reporting capacity for two of Russia's larger regions (Volga and Siberia) through its representatives in Nizhniy Novgorod and Siberia, and deepened its coverage of the Russian Far East by placing a representative on Sakhalin Island, the site of significant strategic U.S. business interests.

- BISNIS fine-tuned its distribution mechanisms: BISNIS OnLine and e-mail distribution;

- BISNIS published and distributed its resource guide *Trade with America* in Russian (20,000 copies), Ukrainian (7,000 copies) and English (3,000 copies); and

- BISNIS introduced new programs, including BISNIS FinanceLink and BISNIS CustomsCorner.

Ongoing Programs, Products and Activities

Two important aspects of BISNIS activities are its mechanisms for distributing promising opportunities to U.S. companies and the timeliness of access by U.S. companies to crucial information. BISNIS's use of technology such as BISNIS OnLine, e-mail distribution, and FlashFax makes it easy for U.S. companies to access the most current and timely information, often the same day it becomes available.

BISNIS OnLine: The BISNIS OnLine website (www.mac.doc.gov/bisnis) saw tremendous growth in FY 1998, both in usage by the business community and in the internal measures to expand and improve the page. BISNIS OnLine averaged more than 90,000 hits a week (nearly 400,000 per month) towards the end of FY 1998. By comparison, in mid-1995, the number of hits for BISNIS OnLine averaged 12,000 per month. In FY 1998, BISNIS OnLine added an average of one to ten reports to its archives each day, and by the end of the fiscal year, the site contained over 3,500 separate documents. Throughout FY 1998, BISNIS continued to expand and improve its information and the simplicity of access for U.S. companies. To accommodate its expanded regional reporting and make it easier to access for U.S. companies, BISNIS reorganized its Russian regional sites within BISNIS OnLine.

E-Mail Distribution of Market Information: In FY 1998, BISNIS continued to operate and enhance its e-mail distribution service for NIS regional and industry-specific trade and partner leads, market intelligence, and other commercial updates. U.S. companies can select one or more of 42 interest areas for which they would like to receive information by e-mail. The choices include all 12 NIS countries, 5 Russian regions, 22 industries and issues (e.g., legal issues), and three specialized groups, including FinanceLink, and BISNIS Briefs, for BISNIS leads and event announcements. Companies may sign up to receive information by e-mail though the BISNIS OnLine webpage. In FY 1998, the number of U.S. company representatives receiving BISNIS reports by e-mail grew from 5,000 to nearly 8,000, and BISNIS distributed more than 1,000 reports to interested companies using its e-mail technology.

FlashFax: In FY 1998, BISNIS received 2,300 requests for information through its fax-on-demand service and by fax from clients. BISNIS maintains this system for its clients who do not yet have access to the Internet.

Market Reporting: At the core of BISNIS's products and services is its market reporting. In FY 1998, BISNIS expanded its regional market reporting in Russia even further beyond Moscow and St. Petersburg by placing representatives in Nizhniy Novgorod, Novosibirsk and Yuzhno-Sakhalinsk. In each of these regions, U.S. company interest was high, but there was very little commercial information available, despite the presence of other U.S. Government organizations in the region. BISNIS has filled a gap in these regions by providing regional (and territorial) and industry reports; guidance on practical issues such banking, registration, customs; lead notices for export and investment opportunities; and contacts.

BISNIS Bulletin: Nearly 30,000 U.S. company representatives receive the *BISNIS Bulletin* each month. In FY 1998, the *Bulletin* focused on providing coverage to address the broad range of geographical and industry-specific interests of BISNIS clients. For example, the number of Russian region-specific articles in the *Bulletin* dramatically increased, as did the number of articles on other NIS countries besides Russia. Additionally, the *Bulletin* continued to be a source of useful information and guidance on a range of practical business issues, including banking and finance, certification, customs and shipping, and a number of other practical business issues, such as marketing and consumer goods. The *Bulletin's* "Agency Spotlight" actively promoted programs and resources at other agencies and organizations, as did the Trade Events Calendar. The *Bulletin* continued to be a particularly valuable resource for those companies that do not have access to the Internet.

BISNIS *Trades & Tenders* and *Search for Partners*: BISNIS trade and partner leads programs continued to provide valuable leads to U.S. companies trying to break into the NIS marketplace, as well as to companies that are already in the NIS but seek new contacts in order to expand their operations. In FY 1998, BISNIS trade specialists distributed nearly 300 trade leads and nearly 400 partner leads, representing nearly a 40-percent increase in the number of trade leads provided over FY 1997 and a 10-percent increase in the number of partner leads distributed to interested U.S. companies. BISNIS's expanded regional coverage and E-mail distribution system has dramatically increased not only the number of leads available, but also the range of leads available to companies and timely access to those leads. BISNIS directly distributed specific leads to approximately 8,000 U.S. company representatives via e-mail, targeting companies according to their interests. BISNIS also distributed more than two dozen biweekly e-mail reports summarizing promising trade leads, plus a dozen monthly e-mail reports listing promising partner opportunities. In addition, BISNIS made all of its FY 1998 leads available through the BISNIS OnLine website, usually within 24 hours of their receipt at BISNIS. BISNIS also distributed 12 monthly *Search for Partners* bulletins by mail to 30,000 U.S. companies. In each *Search for Partners* publication, BISNIS included guidance on establishing contact with NIS companies, to familiarize U.S. companies with NIS telecommunications challenges and possible solutions.

Delegations, Roundtables, and Other Trade Promotion Events: In FY 1998, BISNIS supported dozens of trade promotion events, including the hosting of over 20 official delegations from the NIS and the sponsoring of over 25 roundtables and over 50 NIS trade promotion events. BISNIS initiated, co-sponsored, and/or planned events, sharing expertise by speaking at events and moderating panels, providing materials for events (such as market reports, resource guides, etc); and informing the U.S. business community about events via the *BISNIS Bulletin*, BISNIS OnLine, e-mail, etc.

Innovations in FY 1998

BISNIS FinanceLink: BISNIS FinanceLink is a World Wide Web-based service designed to help U.S. companies seeking financing for export transactions to the NIS to successfully export their products by linking them with potential sources of finance for the export transactions. U.S. exporters fill out a simple electronic form about the contents of their shipment (goods must have at least 51 percent U.S. content). Within two weeks this information is forwarded to nearly 850 companies who can assist in finding or providing financing for the export. FinanceLink was initiated late in FY 1998.

BISNIS CustomsCorner: This service provides online, on-time information to U.S. companies on NIS tariff rates, customs procedures and certification requirements. It is intended as a quick reference guide to the frequently changing import charges and customs procedures in the NIS countries.

U.S. DEPARTMENT OF COMMERCE - AMERICAN BUSINESS CENTER (ABC) PROGRAM

The ABC Program seeks to promote the rapid expansion of U.S. trade and investment in the NIS, with an emphasis on assisting small and medium-sized U.S. firms. To date, the ABC network has served over 3,320 U.S. firms and has supported over $383 million in reported U.S. exports. As of the end of FY 1998, seven ABCs were being operated by private-sector entities through cooperative agreements with the Department of Commerce. These "solo" ABCs are located in NIS cities where there is commercial potential, but minimal or no U.S. and Foreign Commercial Service (US&FCS) presence. The solo ABCs are located in Chelyabinsk, Khabarovsk, Nizhniy Novgorod, Samara, Volgograd, Yekaterinburg and Yuzhno-Sakhalinsk, Russia. Five ABCs are operated by and co-located with US&FCS offices in St. Petersburg and Vladivostok (Russia), Kiev (Ukraine), Almaty (Kazakhstan) and Tashkent (Uzbekistan).

ABCs provided their U.S. clients with a broad range of business development and facilitation services, including international telephone and fax services, short-term office space, seminar and exhibition space, assistance in arranging appointments, secretarial assistance, word processing equipment, interpretation and translation services, photocopying, market research, and counseling on local market conditions and business practices. The ABCs also provided significant benefits to NIS firms, including business training, technical assistance, and the use of a commercial library that serves as a repository for commercial, legal and technical information. The ABCs enhanced the ability of NIS firms to become viable trade and investment partners for U.S. firms.

Throughout FY 1998, conflicting views by various Russian Government authorities regarding the tax and customs status of the ABCs continued to cause problems. The ABC Program Office in Washington worked closely with the ABCs to monitor the situation, and used U.S. Government channels to resolve problems when possible.

During the first quarter of FY 1998, the operator of the Novosibirsk ABC, SAIC, decided not to apply for new funding to continue operating the ABC. The Department of Commerce issued a competitive request for proposals (RFP) but received no applicants. Another RFP with a more favorable cost-sharing requirement was subsequently released but also produced no responses. Despite the strong investment climate in the region, the Novosibirsk ABC closed its doors on the last day of December 1997. As of October 1, 1997, the Department of Commerce started using its own funds, rather than FREEDOM Support Act funds, to operate the ABCs in Vladivostok and St. Petersburg, which are co-located with US&FCS offices. While the staff, equipment and services of these ABCs are being integrated with US&FCS operations, the Department will continue to use the ABC name at these sites order to preserve the ABC network in Russia. Also during the first quarter, the ABC Program increased its marketing efforts within the U.S., as well as its marketing efforts targeted at U.S. company representatives in Europe and Asia. The ABC Program Office redesigned the ABC Internet website, www.ita.doc.gov/abcnis.

The ABCs sought to improve the investment climate in Russia's regions by reaching out to local officials and encouraging them to take steps to make their jurisdictions more attractive investment locations. Nizhniy Novgorod ABC staff members were interviewed on local television about the differences in taxation between the United States and Russia. This provided an excellent opportunity to highlight some of the problems faced by U.S. exporters and investors in Russia. The Volgograd ABC provided technical assistance to the Volgograd City Administration for creation of a Volgograd City internet website (www.volgograd.ru/eng/volgogra.htm) that is helping the city reach out to potential investors worldwide.

During the second quarter of FY 1998, the funding period for the ABCs in Chelyabinsk and Volgograd expired, the Department of Commerce was unable to offer new funding, and both ABCs were not yet able to operate without U.S. Government funding. However, during the third quarter, the Coordinator's Office made new funding available and the Commerce Department was able to issue awards for these cities through a competitive process. The ABCs continued to promote interest in trade and investment opportunities in Russia and the NIS by sponsoring a number of seminars and conferences in the United States and Russia. For example, Thunderbird University, operator of the ABCs in Volgograd and Nizhniy Novgorod, sponsored a seminar on business opportunities in Russia which included the participation of a Russian trade delegation and was attended by over 60 business representatives from Arizona, Utah and Washington, D.C. The staff of the Nizhniy Novgorod ABC traveled to the regional city of Vyksa and conducted a seminar to help Russians become more attractive trading partners. The seminar was attended by government and business leaders and local media.

During the third quarter of FY 1998, a three-year award was granted to open an ABC in Samara, Russia, as a follow-up to Vice President Gore and Commerce Secretary Daley's November 1997 visit to Samara in support of the U.S. Government's Samara Regional Initiative (RI). Also during the third quarter, new one-year awards of $200,000 were granted through a competitive process to operate the ABCs in Nizhniy Novgorod, Yekaterinburg, Chelyabinsk, Volgograd and Yuzhno-Sakhalinsk. The ABC Program Office received no qualified applicants willing to operate an ABC in Khabarovsk. Meanwhile, the Kiev ABC experimented with a new marketing promotion, offering new clients a 15-percent discount on all services. The promotion attracted nine new clients, including Arthur Andersen and Kimberly-Clark.

During the fourth quarter of FY 1998, the Samara ABC opened informally for business on September 1, 1998. The ABC only served rental clients during the fourth quarter, as it could not accept fees until it was registered. The Samara ABC has developed extensive research materials on the region, much of which was already public information but needed to be translated. The Samara ABC researched the impact of Russia's financial crisis on foreign firms and investigated the possibility of organizing trade missions for medical supplies and construction materials.

U.S. DEPARTMENT OF COMMERCE - COMMERCIAL LAW DEVELOPMENT PROGRAM (CLDP)

WTO Accession Assistance (Russia, Ukraine and Moldova)

Throughout FY 1998, the U.S. Commerce Department's Commercial Law Development Program (CLDP) continued to provide technical assistance to the Governments of Russia, Ukraine and Moldova to support their accession to the World Trade Organization (WTO) and improve the legal climate for doing business in the three countries. WTO accession, which is typically a multi-year process, requires applicant countries to conform their laws and practices to international agreements and norms conducive to free enterprise and international commerce. As a result of the steps they are taking to adopt and implement these wide-ranging reforms, Russia, Ukraine and Moldova are making their economies more transparent and more sound, providing new commercial opportunities to both their own citizens, as well as foreign businesses. Russia, Ukraine and Moldova are currently in the process of supplying information and negotiating the terms of their accession with the WTO Secretariat and the working groups handling the each country's accession process. CLDP provided technical assistance to support policy analysis, preparation of reporting documentation and development of the skills needed to implement reforms as they are adopted.

In FY 1998, CLDP continued its established practice of posting long-term advisors in Russia and Ukraine. Their work was augmented through visits by short-term advisors on specialized subjects of concern to the working parties and of interest to the host countries. CLDP's work in Moldova consisted of similar short-term training and consultation programs conducted in Moldova, Geneva and the United States.

Russia: In FY 1998, CLDP placed a resident advisor on trade issues at the Russian Ministry of Foreign Economic Relations. CLDP supervised this direct technical assistance and other short-term programs involving U.S. experts from both inside and outside government. In addition, CLDP sponsored a roundtable on insurance and WTO trade-in-services issues. These activities ensured that the Russian officials who will be responsible for negotiating and implementing Russia's WTO obligations will have the knowledge and skills to do so, once the Government of Russia completes its reorganization and resumes moving forward with its trade policy agenda.

Ukraine: CLDP also placed a resident advisor on trade issues at the Ukrainian Ministry of Foreign Economic Relations and Trade (MinFERT) in FY 1998. CLDP supervised this direct technical assistance and sponsored several short-term programs involving U.S. experts from both inside and outside government. CLDP conducted seminars and technical assistance activities on numerous issues, including sanitary and phyto-sanitary measures, intellectual property rights, business law curriculum development and customs valuation. CLDP also sponsored the travel of Ukrainian officials to the United States and third countries to discuss WTO accession, intellectual property rights, government procurement, business law curriculum development and WTO practices and procedures. In addition, CLDP sponsored MinFERT's publication of *Context*, a bimonthly publication on trade and WTO matters. These activities have improved both the commitment and ability to implement reform among the Ukrainian managers who are responsible for carrying out the government's trade policies.

Moldova: In FY 1998, CLDP sent a series of short-term advisors to Moldova to present seminars and provide technical assistance and training. The topics covered under these programs included intellectual property rights, customs valuation, antidumping and countervailing duty laws, WTO accession benefits, government procurement and product standards. CLDP sponsored the travel of several groups to the United States or third countries for training on topics including intellectual property rights, sanitary and phyto-sanitary measures, antidumping and countervailing duty laws, government procurement, WTO accession and WTO practices and procedures. In addition, CLDP sponsored the Ministry of Economy and Reforms' publication of the *Commercial Bulletin*, a bimonthly newsletter on trade and WTO issues. The impact of this assistance can be seen in the excellent progress of Moldova's accession negotiations and in a number of legislative and procedural changes that have been adopted during the past year after consultation with U.S. experts provided by CLDP.

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

The SEC's technical assistance and international training programs for the NIS are designed to benefit both the United States and NIS countries. Benefits to the United States include an improved foreign investment climate and a regulatory foundation for foreign offerings in the United States. The encouragement of U.S.-style market structures and regulatory principles also promotes open entry and competitive market conditions that may be enjoyed by U.S. participants and service providers. The SEC's strategy is to incorporate technical assistance into its other activities to facilitate international securities regulatory contacts and cooperation.

International Training Institutes

The SEC's International Institute for Securities Market Development (the "Market Development Institute") is an intensive two-week program of lectures, panels and workshops held each spring at the SEC's Washington, D.C. headquarters. Designed for senior regulatory and stock exchange officials, the Market Development Institute is intended to promote market development, capital formation, and the building of sound regulatory structures in emerging market countries. The Market Development Institute's faculty includes SEC Commissioners and senior staff, and outside speakers from academia, multilateral development institutions, stock exchanges and the NASD, and investment banking, law and accounting firms. Over 700 delegates from 96 countries have participated in prior Market Development Institutes. Over 30 delegates from NIS and Central and East European (CEE) countries attended the 1998 Market Development Institute.

The SEC has expanded upon the Market Development Institute concept by inaugurating a one-week International Institute for Securities Enforcement and Market Oversight (the "Enforcement Institute"). The Enforcement Institute is offered during the fall. Speakers are drawn primarily from the SEC's senior enforcement and inspections staff. The program focuses on practical techniques for conducting investigations, market surveillance, and inspections of broker-dealers, mutual funds and investment advisers. Over 480 securities regulators from 70 countries, representing both developed and developing markets, have participated in prior Enforcement Institutes.

Other U.S.-Based Training Programs

With assistance from the U.S. securities industry, the SEC has arranged a number of short-term training programs and internships for NIS securities personnel, including internships for many of the participants in its Market Development and Enforcement Institutes. Overall, through the two annual institutes and the other training programs described herein, the SEC provided U.S. training for 374 foreign participants from 94 countries during FY 1998. The SEC's FY 1998 programs for the NIS region included the following:

- training programs in Moscow, St. Petersburg and New York for staff of the regional offices of the Russian Federal Commission on the Securities Market;

- the Third Annual NIS/Central Europe Enforcement and Market Oversight training program presented in March 1998 at SEC headquarters for 62 delegates from 19 countries;

- a July 1998 training program in Washington on the review of issuer disclosure documents for over 53 participants from 17 NIS/CEE countries; and

- an evaluation of the clearance and settlement system in Ukraine.

In addition to the above programs, senior SEC staff members participated in training and consulting assignments in Armenia. In delivering these programs, the SEC worked closely with private-sector securities experts and in the case of overseas programs, on-site assistance providers. The SEC has translated into Russian over 100 key regulatory documents and training outlines, which were made available to USAID, regulatory agencies and other assistance providers throughout the NIS/CEE.

Legislative and Regulatory Analysis

A sound legal and regulatory infrastructure is a prerequisite to many other forms of technical assistance to emerging NIS/CEE securities markets. The SEC's staff provided analysis and commentary on the securities laws and regulations of Russia and Ukraine. The staff often coordinated its work with other assistance providers, such as the American Bar Association's Central and East European Law Initiative (ABA/CEELI) and other in-country advisors.

U.S. DEPARTMENT OF THE TREASURY - TECHNICAL ASSISTANCE

Since 1992, the U.S. Treasury Department's Office of Technical Assistance has provided advisors to assist the NIS governments in the transition from command-based to market-based economies. Treasury Department resident advisors typically advise senior finance ministry or central bank counterparts in the areas of budget policy and management, financial institution policy and regulation, government debt issuance and management, and tax policy and administration. An additional program in financial crimes enforcement was initiated in FY 1997, with the first activities beginning in FY 1998. The Treasury Department's technical assistance program is based on the work of long-term resident advisors, who are supported by experts and technicians working on a short-term basis. It should be noted that most of the program's successes consist of small victories, such as giving daily advice, ideas and perspectives to senior counterparts on a wide range of issues, with the goal of building long-term institutional capabilities. In FY 1998, the Treasury Department had programs in Armenia, Georgia, Kyrgyzstan, Moldova, Russia and Ukraine, and also provided assistance to Kazakhstan.

Armenia

Budget: The current resident advisor began working in October 1996. Since then, he has helped structure laws governing state obligations and expenditure decisions, while establishing in statute the financial authorities and responsibilities of the local governments. The advisor also helped with the development of a structured budget formulation system. In FY 1999, he will focus on improving systems and practices for monitoring execution of the budget.

Enforcement Policy and Administration: A team of intermittent advisors has been working closely with the Ministry of Interior since August 1998 on a work plan that focuses on three key areas: capital markets fraud, organized crime, and insurance fraud. Specific areas of attention will include gaming regulation and enforcement, money laundering, and tax evasion.

Tax Policy and Administration: A resident tax administration advisor to the Ministry of Finance and the State Tax Service began his assignment in July 1997. Since then, the advisor has provided technical assistance to establish a modern tax administration system. The assistance has focused on the restructuring of the tax administration, as well as providing input to develop procedures for the functioning of the newly established departments. The Finance Ministry has also requested a tax policy advisor; however, placement of such an advisor in FY 1999 will be contingent on the availability of funds.

Government Debt: A resident advisor worked with the Ministry of Finance and Central Bank from November 1995 to November 1997, and a new resident advisor followed in June 1998. The first advisor's main focus was

development of a primary market for government securities, which is now well-established. The second advisor's focus has shifted to development of the secondary market and formulation of the legal and regulatory framework necessary for the issuance of government securities. With intermittent assistance, the advisor is also assisting the Central Bank with development of an on-line system for government securities settlement, clearance, payment and depository operations.

Georgia

Budget: The Treasury Department began this project in 1996 and placed a second resident budget advisor in Georgia in September 1997. The advisor's current focus is the draft 1999 budget, including the areas of budget restructuring, revenue forecasting and the relationship of the macroeconomic policy environment to the budget process. Assistance is also being provided in the area of intergovernmental finance and municipal financing.

Tax Policy and Administration: A resident advisor to the State Tax Administration began his assignment in January 1998. He has been providing assistance in direct taxation, such as developing an internal audit function, audit procedures, and examination techniques (including indirect methods). In addition, the advisor is assisting the Georgians in developing an in-house training program to be taught by State Tax Service officials, and he is helping the tax administration to implement the International Monetary Fund's (IMF) restructuring plan.

Government Debt: A resident advisor arrived in September 1997 for a two-year assignment to help Georgia establish a government securities market. He is currently assisting the Ministry of Finance and National Bank of Georgia (NBG) in improving auction procedures for treasury bills, including establishing a safe and functional depository/registry. The legal framework for the secondary market in domestic government securities has been developed and submitted to Parliament. The advisor will work with the NBG to develop the necessary regulations for the secondary market. In addition, he is assisting the Ministry in developing a long-term debt strategy.

Kazakhstan

Government Debt: The intended placement of a resident advisor following the departure of the previous resident advisor in August 1997 was postponed due to uncertainty surrounding the transfer of the national capital and the Ministry of Finance to Astana. However, Treasury Department advisors remained involved in Kazakhstan's financing program in FY 1998, consulting on both domestic and external bond issues. The Treasury Department intends to place an Almaty-based resident advisor, who will advise the National Bank of Kazakhstan in Almaty and will periodically travel to Astana to assist the Ministry. The Treasury Department's past assistance is reflected in Kazakhstan's pro-active response to the Russian financial crisis, which included credible reassurances to the markets by government officials and prudent reductions in government spending.

Kyrgyzstan

Government Debt: A resident advisor to the Ministry of Finance in Bishkek, whose assignment began in August 1996, will complete his term in July 1999. With the assistance of an intermittent advisor, he has drafted updated public debt and treasury laws. In the past year, Kyrgyzstan has implemented a modern electronic trading system for government securities, and the advisor has also provided guidance to the Kyrgyzstani Government in the wake of the Russian financial crisis.

Moldova

Government Debt: The Treasury Department's first resident advisor to be placed in Moldova completed a two-year assignment in November 1996, during which he focused on developing the primary market for government securities. His successor has furthered those efforts and assisted in the development of a secondary market. He supported the lifting of the transaction tax on securities in January 1998, which removed a substantial impediment to the secondary market. The monthly average number of trades in the secondary market quadrupled from 28 in 1997 to 113 at the end of FY 1998. The advisor is also assisting in the drafting of regulations to introduce broker/dealers into the market.

Russia

Budget: The budget team's approach has been to work with key counterparts and institutions that can influence economic and budgetary policies of the Russian Government. The objective has been to promote the adoption of sound policies and to improve the quality of economic information available to decision-makers. Two members of the budget team have been working with Deputy Finance Minister Vyugin. One member serves as part of the small anti-crisis group evaluating proposed economic programs for the Government and suggesting alternatives. The other advisor has focused on survey research in the areas of consumer confidence and changes in consumer activity in response to the crisis. A third advisor has been working with the Russian parliament. He published a seminal report on Russian income distribution that received wide attention both within Russia and in the international community. His work now focuses on research, including generating income data useful in allocating federal funds to lower levels of government. The Treasury Department also has an ongoing relationship with the Chamber of Accounts that has focused over the past year on three issues: (1) revenues from leasing of federal lands for mineral exploitation; (2) energy regulation and user charges in the United States; and (3) U.S. federal government land management, including the structure of user charges.

Financial Institutions: In December 1997, the Treasury Department placed a resident advisor in the Central Bank of Russia to assist in the development of a plan for restructuring Russia's insolvent banking system. The advisor prepared studies and recommendations for the CBR on bank restructuring efforts and deposit insurance schemes based on programs implemented in other countries. In October 1998, the Russians announced a plan for the resolution of their insolvent banks and the restructuring of their banking system, which incorporated many of the advisor's recommendations. In FY 1999, if the Russian Government requests continuation of this technical assistance, the Treasury Department will extend the advisor's assignment for a second year. The Treasury Department continues to explore other ways to assist the implementation of the bank restructuring plan.

Tax Policy and Administration: There are four resident tax advisors in Moscow. Two resident policy advisors have been working on the Russian Tax Code in the following areas: (1) drafting legislation and providing comment on proposed amendments; (2) analyzing the revenue impact of proposed changes to the tax laws; and (3) developing revenue estimation models. In addition, two other resident tax administration advisors have been working with the State Tax Service to address the tax collection problem by revising procedures for handling arrears, collecting current taxes, and improving audit procedures. In FY 1999, the advisors will work on the phasing-in of part one of the Tax Code, and will provide continued assistance with tax compliance and collections, revenue estimating and modeling, and drafting and providing comments on tax legislation. In FY 1999, there will also be a new emphasis on developing procedures to improve the tax compliance of larger enterprises.

Ukraine

Budget: Last year, the resident advisor's work in Ukraine resulted in the adoption of a new classification system and the drafting of an organic budget law. In addition, Ukraine's overall budget process became somewhat more transparent. A second resident advisor was placed in May 1998 and is continuing to assist the Ukrainians with revision of the 1998 budget and formulation of the 1999 budget. This work is facilitating many essential steps in overall economic restructuring, and is encouraging adherence to International Monetary Fund (IMF) conditions, which would allow the IMF's extended fund facility (EFF) to move forward. Additionally, the advisor has developed a solid relationship with Ukraine's Ministry of the Economy, which has requested an advisor, and with the Ukrainian Chamber of Accounts.

Financial Institutions: The Treasury Department has identified Mr. Oleksandr Gorbunov, Chief of Staff for Vice Premier Serhei Tyhypko, as the counterpart for a Treasury Department resident advisor on banking reform. The advisor will work closely with counterparts in the Interagency Council on Reform and within the Working Group on Fiscal Policy and Banking. The Treasury Department is actively recruiting and hopes to fill the position in early 1999.

Government Debt: In addition to having an advisor in the Securities Department of the National Bank of Ukraine (NBU) for two years, the Treasury Department also assigned a new resident advisor to work with the NBU Governor's chief advisor on macroeconomic policy. In this capacity, he advises NBU officers responsible for central bank exchange rates, interest rates, and monetary policy implementation. The advisor is supporting the introduction of open market operations as an additional monetary policy instrument. The placement of a resident

debt advisor in the Ministry of Finance in September 1997 represented a breakthrough in relations with the Ministry. The advisor is working to develop the Ministry's debt management capacity, including reorganizing the debt functions within the Ministry and coordinating with the NBU. The advisor has worked with the Ministry on its debt issuance plans for 1998 and 1999 in the context of an overall debt strategy. He is also assisting the Ministry in restructuring its external debt in the wake of Russia's debt crisis.

Tax Policy and Administration: The resident tax administration advisor has been working with National Tax Training Center to provide course and curriculum development assistance, and with the State Tax Administration (STA) to improve centralization and restructuring along functional lines. The resident tax policy advisor arrived in July 1997 to assist the Ministry of Finance, the STA, and the Tax Code Working Group with the drafting and codification of the tax laws.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - EMERGING MARKETS PROGRAM (EMP)

USDA's Emerging Markets Program (EMP) funds projects that increase U.S. agricultural exports to emerging markets around the world. The program is funded at $10 million worldwide each year. In FY 1998, EMP provided over $1.3 million for the following NIS-related activities:

Cochran Fellowship Program ($300,000 - Russian Far East and Siberia, Ukraine, Kazakhstan): In FY 1998, EMP funded 30 Cochran Fellowships for the Russian Far East (RFE), central Russia, Ukraine and Kazakhstan. The funding will be used in FY 1999 to provide training in the areas of food wholesale and retail, with an emphasis on consumer-ready foods, meat, fresh fruits, and vegetables. Also in FY 1998, a total of 23 Cochran Fellows traveled to the United States under prior-year EMP funding—11 from Russia, 10 from Kazakhstan, one from Ukraine and one from Armenia. The NIS component of the Cochran Fellowship Program is funded mainly through the FREEDOM Support Act. (see Training and Exchange Programs section below)

Validation of Crop Production Assessment ($225,000 - Russia and Kazakhstan): A cooperative joint venture with the Agricultural Research Service, NASA, and Altai State University in Russia will monitor crop conditions and yield related parameters that will allow more accurate forecasts of grain production in Russia and Kazakhstan, where accurate forecasting has been impossible due to constraints in satellite coverage.

Poultry Market Assessment ($125,000 - Azerbaijan, Turkmenistan, Uzbekistan, Armenia, Kazakhstan): The USA Poultry and Egg Export Council (USAPEEC) and EMP will conduct specialized market research in several NIS countries to determine the current and future market potential for U.S. poultry products. Research will include an overview of demographics, economy and agriculture. Data on imports, trade practices and regulations, distribution channels, existing trade organizations will be collected. Representatives from USAPEEC will also look at factors such as local competition and packaging, to prepare a marketing strategy for this region of the world.

Soybean Feed Grain Warehousing ($68,648 - Northern Russia): EMP is supporting the development of a "hub-and-spoke" commercial warehouse operation in Northern Russia. Steps in this process include identification of in-bond policies and practices; identification of training needs in financial, accounting, operations and other areas; identification of private operators; designing of trading systems that will enable operators to extend credit; and identification of quality standard systems.

Transportation and Food Marketing Conference ($84,755 - Russian Far East and Eastern Siberia): With EMP support, the Oregon Department of Agriculture published and presented a market and infrastructure report at a conference on the transportation and marketing of food products in the Russian Far East (RFE) and Eastern Siberia held in Portland, Oregon, in October 1998. The report was accompanied by presentations made by Russian customs, certification and other trade officials, who had received training and support under this project.

Training in Statistical Gathering and Analysis ($400,000 - Russia, Ukraine, Kazakhstan): With EMP support, experts from the National Agricultural Statistics Service (NASS) will be able to provide training to their counterparts from the Russian, Ukrainian and Kazakhstani official statistical services. NASS will train their counterparts in statistical sampling methodology, which enables quick, inexpensive and accurate data collection. NASS will also provide training in computer technologies, data monitoring, compiling and publishing.

Trade and Investment Missions ($99,510 - Russia): Two industry-specific trade and investment missions to Russia will be conducted with EMP funding in winter-spring 1999. The proposed trade missions are explicitly directed at engaging small- and medium-sized U.S. agribusinesses that are unable to access most existing U.S. support programs. The missions will take place under the aegis of USAID's Program to Revitalize Russian Agriculture through Regional Investment (PRARI). Each 10-day mission will visit three oblasts (regions), selected from among the 10 oblasts participating in PRARI. Each mission will include 10 mid-level U.S. executives familiar with the Russian business environment. The missions will focus on meat and dairy processing and livestock breeding; and grain, oilseed, fruit and vegetable processing. The groundwork for these missions has already been established by earlier PRARI activities.

USAID FARMER-TO-FARMER PROGRAM

Since 1991, USAID's Farmer-To-Farmer (FTF) Program has placed more than 3,400 U.S. farmers and agricultural professionals in the NIS on a short-term volunteer basis to provide technical assistance to their NIS counterparts, including farmers, cooperatives, agricultural organizations, agricultural credit institutions and agribusinesses. FTF is Congressionally mandated and funded through the Farm Bill, with P.L. 480 funds transferred to USAID for program implementation. In FY 1998, the NIS component of the FTF Program (NIS-FTF) operated under a one-year, $7.29 million extension of the four cooperative agreements that have been operational since FY 1991 with the following four implementing grantees: Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), Citizens' Network for Foreign Affairs, Land O'Lakes and Winrock International.

FTF has proven itself to be an effective and flexible mechanism for transferring the vast technology, knowledge and skills of U.S. farmers and agricultural professionals to their NIS counterparts through people-to-people linkages. NIS host organizations routinely share the in-country expenses for fielding FTF volunteers. In some cases, the NIS hosts, FTF volunteers and their U.S. communities have shared travel costs for the NIS hosts to visit the United States, so they can see first-hand the organizational and economic bases of the FTF volunteers' working environments back home in the United States. Many FTF volunteers and their NIS hosts have maintained contact by mail and e-mail after the volunteers returned home to the United States.

In FY 1998, a total of 475 FTF volunteer assignments were completed in the 12 NIS countries. A breakdown of NIS-FTF volunteer assignments by country is provided below:

COMPLETED NIS-FTF VOLUNTEER ASSIGNMENTS

	FY 1998	Cumulative		FY 1998	Cumulative
Russia	191	1,592	Belarus	15	118
Ukraine	73	492	Turkmenistan	18	94
Kazakhstan	49	395	Uzbekistan	17	92
Kyrgyzstan	32	183	Georgia	16	59
Armenia	22	173	Tajikistan	0	50
Moldova	24	153	Azerbaijan	18	47

Increasingly, NIS-FTF's program orientation is evolving towards identifying private-sector NIS host organizations committed to promoting reform, and providing continuing FTF volunteer assistance over time to assist the host organizations' evolution and development. NIS-FTF's four implementing grantees have developed informal institutional partnerships with a broad range of organizations in order to facilitate program implementation and sustainability, including more than 200 NIS and 125 U.S. organizations. From FY 1996 to FY 1998, some 1,000 host organizations have been assisted by FTF volunteers in all 12 NIS countries. These host organizations include 310 agribusinesses, 190 private farmers, 190 associations and cooperatives, 110 agricultural lending institutions, and 100 agricultural educational institutions.

FTF assistance to NIS host organizations can also be broken down by primary development objective as follows: business development (740 organizations), sustainable use and protection of the environment (60 organizations) and building sustainable civil society (200 organizations). Training is a component of many FTF assignments and, in some cases, is the primary objective. FTF has provided training to more than 175 host organizations, and another 70 have been assisted in formulating new or revised training programs, including improved teaching skills and materials. More than 25,000 people have been trained with the help of FTF volunteers. The NIS-FTF grantees and volunteers have also facilitated the travel of 125 NIS counterparts to the United States for training under other U.S. Government-funded programs, such as the U.S. Department of Agriculture's (USDA) Cochran Fellowship Program and the U.S. Information Agency's (USIA) professional exchange programs.

FTF assistance to about 200 NIS host organizations has been completed, and the host organizations have become fully viable and sustainable organizations or businesses. Many of these successful host organizations are having a broader impact by serving as a model for how to positively influence similar organizations or businesses. In addition, NIS-FTF is being more closely linked with USAID's country-specific strategic objectives, and in some cases is providing targeted support to complement USAID-funded activities. There is also increased cooperation between the NIS-FTF grantees and other donor agencies.

The professional services provided by FTF volunteers over the past three years are valued at nearly $10 million. Moreover, the FTF Program has leveraged a significant amount of non-USAID resources to complement its program activities. The NIS-FTF implementing grantees, U.S. and host-country partners, NIS host organizations and volunteers have leveraged more than $1.6 million in additional resources. With help from FTF volunteers, NIS host organizations have secured an estimated $9.9 million in loans and grants to sustain and expand their operations.

NIS-FTF has had a broad grassroots impact in the United States as well. NIS-FTF volunteers have come from the entire spectrum of the U.S. agricultural sector and have been recruited from all 50 states. Volunteers have shared their experiences with their home communities and professional organizations. Upon returning to the United States, about 75 of NIS-FTF volunteers directly share information with the public about their experiences through presentations, newspaper articles, radio and television interviews, and articles in professional and organizational newsletters.

NIS-FTF has been extended through the end of FY 1999 with an estimated $7.3 million in P.L. 480 funding for about 450 volunteer assignments. The NIS-FTF Program will continue to focus on agribusiness development, agricultural banking and credit, agricultural processing, marketing, agricultural and business training, and privatization. FY 1999 will be the final year of the current NIS-FTF Program, which started as a special initiative in 1991. However, the progress achieved by NIS-FTF will be sustained through a new four-year NIS-FTF program scheduled to begin in October 1999.

U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL AVIATION ADMINISTRATION (FAA)

Conclusion of a U.S.-Russian Bilateral Aviation Safety Agreement: FAA efforts continued to determine the comparability of the Russian aircraft certification system and confidence level in Russian ability to interpret FAA airworthiness requirements. This effort concluded in the signing of a U.S.-Russian bilateral aviation safety agreement (BASA) in September 1998 that allows for mutual recognition of each others' airworthiness safety standards and aircraft certification processes. Work was also done in FY 1998 leading up to the signing of the implementing procedures agreement for general aviation and large cargo aircraft and the issuance of the first U.S. FAA-type certificate for the Ilyushin-103 small airplane.

Development and Operation of Air Traffic Routes: During FY 1998, FAA representatives participated in several bilateral and multilateral forums aimed at the development and efficient operation of air traffic routes over Russia. These forums included the Russian-American Coordinating Group for Air Traffic Control and the International Civil Aviation Organization (ICAO) Informal Trans-Asia/Tans-Siberia/Cross-Polar Routes High Level Steering Group. The FAA also participated in a joint U.S.-Russian evaluation of Russian Far East and U.S. air traffic control facilities. In order to support the shorter, more fuel-efficient air traffic routes that have been developed

over the Russian Far East, FAA has continued efforts to install and operate reliable data and voice communications between air traffic control centers in Anchorage, Alaska, and the Russian Far East.

U.S.-Russian Air Safety Working Group: During FY 1998, the FAA continued joint cooperation with Russia in the area of air safety through the U.S.-Russian Air Safety Working Group. In addition to routine cooperative work, FAA representatives participated in two meetings of the Working Group, one in the United States and one in St. Petersburg, Russia. In addition, the Working Group presented a joint safety seminar to Russian airlines in St. Petersburg.

Airport Management Seminars: In conjunction with the American Russian Center and USAID, FAA representatives in Anchorage presented airport management seminars for officials from Russian airports.

Other Programs: Other programs supported by FAA in FY 1998 included activities of the U.S.-Russian Accident Investigation Working Group, translation of technical documents into Russian, and representational visits by the FAA Senior Representative for Russia and the NIS.

TRAINING AND EXCHANGE PROGRAMS

Since 1993, the U.S. Government has brought more than 75,000 people from the NIS to the United States on academic and professional programs, in fields ranging from management to social service provision to NGO development. These programs have proven to be our most effective tool in reaching out to the next generation of NIS leaders to give them first-hand experience with the day-to-day functioning of a market-based, democratic system. In FY 1999, the U.S. Government will be increasing the amount of funding devoted to training and exchange programs.

USIA FREEDOM SUPPORT ACT-FUNDED PROGRAMS

INTERNET ACCESS AND TRAINING PROGRAM (IATP)

USIA's Internet Access and Training Program (IATP) provides sustainable access to and training in the use of the Internet and World Wide Web for alumni of U.S. Government-funded exchange programs and other NIS citizens who are working towards the transition to democracy, free markets, and a civil society in their home countries. IATP enables exchange-program alumni and the broader community of reformers to communicate with their U.S. colleagues, access on-line resources, and publish information for a global audience. IATP has established public-access Internet sites at more than 60 universities, libraries, research institutes, NGOs, and government agencies in all twelve of the NIS countries. In June 1997, IATP established the Uzbekistan FreeNet, the first nonprofit, low-cost, high-speed Internet service provider in Tashkent, which now serves more than 1,000 end-users and continues to support the Kyrgyzstan FreeNet. The IATP is providing E-mail and Internet training in Russian and other NIS languages to more than 10,000 end-users, training local Internet trainers, helping NIS universities and libraries develop bilingual websites, and conducting seminars for USIA program alumni. In support of the U.S. Government's Regional Initiatives in Russia, the IATP has expanded connectivity and established public-access Internet training sites at designated sites in Novgorod, Khabarovsk and Samara for students, faculty, NGOs and government officials working in business, law and public administration.

PROFESSIONAL EXCHANGE PROGRAMS

Community Connections

The successor to USIA's highly successful Business for Russia program, Community Connections offers hands-on, community-based internships to entrepreneurs, local government officials, NGO representatives, educators and legal specialists from Russia, Ukraine, Moldova, Armenia, Belarus and Georgia. Participants are recruited by U.S. NGOs with extensive experience in these countries, in close coordination with the U.S. embassies in these countries. The U.S. host communities contribute numerous hours of volunteer time in the form of involvement by U.S. host families, internships with local businesses and mentoring by local professionals. The program seeks to foster new and existing ties between U.S. and NIS communities and regions. Once the NIS participants are matched with local U.S. communities, the host communities develop two- to five-week programs based on the participants' professional interests. During FY 1998-99, an estimated 1,600 participants will take part in Community Connections: 850 from Russia, 400 from Ukraine, 140 from Moldova, 100 from Belarus and 110 from Georgia.

In response to President Yeltsin's request to train Russian mid-level managers, USIA expanded the Russian business internship portion of Community Connections to include five-to-six week internships for up 260 Presidential Management Training Initiative (PMTI) participants between May 1998 and fall 1999. By December 1998, approximately 50 mid-level managers had completed PMTI internships in Philadelphia, Tucson, Charlotte (North Carolina), Flint (Michigan) and San Francisco.

A total of 40 U.S. communities hosted 1,270 participants (423 women and 847 men) in FY 1998, of which 780 were entrepreneurs 490 were other professionals. Participants were broken down by country as follows: 655 from Russia, 330 from Ukraine, 90 from Moldova, 85 from Georgia, 65 from Belarus, and 45 from Armenia.

- After returning from their Community Connections internships, a group of small business development officials from Petrozavodsk, Russia, have continued to work together to share their practical experiences with one another. The group has created an officially registered better-business bureau, called the Karelian Agency for Support, which offers consultations, organizes seminars for businesses and individuals, participates in international projects, creates electronic databases, and cooperates with international foundations and partners in business development. The resources created and maintained by the agency are made available to all businesses in the region, other professionals involved in business support, and local legislators.

- Upon returning home to Rostov (Russia) a civics education group hosted in Chicago formed a new non-governmental organization that promotes democratization of the educational system and the broader community.

- A participant from Tver (Russia) was hired as an industrial psychologist by TverPivo, the largest local distillery; she was one of the first in her region to focus on this topic.

- A returned Moldovan participant is seeking to establish distributor-manufacturer relationships between Ohio manufacturers and his company. As a result of contacts made during his U.S. internship, an Ohio-based upscale grocery store chain is considering importing and carrying Moldovan wines in their retail stores.

- A participant who interned in Columbus (Ohio) has signed a preliminary agreement with a local manufacturer of scotch tape to distribute the company's products in Ukraine. The participant is also talking to a large U.S. retail chain about importing cotton goods from Ukraine.

In FY 1999, approximately 1,700 Community Connections participants will be recruited from Russia, Belarus, Georgia and Moldova. In spring 1999, USIA anticipates expanding the program to Armenia and Kazakhstan. An additional 260 U.S.-based PMTI internships will be arranged between fall 1999 and fall 2000. During FY 1999, USIA will continue to direct its efforts at evaluating the long-term impact of this program in participating NIS countries and in U.S. host communities.

Center For Citizen Initiatives (CCI) - Productivity Enhancement Program (PEP)

Since 1996, the San Francisco-based Center for Citizen Initiatives (CCI) has received FREEDOM Support Act funding through USIA to implement its Productivity Enhancement Program (PEP), which provides month-long management training internships for non-English-speaking Russian and Ukrainian entrepreneurs, managers, private farmers, bankers and accountants. CCI maintains offices in six Russian cities—Dubna, Voronezh, Volgograd, St. Petersburg, Yekaterinburg and Rostov—and works very closely with U.S. Rotary Clubs to facilitate and coordinate PEP programs in communities across the United States.

From April 1996 through December 1998, CCI hosted 946 Russian and 170 Ukrainian entrepreneurs. As a U.S. partner in the PMTI program (see above) CCI also arranged individualized internships with U.S. companies for English-speaking mid-level Russian managers. CCI organized approximately 13 PMTI internships during the May-November period.

Novgorod Museum Linkage

In FY 1998, USIA provided a special Creative Arts Exchange grant in support of a museum partnership between Colonial Williamsburg (Virginia) and the United Museum in Novgorod. Under this project, a team of U.S. marketing and museum management specialists will work with the Novgorod Ministry of Culture and United Museum staff members to expand cultural tourism and public museum programs in Novgorod. The culmination of this project was a successful training program on the development of cultural tourism in Russia that was held in Williamsburg in November. Several Russian partners were able to attend, despite the financial crisis that was unfolding in Russia.

ACADEMIC EXCHANGE PROGRAMS

Fellowships in Contemporary Issues

The Contemporary Issues program uses an open, merit-based competition to select government officials, NGO leaders and private-sector professionals from all 12 NIS countries for three-month policy-oriented research fellowships at U.S. host institutions. The Fellows conduct research, write articles, make presentations and enhance their advocacy skills on topics in five strategic areas: (1) sustainable economic growth and development; (2) democracy, human rights and the rule of law; (3) international relations, national security, and public policy issues; (4) strengthening civil society; and (5) the Internet, intellectual property rights, and the communications revolution. In FY 1998, the program provided 75 NIS professionals with opportunities to conduct research and learn about the latest developments in their professional fields, collaborate with their American counterparts, develop professional contacts, and participate in conferences. The Fellowships are administered through a grant awarded to the International Research & Exchanges Board (IREX).

FREEDOM Support Act (FSA) Undergraduate Exchange Program

The FSA Undergraduate Program provides undergraduates from all twelve NIS countries with one year of non-degree study in the United States in the fields of agriculture, business administration, communications/journalism, computer science, criminal justice studies, economics, education, environmental management, government, library and information sciences, public policy, and sociology. Participants are selected through an open, merit-based competition to attend accredited U.S. four-year universities and colleges, or community colleges, and live either on-campus or with a host family.

A total of 262 undergraduates participated in this program in FY 1998: 24 from Armenia, 19 from Azerbaijan, 9 from Belarus, 19 from Georgia, 18 from Kazakhstan, 10 from Kyrgyzstan, 9 from Moldova, 70 from Russia, 3 from Tajikistan, 4 from Turkmenistan, 69 from Ukraine, and 8 from Uzbekistan. The American Councils for International Education (ACIE/ACTR) and Youth for Understanding (YFU), which administer the program for USIA, received a total of 4,397 applications for the FY 1998 FSA Undergraduate Program (3543 for study at four-year colleges and universities, and 854 for study at community colleges) for these 262 fellowships. In FY 1999, USIA will award 210 undergraduate fellowships for study during the 1999-2000 academic year.

Starting in FY 1998, all participants were required to complete 40 hours of community service during their first

semester. Students participated in a variety of activities, including working with children, helping out with the elderly, sharing their cultural traditions with their local communities, coaching youth sports teams, and organizing fundraising events for charities.

NIS College and University Partnership Program (NISCUPP)

NISCUPP is designed to foster mutually beneficial linkages between U.S. and NIS colleges and universities through partnership activities in the following areas: law; business, economics and trade; education, continuing education, civic education and educational reform; public administration, public policy, government, urban and regional economic development; and journalism and communications. NISCUPP projects support the ability of NIS academic institutions to contribute, through curriculum reform and applied research, to the creation of democratic institutions, rule of law, and an environment hospitable to foreign investment in their home countries. The grants provide up to $300,000 for U.S. and NIS partner institutions to exchange faculty and staff for teaching, lecturing, faculty and curriculum development, collaborative research, and outreach. Cost-sharing by the U.S. host institutions and other sources covers approximately 42 percent of all program costs.

In FY 1998, USIA awarded 25 new grants for U.S.-NIS university partnerships, including 14 in business and economics, four in law, five in public administration/government and two in education. Some 480 U.S. and NIS citizens will participate in exchange programs under these partnership grants: approximately 18 with Armenia, 19 with Azerbaijan, 19 with Belarus, 17 with Georgia, 14 with Kazakhstan, 250 with Russia, four with Tajikistan, ten with Turkmenistan, 97 with Ukraine, and 32 with Uzbekistan.

- In Russia, 11 out of USIA's 13 new FY 1998 university partnerships support the U.S. Government's Regional Initiatives in Samara (3 partnerships), Novgorod (3 partnerships) and the Russian Far East (1 partnership in Khabarovsk/Sakhalin, 3 partnerships in Vladivostok, and 1 partnership in Amur). Seven of the Regional Initiative partnerships are in the field of business and involve Russian institutions affiliated with the Presidential Management Training Initiative (PMTI) described above.

- A business administration partnership between the University of Rhode Island at Kingston (URI) and Novgorod State University (NGU) identified local tuition-paying participants in Novgorod for the Rhode Island/Novgorod State (RING) Program in Executive Business Training. In fall 1998, a group of four URI faculty members started teaching courses in accounting, marketing and management which were subsequently taken over and continued by their partners at NGU, who have incorporated participatory teaching techniques introduced by the URI faculty. The partners hope that over the long term, this model of an executive training program with tuition-paying participants can be a model for self-supporting educational programming.

- Under a NISCUPP partnership grant, Ohio State University is successfully using distance-learning technology to provide bilingual World Wide Web-based courses for their three partner universities in Tomsk, Russia. The first Web-based course in management information sciences was prepared by a Tomsk faculty member during an exchange program with his U.S. colleagues at OSU and was delivered to students at the three universities in Tomsk last spring. Tomsk faculty members at OSU are preparing courses in accounting and operations management for Web-based delivery in spring 1999. The Web-based modules for each course will be reusable and available for continuing use by the Russian faculty in Tomsk.

- Iowa State University and the National Agricultural University of Ukraine (NAUU) concluded their NISCUPP partnership grant with a conference in September 1998 attended by senior university officials (including the president of Iowa State University) from more than thirty countries, addressing the topics of education reform, distance education, and global networking in higher education in agriculture. In addition to the establishment of an Institute of Agribusiness at NAUU, the project also led to a large number of collaborative events and projects not formally supported by the NISCUPP grant, including a library exchange, joint workshops and research projects. This record of ongoing collaboration suggests that the partnership will continue long after the conclusion of the USIA grant.

Secondary School Exchange Programs

The programs under USIA's NIS Secondary School Initiative include the **Future Leaders Exchange (FLEX) Program**, a year-long U.S.-based program for NIS high school students (see Jointly Funded Programs section below); **Secondary School Partnerships**, which support exchanges of groups of U.S. and NIS high school students and educators between paired schools; the **Teaching Excellence Awards (TEA)**, which acknowledge and reward excellence in the teaching of English language and American studies; and two country-specific projects: **Junior Achievement - Novgorod** and **Armenia Connectivity**. The long-term objectives of these programs are (1) to foster interaction between U.S. and NIS high school students to promote mutual understanding, (2) to help NIS high school students build a new and open society by promoting democratic values and institutions; (3) to build sustainable partnerships between U.S. and NIS school systems and private organizations and to build the capacity of American NGOs to conduct exchanges with the NIS; and (4) to promote educational reform in the NIS through citizen empowerment. The program also seeks to capitalize on private sector cost-sharing opportunities.

Secondary School Partnerships: A projected total of 945 U.S. and NIS citizens will have participated in exchange programs under ten FY 1998 Secondary School Partnerships, including 816 students and 129 educators/escorts:

COUNTRY	NIS	US	TOTAL
Armenia	24	24	48
Azerbaijan	24	25	49
Belarus	30	32	62
Georgia	18	18	36
Kazakhstan	24	24	48
Kyrgyzstan	14	15	29
Moldova	33	13	46
Russia	200	194	394
Ukraine	96	96	192
Uzbekistan	31	10	41
Total	**494**	**451**	**945**

The ten grants provide partial funding to establish and expand linkages between the U.S. and NIS schools, with an emphasis on collaborative topical projects and student and educator exchanges. The projects have a thematic focus and tangible outcomes, such as the production of educational materials. The areas addressed by the FY 1998 partnerships include health education, democracy and globalization, leadership development, community service, civic education, computer technology, career planning, agricultural education, and business development.

- A partnership between secondary schools in Sitka (Alaska) and Yelizovo (Kamchatka Peninsula, Russia) has created linkages between the schools' communities as well, inspiring Sitka's International Rotary Club to initiate a club in Yelizovo, with Sitka club members traveling to Yelizovo to develop business relationships. In 1998, the Alaskan Rotary Clubs sponsored four Yelizovo Rotarians to attend a Rotary International district conference in Sitka.

- Over the past three years, U.S. and Russian secondary schools have participated in exchanges under a grant to Georgia State University (GSU). In FY 1998, the schools participated in a two-semester course organized by GSU's Global Thinking Project (GTP) in collaboration with the Herzen State Pedagogical University in St. Petersburg, Russia. Students conducted cross-cultural environmental research and used Internet tools (including GTP's website, chat rooms, threaded bulletin board, e-mail, interactive web forms, and a listserv). The students scheduled several live on-line chats using GTP's Internet software.

Teaching Excellence Awards (TEA): The TEA Program, which is administered by the American Councils for International Education (ACIE/ACTR), awards teaching excellence in the fields of English language and American studies. Nominations are elicited in all oblasts (provinces) in the five participating countries: Kazakhstan, Kyrgyzstan, Russia, Ukraine and Uzbekistan. Nominees are screened by local committees, and regional winners receive educational equipment and materials for their schools. In FY 1998, a total of 1,008 teachers were

recognized in the first round, 362were recognized in the second round, and 70 were selected as national finalists and traveled to the United States, where they participated in a six-week enrichment program this past summer. In addition, 28 American teachers were selected through independent competitions to participate in exchange programs with the participating countries.

Country	1st Round	2nd Round	Natl. Finalists	U.S. Teachers
Russia	486	190	30	13
Ukraine	187	65	15	6
Kazakhstan	154	42	10	4
Uzbekistan	118	43	10	3
Kyrgyzstan	63	22	5	2
TOTAL	**1,008**	**362**	**70**	**28**

The TEA Program aims to contribute to the development and reform of educational systems in the NIS, and to promote mutual understanding. National finalists participate in a professional enrichment program that enables them to improve their teaching skills, knowledge, and teaching materials, resulting in a multiplier effect as the teachers pass these benefits along to their students. Thanks to this multiplier effect, the TEA Program is one of the most highly visible U.S. Government-funded assistance programs in the NIS.

- In Kazakhstan, TEA national finalists hosted four American teachers and are helping ACIE/ACTR organize a seminar for English teachers in summer 1999. In addition, each national finalist is conducting workshops for teachers in his/her area, each of which will indirectly benefit several thousand students.

Junior Achievement International - Novgorod, Russia: Under a grant from USIA, Junior Achievement (JA) International introduced applied economics and business curricula into the Novgorod Oblast (Region) school system and established a JA affiliate in Novgorod. The program, which also built upon the existing sister-city affiliation between Novgorod and Rochester, New York, is part of the U.S. Government's Regional Initiative for Novgorod, which seeks to promote free-market economics and democratic values in the region. Under its Global Learning of the Business Enterprise (GLOBE) Program, JA conducted an international business simulation exercise and exchange program (including 10 students, 5 teachers and 1 staff member from Novgorod) between five high schools in Novgorod and five in Rochester. In fall 1998, the Russian participants visited Rochester for three weeks to participate in the first part of the GLOBE simulation exercise. A total of 72 Novgorod high school teachers were trained under this program and are now using JA's applied economics curriculum. Over 2,800 students are expected to benefit from this program.

Secondary Teacher Education in Armenia (STEA): The STEA Program is helping six Armenian educators to develop a civic education curriculum for Armenian high school students. The program will result in a series of field-tested instructional materials developed during a curriculum development workshop on the campus of the University of Iowa's College of Education. The Armenian teachers are collaborating with University of Iowa faculty to adapt a framework plan which will then be reviewed by outside educational experts. Once the curriculum is completed, the Armenian and U.S. partners will host an in-service workshop in Yerevan to train teachers in the use of the curriculum. In FY 1998, six Armenian educators participated in the U.S. curriculum development workshop and two U.S. experts traveled to Armenia to prepare specifications for the curriculum materials.

Civic Education and Democracy Building Programs

Curriculum Development and Teacher Training (Russia): Under a grant from USIA, Syracuse University helped Russian secondary teachers in Bryansk to develop public policy materials and study guides on Russian civic issues and enhancing teaching methodologies. The program included an assessment phase, a U.S. workshop, and a field test of the materials developed. Five Russian educators participated in the U.S. workshop, and an additional 10 Russian teachers participated in the needs-assessment phase. A total of 140 teachers participated in two public-policy institutes in Russia. The public policy handbooks developed during this program were distributed to Bryansk newspapers, television stations and public officials.

Russian Civic Education for the Information Age: This cooperative program produced a citizenship skills curriculum complete with teacher training materials. In FY 1998, the University of Hawaii helped Russian

educators develop and field-test nine civic education curriculum units for secondary schools in Krasnoyarsk. Five units were developed in Russia by Russian curriculum developers and built upon four other units developed in Hawaii during summer 1997. The nine curriculum units received praise from the Krasnoyarsk Territorial Department of Education. The program incorporates the latest education technologies, including active learning techniques, case studies and interdisciplinary design. Six U.S. and Russian curriculum developers participated in exchanges under this program. Two Russian curriculum developers returned to the University Hawaii in November to design additional units.

DEMOCRACY FUND SMALL GRANTS PROGRAM

FY 1998 marked the third year of the embassy-based Democracy Fund Small Grants Program for the NIS. Each U.S. embassy's Democracy Commission awards small grants of up to $24,000 to host-country non-governmental organizations or individuals to promote democracy, independent media and the free flow of information. In FY 1998, some 145 grants totaling over $1.45 million were awarded by the nine Democracy Commissions whose grants are administered by USIA. Since FY 1995, a total of 348 grants have been awarded among the nine countries: 60 in Armenia, 26 in Azerbaijan, 66 in Belarus, 28 in Georgia, 29 in Kazakhstan, 42 in Kyrgyzstan, 37 in Moldova, 40 in Ukraine, and 20 in Uzbekistan. In Tajikistan and Turkmenistan, Democracy Fund grants are administered by the Eurasia Foundation. (see individual country assessments in Section II)

NEW PROGRAMS

Russian-U.S. Leadership Fellows Program

This new academic exchange program will target outstanding Russian and U.S. college graduates who have demonstrated leadership skills and an interest in public service, and will seek to enrich their education and experience, with the goal of increasing mutual understanding between Russia and the United States. The program will provide one year of intensive academic and professional training to young U.S. and Russian leaders in fields relevant to Russia's political and economic transition and to U.S.-Russian relations, including American and Russian area studies, conflict resolution, economics, government studies, history, international relations and political science. The program will provide one year of non-degree graduate-level academic study at a qualified U.S. university or college, a community service component, and a four- to twelve-week professional development internship. Approximately 20 U.S. students and 60 Russian students will be selected to participate in this program during n the 1999-2000 academic year.

Armenia Connectivity Project

Under a grant from USIA, the American Councils for International Education (ACIE/ACCELS) will establish Internet capability in six Armenian schools and their six U.S. partner schools in 1999. This tool of communication will be used to develop new social science curriculum modules that are much-needed in Armenia.

Elementary Teacher Education in Armenia (ETEA)

ETEA will support Armenian elementary school teachers by introducing them to new teaching methodologies and research skills, and by creating new teaching materials. ETEA will develop state-of-the-art teaching manuals in five basic subjects: mathematics, science, languages, arts and physical education. The manuals will be drafted during a three-month U.S. workshop, and will be reviewed by educators and Armenian Ministry of Education officials prior to being pilot-tested in 18 Armenian schools for one year. Six Armenian teachers will travel to the United States for the workshop and three U.S. experts will travel to Armenia to provide guidance in the manual's development.

USIA BASE BUDGET-FUNDED PROGRAMS

ACADEMIC EXCHANGE PROGRAMS

Fulbright Program

The NIS component of USIA's Fulbright Program provides opportunities for U.S. faculty to teach in the region and research awards for NIS scholars to study in the United States. The program emphasizes exchanges of scholars in the humanities and social sciences, although candidates in the sciences (biology, chemistry, mathematics, medicine and related fields) are also eligible. In addition to funding 74 U.S. and 92 NIS scholars in FY 1998, the program provided textbooks for the U.S. grantees teaching in the NIS countries. Of all the USIA-funded exchange programs with the NIS, the Fulbright Program is the only program that funds U.S. scholars to teach in the NIS. The Fulbright Program has been bringing U.S. lecturers to the NIS in academic disciplines outside of the traditional American-studies focus that has dominated U.S.-NIS exchanges. In other words, the Fulbright Program brings the vitality and diversity of the American liberal arts curriculum to the NIS. In FY 1998, in addition to law and business management, U.S. Fulbright lecturers also taught courses in conflict resolution (Armenia), American film (Belarus), ethics and business management (Kyrgyzstan), electronic information retrieval (Russia), biological waste management (Russia), modern American music (Russia), and feminism (Ukraine).

- In FY 1998, U.S. Fulbright lecturers were placed at 15 additional NIS academic institutions that had never before hosted a U.S. Fulbright lecturer.

- A U.S. Fulbright lecturer organized the first-ever conference for secondary school teachers of civics education in Ukraine.

Regional Scholars Program

USIA's Regional Scholars Program promotes the reform of higher education in the social sciences and humanities in the NIS by providing research fellowships at U.S. and NIS universities to promising faculty and Ph.D. (or Ph.D.-equivalent) candidates from the NIS and the United States, respectively. The program enables scholars to research, write and publish dissertations, articles and books on innovative topics that can advance the state of knowledge in their academic disciplines in their home countries, with the help of host-country resources and specialists. During the 1997-98 academic year, USIA funded 72 Regional Scholars focusing on academic disciplines such as economics, government, education administration, and library science: three from Armenia, three from Azerbaijan, five from Belarus, five from Georgia, ten from Kazakhstan, three from Kyrgyzstan, four from Moldova, 23 from Russia, ten from Ukraine, and six from Uzbekistan. Scholars from all 12 NIS countries and the United States were selected through an open, merit-based competition and placed with host advisors at U.S. and NIS universities for periods ranging from four months to six months. The Scholars conducted research, wrote scholarly articles, developed new curricula, delivered lectures, participated in academic conferences, and collaborated with their U.S. and NIS colleagues.

PROGRAMS JOINTLY FUNDED BY THE FREEDOM SUPPORT ACT (FSA) AND USIA'S BASE BUDGET

International Visitors (IV) Program

The IV Program gives high-level NIS government officials and key professionals travel grants in selected fields to enable them to meet with their U.S. professional counterparts and explore issues related to democratic and economic reform, including education, journalism and media, university and library administration, social services, federalism, small business, and non-governmental organizations (NGOs). The projects, which are typically two to three weeks in length, have included supreme court judges, members of national and regional parliaments, government officials at the ministerial level, prosecutors, journalists, and professionals in the social services, public health and labor fields. The IV Program offers participants an invaluable opportunity to gain a fresh perspective on their work; many of them have been able to implement substantive changes after returning to their home countries.

Under the FREEDOM Support Act-funded component of the USIA International Visitors (IV) Program, a total of 494 NIS participants traveled to the United States on more than 75 group and individual projects in FY 1998: 12 from Armenia, 11 from Azerbaijan, 44 from Belarus, 62 from Georgia, 33 from Kazakhstan, 32 from Kyrgyzstan, 25 from Moldova, 180 from Russia, 6 from Tajikistan, 4 from Turkmenistan, 73 from Ukraine and 12 from Uzbekistan. Among the FREEDOM Support Act-funded IV programs organized by USIA in FY 1998 were the following:

- a project supporting trade and investment in the Russian Far East in support of the U.S. Government's Regional Initiative,

- programs on fighting organized crime and corruption for two top national-security advisors to the President of Moldova,

- three projects for Georgian officials and lawmakers on revamping governmental fiscal management,

- a project on national reconciliation for six leaders of Tajikistan's political and religious factions,

- a project on telecommunications for members of a Russian parliamentary committee responsible for drafting new telecommunications legislation, and

- a project for six Russian officials from the Yeltsin Administration and the Ministries of Justice and Foreign Affairs, who were responsible for implementing a controversial law on religion passed by the Russian Parliament in September 1997. (In addition to providing a first-hand look at how the United States safeguards freedom of religion, this program gave the Russian participants an opportunity to discuss the status of the law's implementation with U.S. opinion leaders. The participants have already been instrumental in defusing cases where regional officials, citing the new law, took discriminatory actions against religious groups.)

Under the USIA base budget-funded component of the IV Program, a total of 199 NIS citizens participated in individual and group projects, including one from Armenia, six from Azerbaijan, 11 from Belarus, 21 from Georgia, 28 from Kazakhstan, 22 from Kyrgyzstan, seven from Moldova, 74 from Russia, one from Tajikistan, seven from Turkmenistan, 18 from Ukraine and two from Uzbekistan. Of this total, 24 participated in multi-regional projects.

Journalism and education continued to be a primary focus of USIA base-funded IV programs in the NIS. Nine group projects on media-related themes were conducted for participants from Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan and Ukraine. Various single-country group projects covered such issues as civic education, educational standards, teacher training and school administration.

- Eight public health officials from Georgia participated in a three-week IV program on developing public education and prevention campaigns for HIV and other infectious diseases.

- A group of twelve lawmakers from the Sverdlovsk, Chelyabinsk and Perm municipal governments in the Urals region of Russia visited similarly industrialized regions in the United States to learn from the latter's experience in economic restructuring, public governance and fiscal management.

- On a three-week IV program in April, a group of twelve university administrators from Belarus examined a variety of innovative teaching methods being adopted by U.S. institutions of higher education, as well as their efforts to developing more efficient management and alternative sources of financial support.

- Five public safety officials from Kazakhstan studied U.S. programs for earthquake preparedness and emergency response on a three-week IV program in March. This project resulted in a number of offers for training and assistance to Kazakhstan, and a realization by the group members of the importance of Kazakhstani inter-agency coordination.

Citizen Exchanges Program

This program awards grants to public- and private-sector nonprofit organizations to develop training programs in support of the transition to democracy and market economies in the NIS. In FY 1998, USIA awarded a total of 18 grants for projects in women's leadership (FSA- and base-funded), distance learning in business administration (FSA- and base-funded), public administration (base-funded), trade and investment (FSA-funded), establishing business associations (FSA-funded) and establishing a broadcast association (base-funded). USIA awarded a total of six grants to support distance learning in Russia, three of which were funded under the FREEDOM Support Act.

Women's Leadership Programs: In FY 1998, USIA awarded eight grants for women's leadership training programs in Russia, Belarus, Moldova and Ukraine in the areas of law, business and political leadership, as a follow-up to the Vital Voices Conference held in Vienna in July 1997. Six of the eight awards were funded under the FREEDOM Support Act.

- The Women's Coalition of Duluth (Minnesota) and the Crisis Center of Petrozavodsk (Russia) worked with each other to implement a women's leadership program on combating domestic violence and providing support for battered women. Russian women leaders participated in a conference, training program and internship in Duluth in November. Activities included a police ride-along, observation of court hearings on domestic violence and meetings of support groups for men convicted for domestic violence, and community coalition-building. The Russian participants gave a presentation to 65 people at the University of Minnesota at Duluth on domestic violence in Russia. Upon returning to Petrozavodsk, one participant began working on legislation on children and family issues.

- The "1998 Connective Leadership Project" implemented by “Women of Vision” of Tacoma (Washington) and “Women Together” of Novosibirsk (Russia) trained women leaders from Novosibirsk, Irkutsk and Gorno-Altaisk. The program included seminars and internships in campaigning, grassroots organizing, coalition-building, micro-enterprise development, women's legal rights, victim advocacy, child-abuse prevention, international trade, community youth projects, business for charity, 4-H and Rotary International. Upon returning to Novosibirsk, the participants began negotiations with local schools to implement a 4-H program, worked with the local media to promote leadership events and NGO development, translated a book on starting your own micro-enterprise into Russian, and conducted discussions entrepreneurs and regional officials on opening a micro-credit center for the Siberian Region.

Sister Cities International (SCI) - Municipal and Community Problem-Solving Program

In FY 1998, the Municipal and Community Problem-Solving Program implemented by Sister Cities International funded 16 programs in areas such as rights of the disabled, health care, child welfare, medical services and training, community building and volunteerism, investment and business development, and public administration. Four of these programs support partnerships between formerly closed Soviet nuclear cities and their U.S. counterparts. For example, under a two-year-old sister-city partnership between Oak Ridge (Tennessee) and Obninsk (Russia), participants from Obninsk visited Oak Ridge in November, resulting in increased media coverage of sister-city programs and events, pen-pal relationships between the Obninsk Orphanage and the children of Oak Ridge First United Methodist Church, and the establishment of a committee in the Oak Ridge Chamber of Commerce and the Obninsk Chamber of Commerce to facilitate investment and economic development. Business partnerships currently being negotiated include a computer programming project and collaboration between Technology 2000 of Oak Ridge and TechnoLeague of Obninsk to cross-train Russian Army officers.

Junior Faculty Development Program

The Junior Faculty Development Program (JFDP) was created in 1993 to provide scholars from Kazakhstan, Russia and Ukraine with training in curriculum development and teaching methodology. JFDP scholars work closely with faculty mentors from their U.S. host universities in outlining new courses and designing different and innovative ways to teach their respective subject matter. JFDP scholars audit courses, attend academic conferences, and are often invited to teach classes at their U.S. host universities. In addition, each scholar has the opportunity, and is strongly encouraged, to participate in a practical internship for a period of up to two months after the completion of the academic program. In FY 1998, a total of 76 NIS junior faculty participated in the JFDP: seven from Kazakhstan (all FSA-funded), 54 from Russia (all base-funded), and 15 from Ukraine (six FSA-funded and nine base-funded). Two former JFDP participants who are both English professors at the Nizhniy Novgorod (Russia) Linguistic University are working on a project to introduce a new program in hotel and travel management to their university. They will collaborate with faculty in the Department of Hotel, Restaurant and Travel Administration at the University of Massachusetts. Another former JFDP participant is working as an Internet consultant to the Soros Foundation, in addition to his teaching position in the Computer Science Department at Nayanova University in Samara.

Edmund S. Muskie/FREEDOM Support Act Graduate Fellowship Program

USIA's Edmund S. Muskie/FREEDOM Support Act Graduate Fellowship Program provides opportunities to NIS graduate students for one to two years of graduate-level study in the United States, in many cases leading to a master's degree or certificate. Fellowships are offered in the fields of business administration, economics, education administration, journalism and mass communication, library and information sciences, law, public administration, public health and public policy. In FY 1998, USIA received a total of 3,502 applications for this combined program, of which nine percent (314) were selected as NIS finalists. The vast majority of applications were in business (1,312), educational administration (472) and public administration (462). USIA awarded 97 base-funded Muskie Fellowships and 217 FSA-funded Graduate Fellowships. A total of 157 U.S. institutions applied to host the Muskie/FSA Fellows, of which 121 were selected as host institutions. The majority of prospective host institutions which applied to the Muskie/FSA Program were interested in hosting business fellows. A breakdown of FY 1998 finalists by country is provided below:

Country	Muskie Fellows	FSA Graduate Fellows	Total
Armenia	3	66	69
Azerbaijan	1	15	16
Belarus	6	5	11
Georgia	5	18	23
Kazakhstan	9	7	16
Kyrgyzstan	4	7	11
Moldova	2	5	7
Russia	44	32	76
Tajikistan	0	4	4
Turkmenistan	2	4	6
Ukraine	16	47	63
Uzbekistan	5	7	12
Total	**97**	**217**	**314**

- An alumna of the FY 1996 FSA Graduate Fellowship Program was confirmed as Georgia's Minister of Trade and Foreign Economic Relations in September 1998, becoming only the second female to be appointed to a ministerial position in Georgia.

- In fall 1998, the Soros-funded Open Society Institute and ACIE/ACTR conducted six field-specific workshops in the United States for FY 1998 Muskie/FSA Fellows, with another two workshops scheduled for spring 1999.

Future Leaders Exchange (FLEX) Program / NIS Secondary School Initiative

Under these combined programs, high school students from throughout the NIS are selected in national, open, merit-based competitions for full scholarships to spend one academic year studying at a U.S. high school and living with a U.S. host family. Recruitment, selection and orientation programs are carried out by the American Councils on International Education (ACIE/ACCELS) and Youth for Understanding (YFU), with 12 U.S. youth exchange organizations collaborating on placement and monitoring. After returning to their home countries, program alumni are encouraged to join USIA alumni organizations and participate in follow-on activities coordinated by ACIE/ACCELS.

A total of 925 NIS secondary school students are participating in USIA exchange programs during the 1998-99 academic year: 50 from Armenia, 54 from Azerbaijan, 60 from Belarus, 50 from Georgia, 64 from Kazakhstan, 35 from Kyrgyzstan, 35 from Moldova, 313 from Russia, 20 from Tajikistan, 30 from Turkmenistan, 165 from Ukraine, and 49 from Uzbekistan. The number of FLEX program participants increased by 8 percent from 1997 thanks to increased budget allocations for Central Asia and the Caucasus. Eighty-eight FLEX students selected as finalists in an essay contest participated in a one-week civic education workshop in Washington, D.C., in May, and were hosted at the White House by First Lady Hillary Rodham Clinton.

- The FLEX Program generated $9 million in cost-sharing and in-kind contributions, mostly by U.S. host families and schools, including tuition waivers offered by private schools, tuition paid by one host family, and another host family's purchase of a laptop computer for their participant.

- Thanks to the generosity of the Root River Community Church of Rushford (Minnesota), one 1997-98 Ukrainian FLEX student took along a wheelchair for her physically disabled father upon returning home to Dnipropetrovsk in June 1998. The student's father suffers from multiple sclerosis, but her mother could not afford to buy a wheelchair on her $80/month teacher's salary.

- Alumni assistants have been hired at all of USIA's program hubs to develop greater outreach to returnees, who now number more than 8,000. The alumni from the first year of the FLEX program have now graduated from college and moved into their chosen professions. Initial sampling shows that a high percentage of these young professionals are engaged in law and international business.

- A former FLEX participant from Kazakhstan, while pursuing fourth-year studies in international economic relations, has become his country's national volunteer coordinator for the Special Olympics. Thanks to his fund-raising efforts, the budget for the program has tripled and a Kazakhstani team will participate in the next world competition.

Academic Specialists/Speakers Program

This program awards grants to U.S. academics and professionals to consult with colleagues at NIS academic and professional institutions. Academic specialists spend from two to six weeks abroad, conducting seminars and workshops, while speakers receive grants for short visits. USIA awarded a total of 121 grants to academic specialists and speakers in FY 1998: two for Armenia, 10 for Azerbaijan, 16 for Belarus, one for Georgia, 21 for Kazakhstan, nine for Kyrgyzstan, two for Moldova, 37 for Russia, two for Turkmenistan, 18 for Ukraine, and three for Uzbekistan. For example, a former member of the U.S. Congress traveled to Kazakhstan as a speaker on women's issues, and a female judge traveled to Uzbekistan to speak about domestic violence and crimes against women.

USAID GLOBAL TRAINING FOR DEVELOPMENT (GTD)

Beginning in FY 1997, most U.S.-based, USAID-funded training programs for NIS participants were implemented through GTD, the successor to the NIS Exchanges and Training (NET) Project that began in 1993. In addition to training conducted under GTD, USAID in-country technical assistance contractors and grantees also conducted training related to their projects. Under GTD, USAID's NIS training efforts were expanded to include third-country and in-country training. Third-country training programs give participants an opportunity to see how countries in neighboring regions (in particular, Central Europe) have implemented the same reforms that they are now trying to implement in their own countries. In-country training programs, which range from one-day seminars to longer programs in conjunction with USAID contractors, help build in-country institutional capacity and provide cost savings by cutting out travel costs. These are just a few of the many reasons for USAID's increased reliance on in-country and third-country training over the past two years.

As in previous years, all USAID-funded training programs supported USAID's country-specific strategic objectives. USAID's field missions and their NIS-based contractors worked with the Academy for Educational Development (AED), GTD's implementing contractor, to design a training plan that supports these objectives. In 1998, a "training results chain" was designed to ensure that USAID training programs are planned with specific results in mind. Each rung on the chain represents a certain level of results, from the broad strategic objective to the more specific program results and training management results. USAID set up a Training Events On-Line Library (TEOL), an online database, to help training planners design effective training programs. TEOL is accessible through the Internet at the following address: http://www.enitraining.net

Since the beginning of USAID's NIS training efforts in 1992, over 83,000 individuals have participated in U.S.-based, in-country or third-country USAID-funded training programs. In FY 1998, over 66,000 participants were been trained in all of three of USAID's strategic assistance areas for the NIS: economic restructuring, democratic transition and social stabilization.

In an effort to contain costs while maintaining high-quality training, USAID implemented several cost-containment measures in FY 1998. Host governments and partner institutions participate in cost-sharing whenever possible, training providers and technical assistance contractors often provide in-kind contributions, and costs of U.S.-based training are kept under a per-participant/per-week ceiling.

USAID-funded training programs have continued to have a direct impact on political, economic and social reform in the NIS.

- After returning from a training program in NGO management and leadership, a Tajik participant applied for, and was awarded, a United Nations grant to establish crisis centers throughout Tajikistan offering brochures, printed materials, confidential phone lines and psychological consultations for battered women.

- Participants in a training program on administrative legal reform in Ukraine included academic experts, judges, officials from the Cabinet of Ministers and the parliamentary deputies who actively participate in the legislative drafting process in Ukraine. Upon returning from their U.S.-based training program, the participants formed a working group and drafted a code on general rules of conduct for civil servants.

Participants in FY 1998 USAID Training Programs

	Caucasus*			Western NIS**			Central Asia***			Russia			TOTAL
	US	IC	TC	US	IC	TC	US	IC	TC	US	IC	TC	
Agriculture	0	68	0	89	146	0	0	30	0	35	105	0	**473**
Econ. Restructuring	51	451	2	108	87	26	33	4,854	59	98	247	0	**6,016**
Business Developmt.	17	1,298	0	77	20	0	9	158	0	315	14,256	0	**16,150**
Housing	0	0	0	17	0	4	0	1	0	43	3,575	0	**3,640**
Energy	53	50	3	247	0	37	78	161	0	83	190	0	**902**
Democratic Reform	148	7,141	26	99	13	0	4	7,567	142	33	19,603	6	**34,782**
NGO Development	31	514	38	19	17	0	0	3	8	45	892	0	**1,567**
Environment	2	0	0	20	18	0	0	209	3	3	307	0	**562**
Health	2	1	0	106	96	0	55	584	68	206	1,427	7	**2,552**
Other	45	0	0	20	0	0	0	2	1	10	2	0	**80**
TOTAL	**349**	**9,523**	**69**	**802**	**397**	**67**	**179**	**13,569**	**281**	**871**	**40,604**	**13**	**66,724**

Cumulative Numbers of Participants in USAID Training Programs, FY 1993-98

	Caucasus*			Western NIS**			Central Asia***			Russia			TOTAL
	US	IC	TC	US	IC	TC	US	IC	TC	US	IC	TC	
Agriculture	56	68	0	348	185	0	134	33	0	746	215	0	**1,785**
Econ. Restructuring	219	451	23	783	167	26	1,513	5,694	152	1,564	247	0	**10,839**
Business Developmt.	72	1,375	2	320	60	0	283	250	48	1,785	14,256	0	**18,451**
Housing	32	0	0	206	0	4	92	1	0	577	3,575	0	**4,487**
Energy	120	50	4	394	0	37	183	170	12	603	194	0	**1,767**
Democratic Reform	307	7,141	50	439	31	20	286	7,748	286	1,069	19,625	6	**37,008**
NGO Development	102	520	38	171	17	0	46	33	8	427	892	0	**2,254**
Environment	2	0	0	107	18	0	89	369	18	531	323	0	**1,457**
Health	67	1	3	297	122	4	218	728	130	1,605	1,518	11	**4,704**
Other	65	0	7	172	12	32	65	3	17	436	333	30	**1,172**
TOTAL	**1,042**	**9,606**	**127**	**3,237**	**612**	**123**	**2,909**	**15,029**	**671**	**9,343**	**41,178**	**47**	**83,924**

US = U.S.-based training IC = in-country training TC = third-country training

* Caucasus: Armenia, Azerbaijan and Georgia
** Western NIS: Belarus, Moldova and Ukraine
*** Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan

USAID Institutional Partnership Program (IPP)

During the final year of this $29.3 million USAID project, the managing contractor, the International Research and Exchanges Board (IREX), provided tailored sustainability training for each of the project's 22 partnerships and distributed educational materials created by the partners to all of the NIS countries and Mongolia. A database of these materials is accessible through the Internet at the following address: http://www.irex.org/ippdatabase.htm

With an emphasis on sustainability, the IPP was designed to enhance the capacity of local institutions in Russia and Ukraine to offer professional-level education and training, as well as other services. Organizations chosen for participation in IPP included educational institutions, professional associations, and trade organizations. The 22 two-year partnerships funded by the IPP represented five different sectors (agribusiness, civil society, economic restructuring, environment/infrastructure and health) and were selected by USAID based on the degree to which the partnerships supported USAID's strategic objectives.

Over the life of the project, IPP trained more than 500 NIS partners in the United States, and more than 11,000 in the NIS. Hundreds were trained after the core funding period drew to a close in 1997, as newly trained instructors shared their knowledge and skills with others. As of the end of FY 1998, over 80 percent of the 55 partnered institutions that took part in IPP are still working together, using other sources of funding to continue what they started in 1995 and sustain the centers, faculties, and programs they founded under IPP.

U.S. DEPARTMENT OF COMMERCE - SPECIAL AMERICAN BUSINESS INTERNSHIP TRAINING (SABIT) PROGRAM

The Commerce Department's SABIT Program provides U.S.-based training in management and technology commercialization to NIS executives. Since 1992, the SABIT Program has been exposing NIS executives to business management techniques by placing them with U.S. companies for hands-on training for six weeks to six months. SABIT has helped forge hundreds of partnerships between U.S. and NIS businesses that have resulted in expanded trade opportunities. To date, over $165 million in U.S. exports have been facilitated by SABIT participants.

In FY 1998, the SABIT Program trained 242 NIS managers and scientists, bringing the cumulative number of participants trained to 1,469. Over 400 U.S. host companies and organizations in more than 30 states provided internships to SABIT participants. Group training sessions implemented in FY 1998 included three sessions of the SABIT Russian Far East Program (on oil and gas, mining, and renewable energy); three sessions of the SABIT Standards Program (on metrology, medical equipment, and quality in manufacturing); a program on beverage packaging and bottling; two sessions of the SABIT Ukrainian Investment Stimulation Program (one on building materials and construction, and one on food processing/packaging); and a program on financial planning and accounting for Ukraine. In addition to group training, SABIT provided individual internships with U.S. companies to 55 NIS participants in FY 1998.

SABIT participated in the Presidential Management Training Initiative (PMTI—see Russia country assessment in Section II) in FY 1998 by funding five grants to U.S. companies for training Russian managers. Because PMTI participants, unlike were not directly selected by the U.S. host companies, SABIT had a most challenging job marketing this program to the U.S. business community. As a result of these challenges, SABIT adapted the program into the MIR Program, or Merchandising in Russia. This program will provide managerial training to the retail industry within Russia while simultaneously fostering trade and business relationships between U.S. and Russian retail businesses. Sessions will focus on industries including: apparel, automotive aftermarkets, and food marketing.

In recognition of the SABIT program's contributions in providing technical assistance and promoting business partnerships between the NIS and the United States, the SABIT Program received a Commerce Department Gold Medal from Secretary of Commerce William Daley in December 1997. The SABIT Program was also recognized in the first *Annual Report to the President on U.S. Government International Exchanges and Training Programs* as one of the most successful public-private partnership programs and as a model for other U.S. Government-funded training programs.

Examples of U.S.-NIS Partnerships Forged by the SABIT Program

- Astronautics Corporation credits SABIT for its success in exporting $35 million worth of software and navigational systems to Japan and South Korea. Astronautics formed a joint venture with four of its Russian SABIT participants that resulted in the completion of a major systems-integration project, the KTX-2 Advanced Aircraft Trainer, for the South Korean Government. The joint venture also developed a shipboard system, the

Electronic Chart Display and Information System, which is now being used by the Japanese Coast Guard. With the input of the SABIT interns, Astronautics was also able to develop a navigational system that is currently being used by United Airlines and has also been installed in Air force One. These products are expected to continue to generate significant revenue in the future.

- A protocol was recently signed between a U.S. company and a Russian Far East company in Yakutia to establish a jewelry and diamond polishing joint venture.

- A recent participant in a SABIT environmental technology program expanded his business after completing his training program. He recently acquired the exclusive right to distribute the products of the U.S. firm Abanaki on the NIS market. His SABIT training in waste-water management has helped him to modernize 11 water purification systems in Moscow, Tver, Kostroma and other regions. In addition, he has signed contracts to renovate water-purification systems in several other Russian regions. He has already acquired 20 Russian customers for the U.S. products.

SABIT Alumni Activities

In FY 1998, SABIT implemented 17 alumni activities, including seminars, workshops and networking opportunities.

Moscow: In January, SABIT organized a meeting for medical standards alumni, and in February, a meeting for construction standards alumni. In June, SABIT organized a meeting with alumni from various SABIT standards programs. In early September, SABIT organized a meeting with Secretary of Commerce William Daley for 16 SABIT alumni from the Moscow area, who took advantage of this opportunity to discuss with the Secretary and other U.S. Government officials the business environment faced by Russian entrepreneurs. The meeting included an hour-long question-and-answer session.

Central Asia: The SABIT alumni association in Almaty, Kazakhstan, held six meetings, including receptions, pre-departure orientations, and seminars. Alumni events were also held in Uzbekistan and Kyrgyzstan.

Ukraine: In November, December, May and June, the SABIT alumni association in Ukraine held meetings to discuss membership issues, plan topics for future meetings, and share their business experiences in the United States.

Programs Planned for FY 1999

In FY 1999, the SABIT Program plans to implement regional development programs for Central Asia, the Russian Far East, Central Russia, and the Caspian Basin. SABIT intends to conduct three standards programs (in the areas of construction materials and oil and gas development for the Atyrau region of Kazakhstan, as well as a program on food processing and packaging). SABIT also intends to conduct a program on quality management and manufacturing, a grant program for managers and scientists, a program on merchandising in Russia, and a program for customs officials and customs brokers, pending the availability of funds.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - COCHRAN FELLOWSHIP PROGRAM

The Cochran Fellowship Program provides short-term agricultural training programs for NIS agriculturalists and policy makers. Training programs are conducted in the United States for selected mid- and senior-level specialists and administrators in areas that help the participant's country develop its own agricultural food system, and strengthen agricultural trade linkages with U.S. agribusinesses. Training is implemented in conjunction with USDA agencies, agricultural trade and market development associations, universities, and private agribusinesses. In FY 1998, the Cochran Program provided training for 171 participants from 11 NIS countries (excluding Belarus). An additional 23 Cochran participants received training funded under USDA's Emerging Markets Program (EMP). EMP funding is targeted towards trade-related activities focusing mostly on food wholesale and retail training.

As of the end of FY 1998, a total of 774 NIS Cochran Fellows had been funded under the FREEDOM Support Act: 51 from Armenia, 24 from Azerbaijan, 20 from Belarus, 29 from Georgia, 71 from Kazakhstan, 56 from

Kyrgyzstan, 72 from Moldova, 206 from Russia, 39 from Tajikistan, 37 from Turkmenistan, 106 from Ukraine, and 63 from Uzbekistan. Since FY 1993, EMP has funded 586 NIS Cochran Fellows.

FSA-funded Cochran training covered a wide range of topics, including agricultural policy, land tenure, agricultural bankruptcy, agricultural finance and banking, food safety, food processing and marketing, international trade, wholesale market development, World Trade Union (WTO) accession issues, agricultural journalism, agricultural market news, farm management, livestock processing and marketing, food wholesale and retail, and cooperative/agribusiness management.

Former Cochran participants have used their training to start new private enterprises—including grocery stores, agribusiness consulting companies, restaurants, farms, farmers' cooperatives and farmers' markets–and to upgrade existing agribusiness enterprises. From a policy perspective, Cochran alumni in Russia have had direct influence on the new land code, rural land mortgage legislation, the legal foundation for agricultural cooperatives, and the privatization of state-owned collective farms.

From an agricultural trade perspective, Cochran alumni have facilitated exports of U.S. agricultural products and equipment. For example, U.S. Wheat Associates reported in 1998 that the Cochran-sponsored program that they implemented for Georgian participants in summer 1997 was phenomenally successful in bringing Georgian industry representatives to the U.S. commercial wheat market and facilitating purchases of U.S. wheat. Other examples include a Russian fruit company that purchased U.S. fruit-ripening equipment and is now importing over 6 vessels of fruit per month from U.S. firms, an Uzbekistani-American joint venture that purchased $130,000 worth of U.S. grocery items to open a new grocery store in Uzbekistan, a Kazakhstani food processor that purchased several commercial-scale U.S. fruit juice processors, a Russian Far East baking company that reported imports of 1,100 tons of U.S. flour per month, a Russian food processor that ordered 40 tons of U.S. boneless pork per month, and Armenian and Kazakhstani supermarket owners who reported that their overall sales (and their imports of U.S. value-added products) have increased as a result of their Cochran training.

A Cochran alumni group with over 120 members was formed in Ukraine in early 1997. The association was formalized in a meeting with the U.S. Ambassador to Ukraine in February 1998 and is working to develop activities that will help strengthen the organization's role in Ukrainian agriculture and will help maintain their contacts with U.S. counterparts.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - FACULTY EXCHANGE PROGRAM (FEP)

USDA's Faculty Exchange Program (FEP) provides long-term practical training of five to nine months' duration to qualified university educators from progressive NIS agricultural institutions. FEP seeks to increase these educators' capability to develop academic and adult-education programs and curricula to teach agricultural economics and marketing, agribusiness, and agrarian law in a market-based economy. The program establishes and supports U.S.-NIS university linkages and provides for follow-on support visits by U.S. faculty to participants in their home countries, with the goal of establishing enduring U.S.-NIS institutional relationships that will catalyze and support curriculum development, course revision, faculty strengthening, and joint research in the areas of agricultural economics, agribusiness and agrarian law. FEP also seeks to promote the development of sound agricultural policy and effective and competitive agricultural marketing and business systems in the NIS.

The FEP plays a critical role in building the human and institutional capacity necessary for the NIS countries' transition to a market-based economy. Increasing the number of adults in the NIS who understand the workings of a market economy, who can teach and create educational materials on market economics, and who possess the mind set to adapt to a market economy is critical to the formulation and implementation of sound policy and for future agricultural development.

FEP designs and implements individualized programs for each participant within the broader subject areas of agricultural economics and marketing, agribusiness, and agrarian law. U.S. university staff work one-on-one, or in small groups with FEP participants, who observe classes in their subject area at each university and learn new methods of teaching, developing curricula, assessing student progress, choosing and developing educational materials, and revising their home universities' curricula. Through visits to and internships with U.S.

agribusinesses, and extension and adult-education programs, FEP participants gain practical first-hand knowledge of how the U.S. agricultural research, education, and business systems function under free-market conditions. During the course of the program, FEP participants develop a minimum of three new or revised course outlines for introduction at their home universities upon returning home.

The first 21 FEP participants—12 from Russia, seven from Ukraine, and two from Kazakhstan—completed a five-month program of study in December 1995. An additional eleven Ukrainian participants representing nine Ukrainian institutions completed a six-month program in December 1997. In FY 1998, 15 participants—eight from Russia, five from Ukraine, and two from Kazakhstan—began a five-month program in July 1998. The total number of FEP participants to date is 47. They represent 31 different universities, institutes or training institutions: 15 in Ukraine, 14 in Russia, and two in Kazakhstan.

The FY 1998 FEP participants focused on the areas of farm management and extension education; agribusiness management and administration; and agricultural marketing, advertising and international trade. Participating U.S. universities included Pennsylvania State University, Colorado State University, and Purdue University. All participants also took part in a three-week agriculture-agribusiness tour in New Mexico, Arizona and California. They visited the agricultural economics/business departments and compared curricula at New Mexico State University, Arizona State University, University of Arizona, California State University at Fresno, and Santa Clara University. The participants returned home in mid-December, and follow-on advisory visits by U.S. faculty to this group are scheduled to take place in four to eight months.

An external evaluation of the 1995 FEP program was carried out in early FY 1998. The evaluation found that with the help of the FEP Program, over 100 courses at 14 NIS agricultural institutions have been created or revised and taken by over 6,000 students; 134 adult-education programs have been implemented for over 6,000 people; eight entirely new departments or degree programs have been created; two university-based consulting and extension service centers have been established; 10 textbooks, 22 teaching manuals, and 132 research articles have been written; and 95 private-sector consulting projects have been carried out by the 21 FEP participants. The evaluation concluded that FEP had helped create an emerging network of NIS educators who know a great deal about the U.S. system of higher education, have significant contacts with U.S. professors, and are trying to implement U.S.-style reforms in NIS higher education systems, thus supporting their countries' transitions to a more open market economy.

In October 1998, a FEP alumni workshop was held at Moscow State Agro-Engineering University for participants in the 1995 FEP program. The workshop brought FEP participants from Russia, Kazakhstan and Ukraine together with representatives from each of the participating U.S. universities. Eighteen former participants, six U.S. faculty and two program evaluators discussed progress and results to date in curriculum reform and course development, constraints to further change in curricula and university reform, ways in which the U.S. universities can continue to provide on-going support and ways in which participants can continue to network and share information amongst themselves. The FEP Program will consider funding a similar workshop for all 47 program graduates in FY 1999.

During FY 1998, six U.S. university faculty provided follow-on support visits to all 11 Ukrainian participants from the 1997 program and four participants from the 1995 program in Russia and Kazakhstan. Activities conducted during these visits included reviewing of newly developed course outlines and materials; meeting and discussing curricula revision with heads of departments, deans and rectors; giving lectures and seminars on market economics and agribusiness to faculty and students; visiting and meeting with local farmers; reviewing and suggesting improvements in extension and adult-education programs; and discussing joint research and exchange programs.

Four agreements were signed between Russian and Kazakhstani institutions and Colorado State University to carry out joint research and exchange programs. Eight university-to-university agreements resulting from FEP relationships are now in place. Subject areas have been identified for short courses at various institutions in Russia and Kazakhstan to improve the quantity and quality of research and extension activities being carried out in marketing, farm privatization, and agricultural economics. The FEP may contribute through planned follow-on activities by pairing past participants with U.S. faculty for some short-term, on-site courses.

In April 1998, four Ukrainian FEP graduates and five of their colleagues traveled to Poland and participated in a farm privatization workshop organized by Penn State University and the Polish Government. All costs associated

with the FEP graduates' attendance were paid by two Pennsylvania agribusinesses, Penn State, and the Polish Extension Service. These same four FEP graduates and the six FEP participants currently at Penn State have been invited to another workshop in Poland in April 1999 supported by the same organizations. In addition, Penn State University funded a visit by the Rector and Vice Rector of the Vinnitsa State Agricultural Institute to Pennsylvania to discuss agriculture extension and adult-education programs. Penn State and Vinnitsa plan to work on joint programs at Vinnitsa State's new agricultural training center. The training and extension center at Vinnitsa State will be headed by two 1997 FEP graduates.

CRIMINAL JUSTICE PROGRAMS

U.S. DEPARTMENT OF STATE - ANTI-CRIME TRAINING AND TECHNICAL ASSISTANCE (ACTTA) PROGRAM

In late FY 1994, in recognition of the transnational dangers posed by the rise of crime in the NIS and Central Europe, the U.S. Government established the Anti-Crime Training and Technical Assistance (ACTTA) Program, an interagency effort administered by the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) that aims to develop new techniques and systems to cope with crime, while simultaneously strengthening the rule of law and respect for human rights.

The State Department's INL Bureau coordinates the work of thirteen federal agencies that participate in the ACTTA Program: the Department of Justice (DOJ) and its International Criminal Investigative Training and Assistance Program (ICITAP); the Federal Bureau of Investigation (FBI); the U.S. Drug Enforcement Administration (DEA); the U.S. Secret Service (USSS); the U.S. Customs Service (USCS); the Internal Revenue Service (IRS); the Bureau of Alcohol, Tobacco, and Firearms (ATF); the Financial Crimes Enforcement Network (FinCEN); the U.S. Coast Guard (USCG); the Department of Commerce; the State Department's Diplomatic Security Service (DSS); and the Federal Law Enforcement Training Center (FLETC). A summary of the ACTTA Program's FY 1998 activities is provided below:

Armenia: INL increased its support for law enforcement programs in Armenia in FY 1998, in large part due to an INL-led needs assessment conducted in April 1997. Since that time, INL has coordinated and funded training programs in such areas as counter-narcotics and money laundering, as well as a major advisory effort on financial enforcement. At the request of the U.S. Embassy in Yerevan, INL procured and funded metal detectors for distribution to vulnerable Armenian government offices after the murder of Armenia's Procurator General in July 1998.

Azerbaijan: Under Section 907 of the FREEDOM Support Act, INL has been prohibited from providing law enforcement training to Azerbaijan. Azerbaijani officials did, however, attend a U.S. Drug Enforcement Administration (DEA) regional anti-narcotics conference in Istanbul.

Belarus: Since February 1997, the U.S. Government has had a policy of selective engagement with the Government of Belarus, which includes minimizing official contacts and curtailing assistance to government officials. INL has not conducted or funded any law enforcement training or activities in Belarus since that time.

Georgia: In anticipation of the withdrawal of Russian border guards from Georgia's borders, INL lead an inter-agency law enforcement assessment team to Tbilisi in February 1998. As part of a border enhancement program, INL has funded the assignment of a U.S. Justice Department resident legal advisor (RLA) and a local assistant, as well as a major procurement of computers and software for immigration control purposes. In FY 1998, INL also funded the participation of Georgian Government law enforcement officials in mid-level police training and an immigration control course at the FBI's International Law Enforcement Academy (ILEA) in Budapest, as well as a regional drug conference in Istanbul.

Kazakhstan: In FY 1998, approximately 180 Kazakhstani law enforcement officials participated in eleven ACTTA courses, ten of which were held in Kazakhstan. Participating agencies included Kazakhstan's Ministry of Internal Affairs (MVD), Tax Police, Procuracy, the State Investigative Committee, and Drug Enforcement Agency. Topics included basic drug enforcement, document fraud, collection and preservation of crime scene evidence, interview

interrogation and informant development, financial fraud, ethics, and preventing child exploitation and violence against women.

Kyrgyzstan: In FY 1998, approximately 138 Kyrgyzstani law enforcement officials were trained in nine ACTTA courses (eight of which were held in Kyrgyzstan). Participating agencies included Kyrgyzstan's Drug Enforcement Agency and Ministry of Internal Affairs. Topics included basic drug enforcement, collection and preservation of crime scene evidence, interview interrogation and informant development, financial fraud, ethics, and preventing child exploitation and violence against women.

Moldova: Following its election in March 1998, Moldova's center-right government coalition initiated serious anti-crime efforts. In response, the U.S. Embassy requested an increase of INL-funded training for Moldova. On the basis of an INL-DOJ needs assessment visit to Chisinau in September 1998, DOJ quickly assigned an interim resident legal advisor and began a series of legal reform training programs. In FY 1998, INL funded several courses for Moldovan law enforcement officials, including mid-level police training, a regional basic drug enforcement seminar, and technical training in subjects such as computer crimes, crime scene photography and fingerprinting.

Russia: In FY 1998, law enforcement training was provided to the following Russian agencies: the Ministry of Internal Affairs (MVD), Tax Police, Border Guards, Immigration Service, Customs Service, Central Bank, the V.E.K., the Ministry of Health, Procurator's Office. Some 24 courses were conducted for 749 law enforcement officials in FY 1998 in Russia, at the FBI's International Law Enforcement Academy (ILEA) in Budapest and in the United States. Topics included, but were not limited to, post-blast investigation, basic drug enforcement, narcotics interdiction, advanced economic crime, homicide investigation, crimes against children, computer crimes, public corruption, criminal profiling, automation of criminal investigations, human dignity and policing, international banking and money laundering, financial investigations, prosecuting organized crime, and the training of trainers.

Turkmenistan: Training for Turkmenistan in FY 1998 included regional drug enforcement programs and courses on crime scene investigation, maritime crimes and combating fraud. Turkmen drug officials were sent to ILEA in Budapest for further counter-narcotics and law enforcement training. Although officials were very grateful for the training, they indicated a desire for more advanced training, as well as for border control and additional customs courses, as Turkmen border guards and customs authorities remain concerned about the flow of drugs, illegal weapons and other contraband across the Iranian and Afghan borders. A total of 64 Turkmen officials were trained in FY 1998.

Ukraine: In June 1998, an INL-funded resident legal advisor was assigned to the U.S. Embassy in Kiev to assist the Ukrainian Government in the area of legal reform. In July, Ukraine and the United States held the first meeting of the Gore-Kuchma Commission's Law Enforcement Working Group in Washington, D.C., which resulted in a bilateral work plan for the next several years. In FY 1998, INL continued to coordinate and fund police training programs, including counter-narcotics, money laundering and mid-level police training for over 200 Ukrainian law enforcement officials. In October, INL conducted a needs assessment of various Ukrainian police training institutions, and subsequently began providing appropriate assistance.

Uzbekistan: INL's training efforts in Uzbekistan have gone a long way to not only assist Uzbekistani law enforcement officials in detecting and interdicting contraband, but also enhancing the U.S.-Uzbekistani bilateral relationship. Uzbekistani law enforcement authorities were trained in drug enforcement, document fraud, crime scene and forensic technology, medical legal death investigation and serology. They were enthusiastic and appreciative of U.S. Government law enforcement expertise and training. Uzbekistani law enforcement officials have advanced rapidly to become the most technologically advanced and highly trained among their Central Asian counterparts. The U.S. Government is working with Uzbekistani authorities to build a police academy and a forensic laboratory, and to provided further advanced counter-narcotics training. A total of 91 Uzbekistani students were trained in FY 1998.

U.S. DEPARTMENT OF JUSTICE (DOJ) - OFFICE OF OVERSEAS PROSECUTORIAL DEVELOPMENT, ASSISTANCE AND TRAINING (OPDAT)

The goal of OPDAT's criminal justice assistance program is to help the NIS countries reform their criminal justice systems so that they can more effectively combat organized crime and corruption. OPDAT is working in collaboration with the American Bar Association's Central and East European Law Initiative (CEELI) and the American University's Organized Crime Centers to pursue the following objectives:

- developing and providing training in effective investigative and prosecutorial techniques and procedures in accordance with the laws of the host countries;
- promoting effective cooperation between prosecutors and local law enforcement agencies, including joint prosecutor-investigator strike forces and other multi-agency task forces to combat transnational crime;
- monitoring and reviewing the preparation of key criminal and procedural legislation and providing commentary to legislators upon request;
- providing training to high-ranking legal and law enforcement officials on criminal justice topics of mutual interest;
- assisting in the development of a curriculum for indigenous legal/educational training institutes for judges, prosecutors and other entities within the criminal justice system; and
- providing public information/education on criminal justice reforms through local media, public symposia and lectures at universities.

Armenia: In FY 1998, a DOJ/CEELI criminal law liaison continued to provide commentary on relevant Armenian legislation and to coordinate DOJ/CEELI activities. Beneficial cooperation also began with CEELI's USAID-funded programs in Armenia. OPDAT will continue to coordinate DOJ/CEELI programs in Armenia during FY 1999.

Georgia: In FY 1998, a DOJ/CEELI team conducted a formal assessment of Georgia's needs in the area of criminal justice reform. The resulting plan for legislative reform and training will form the basis of OPDAT's activities in Georgia in FY 1999, and a proposal for legislative assistance and technical training for prosecutors has been prepared and submitted. DOJ will place a resident legal advisor (RLA) in Georgia in FY 1999 to help coordinate DOJ/CEELI programs in the Caucasus region.

Moldova: FY 1998 saw increased OPDAT activity in Moldova, as DOJ provided assistance to the Department for Organized Crime and Corruption Prevention established by the President of Moldova and reviewed and commented on the country's draft criminal code and criminal procedure code. In FY 1999, OPDAT plans to send experienced federal prosecutors to Moldova to begin the process of assessing current legislation and identifying possible solutions for the Moldovan Government. The project has support at the highest levels of the Moldovan Government, and it presents an opportunity for genuine reform. In addition, OPDAT plans to conduct workshops and seminars on anti-corruption methods. In 1999, OPDAT will continue to provide assistance to the Government of Moldova to develop legislation, to build institutions, and provide technical training on combating public corruption and organized crime.

Russia: In FY 1998, OPDAT made many recommendations and provided guidance to the Russian Parliament in the development and passage of the country's new criminal code, which went into effect on January 1, 1998. A similar effort was directed towards the proposed criminal procedure code, which has yet to be adopted. At the request of the Russian Ministry of Internal Affairs (MVD) and General Procurator's Office, OPDAT's resident legal advisor in Moscow provided commentary and advice on the proposed criminal procedure code and other key pieces of criminal justice legislation. To supplement its work in the legislative arena, OPDAT sponsored several workshops and seminars to explain to a broad spectrum of the Russian law enforcement and legislative community the techniques needed to most effectively implement the country's new criminal code. These included courses that reflected the recently enacted laws on computer fraud, financial fraud and intellectual property rights. The workshops also focused on the burgeoning problem of organized crime in Russia and how best to combat it. In particular, the concept of strike forces was presented to the Russian legal community as an effective tool for such efforts.

In FY 1998, the legal assistance program funded by DOJ and implemented by ABA/CEELI (DOJ/CEELI) focused on the Russian judiciary. Programs on judicial oversight, from pre-trial investigation through trial and sentencing (a new concept in the Russian legal system), were held for judges throughout Russia. A special emphasis was placed on judicial oversight in complex cases involving organized crime and corruption.

OPDAT trained approximately 750 Russian participants in five training sessions in FY 1998, bringing the cumulative total to 1,150 participants in seven sessions. Similarly, DOJ/CEELI used OPDAT funding to train approximately 775 participants in 12 sessions, bringing the cumulative total to 1,500 participants in 25 sessions. In FY 1999, OPDAT will continue to support the development of Russian legal institutions and the training of legal professionals in effective strategies to fight crime and corruption. To build on its FY 1998 successes, OPDAT plans to expand its outreach to the far regions of Russia, focusing on the differing crime problems in the various regions. For example, a program on Asian organized crime will be introduced in the Russian Far East. To supplement its own programs, OPDAT will continue to coordinate the DOJ/CEELI program in Russia and will coordinate its efforts with the American University's Organized Crime Centers. In addition, OPDAT will focus on Russia's ongoing struggle to adopt the draft criminal procedure code. In drafting committee meetings, DOJ legal advisors will encourage additional modifications to the procedure code to allow for more proactive approaches to investigations, such as undercover and sting operations.

Ukraine: In FY 1998, OPDAT provided initial assistance to the Ukrainian Government by conducting an assessment of the current legal issues confronting parliamentarians and law enforcement officials. Specific assistance projects included commentary and advice for the draft criminal code, as well as for specific laws and criminal procedures necessary to combat organized crime and corruption. Most importantly, as a result of OPDAT's introduction of the strike force concept through its FY 1998 training programs, Ukraine established its first strike forces. OPDAT trained its first 450 Ukrainian participants in three training sessions in FY 1998. In FY 1999, OPDAT's Ukraine program will focus on the development of organized crime strike forces and law enforcement interagency cooperation in order to foster a better climate for the coordinated unbiased investigation and speedy prosecution of criminal cases. Participants will learn the importance of interagency communication and cooperation, proper investigative techniques, and case preparation by participating in mock trials. Participating agencies will include the Ministry of Internal Affairs (MVD), the State Investigative Committee (GSK), the Committee for National Security (KNB), the General Procurator's Office, the National Bureau of Investigation (NBI) and the Ministries of Justice and Health. In the legislative area, OPDAT plans to respond to requests from the President's Office, the Ukrainian Parliament and the Procuracy to provide assistance in the development of key elements of criminal justice legislation. Pieces of legislation to be addressed include the draft criminal code, a draft law creating a new National Bureau of Investigation, and legislation on corruption. To supplement its own programs, OPDAT will continue to coordinate the DOJ/CEELI program in Ukraine and will coordinate efforts with the American University's Organized Crime Centers.

Central Asia: In FY 1998, two DOJ short-term legal advisors conducted two workshops on economic crimes in Kazakhstan and Kyrgyzstan. At the request of the host countries, the advisors provided commentary on several key pieces of legislation, including legislation on money laundering and organized crime. In 1999, OPDAT plans to continue its efforts in the legislative arena in Central Asia. These efforts will take the form of legislative seminars and workshops on topics such as combating economic crime, as well as investigating and prosecuting organized crime.

NIS-wide: In FY 1998, OPDAT conducted two multinational conferences at the FBI's International Law Enforcement Academy (ILEA) in Budapest. The purpose of these conferences was to identify and resolve impediments to cooperation in the investigation and prosecution of transnational crimes. Using a hypothetical criminal case, the participants examined investigative and prosecutorial techniques, discussed how the case would be handled in accordance with the criminal laws and processes and their respective countries, and identified how policy or legal shortcomings would be resolved. OPDAT trained 28 participants in FY 1998. In the area of legislative drafting, OPDAT's NIS advisors will conduct follow-up assessments relating to the preparation of criminal justice legislation. OPDAT will continue to support the development of criminal justice legislation that provides for effective investigation and prosecution of criminal activities, and the creation of a more effective system of criminal procedures. OPDAT plans to use the ILEA case-study model to help law enforcement and prosecutorial agencies on an international basis by conducting a senior-level transnational criminal investigation symposium in Almaty, Kazakhstan, for investigators and prosecutors from Kazakhstan, Kyrgyzstan, Uzbekistan and the United States.

In addition to disseminating information on U.S. investigative and prosecutorial techniques, OPDAT will emphasize the importance of international cooperation.

ENERGY AND ENVIRONMENTAL PROGRAMS

U.S. DEPARTMENT OF ENERGY (DOE) - NUCLEAR REACTOR SAFETY PROGRAMS

DOE's work to improve safety at Soviet-designed reactors is a comprehensive effort in cooperation with other donor countries. DOE is accomplishing its mission by strengthening the operational and physical condition of the plants, enhancing the host countries' safety-related practices, and supporting the development of an indigenous nuclear safety infrastructure. Safety activities are conducted in collaboration with Russian, Ukrainian and Armenian personnel at nuclear power plants (NPPs), scientific and technical institutes, and government agencies. Basic ordering agreements have been signed with 13 NPPs and 39 scientific institutes and government agencies in the host countries. In FY 1998, DOE's efforts significantly improved the safety of Soviet-designed reactors. DOE's key accomplishments are outlined below:

Armenia

- Fire-resistant floor covering material was installed in the highest priority areas (12,000 sq. meters) of the Metsamor NPP.
- Instructors presented a pilot training course for control room operators. The course was developed using internationally accepted nuclear training standards.
- With DOE assistance, the Metsamor NPP installed 140 new fire doors.
- Workers were completing the construction of a seismic-resistant, spray-pond cooling system to reject heat from the Metsamor NPP's reactor. Construction was approximately 90% complete at the end of FY 1998.

Ukraine

- With U.S. support, Ukrainian specialists at the Chornobyl Center and Slavutych Laboratory conducted planning for the closure of the Chornobyl NPP, which the Ukrainian Government has agreed to do by 2000. The U.S. Government provided technical assistance, technology and training needed for the permanent shutdown and deactivation of Chornobyl Unit 1. The U.S. and Ukrainian Governments also collaborated on construction and funding for completing a heat plant at Chornobyl NPP. The heat plant will supply needed replacement heat after the NPP is shut down permanently.
- An analytical simulator was provided to Chornobyl NPP and was being used to train control room operators.
- Workers refurbished and equipped three rooms at the Chornobyl NPP for training maintenance technicians.
- In 1998, Chornobyl maintenance technicians began using equipment to detect the breakdown of the insulation inside the plant's main generators and around high-voltage lines and equipment. They also began using infrared thermography equipment to detect hot spots in electrical systems, identifying malfunctioning electrical connections for replacement.
- The Chornobyl NPP implemented a complete set of symptom-based emergency operating instructions. These instructions allow operators to quickly place the plant into a stable condition if abnormalities arise.

- Ukrainian and international specialists began carrying out the Chornobyl Shelter Implementation Plan, which details measures to protect workers and the environment, prevent collapse of the Shelter (the structure enclosing the damaged Unit 4 reactor), and construct a new Shelter to cover the current one.

- Workers stabilized a ventilation stack damaged by the 1986 accident at the Chornobyl NPP by replacing damaged braces, stabilizing vertical steel supports, and repairing roof trusses underneath the stack. This accomplishment marked the first resolution of a significant safety issue stemming from the accident.

- The U.S. Government delivered dosimetry equipment for recording Chornobyl Shelter workers' exposure to radiation, and trained the workers in its use.

- The U.S. Government supplied STREAM software, enabling Ukrainian personnel to track and minimize Chornobyl Shelter workers' exposure to radiation.

- The Chornobyl NPP received U.S. Government-supplied equipment (dust fixative sprayers, specialized vacuums, air filtration equipment) to suppress radioactive dust in the Shelter's peripheral areas.

- The U.S. Government delivered a range of basic equipment to increase the safety of Chornobyl Shelter workers, including fall-protection devices, ladders, hard hats, gloves, respirators, and emergency medical kits.

- To facilitate work inside the Shelter, the U.S. delivered portable electrical generators and compressors, a portable jack-hammer/drill, a Jaws-of-Life rescue device, and equipment for drilling and sawing through concrete. Workers also received two-way radios for communicating inside the Shelter.

- Instructors at the Khmelnytskyy training center trained approximately 500 workers from Soviet-designed plants in 1998.

- A full-scope simulator was provided to Khmelnytskyy NPP and was being used to train control room operators.

- With U.S. support, Ukrainian nuclear safety specialists developed a national industry standard for quality assurance.

- Remotely operated eddy-current equipment was provided to EnergoAtom for use at Ukrainian plants. Zaporizhzhya NPP workers used the equipment to inspect the integrity of 1,500 steam generator tubes at the plant's Unit 6 reactor.

- With U.S. support, EnergoAtom and the National University of Ukraine established a central training and certification facility for nondestructive examination. U.S. and Ukrainian experts are developing a process for certifying technicians as nondestructive examination specialists.

- Workers installed safety parameter display systems at two Ukrainian reactors – Zaporizhzhya Unit 5 and Khmelnytskyy Unit 1. Safety parameter display systems provide crucial information for controlling a plant in the event of an accident.

- The Chornobyl and Zaporizhzhya NPPs received fire suppression equipment and protection gear for firefighters.

- With U.S. support, Ukrainian specialists completed a probabilistic risk analysis at the South Ukraine NPP. A design-basis accident analysis was under way.

- Ukrainian specialists completed the documentation and assessment of previous analysis work at the Rivne and Zaporizhzhya NPPs. At each site, specialists were creating a RELAP5 model of the plant.

- The U.S. Government provided computer hardware and software for in-depth safety assessments at the Khmelnytskyy, Rivne, South Ukraine and Zaporizhzhya NPPs.

- Ukrainian specialists participated in four four-week training sessions on using the RELAP5 thermal-hydraulics code for plant safety analyses.

- Ukrainian specialists completed the design of a reliability database for the country's VVER reactors. The U.S. Government provided computers and will provide telecommunications equipment to make the central database accessible to Ukraine's NPPs.

- Ukraine received a construction license from the country's regulatory authority and Ukrainian specialists constructed three concrete casks for the spent-fuel dry-cask storage system. The first cask was scheduled for loading in December 1998.

- With U.S. support, Ukrainian specialists are developing a nationwide plan for managing the spent fuel from the country's five NPPs. Ukrainian specialists completed an inventory of existing and projected volumes of spent fuel and entered the information in a database.

- U.S. experts conducted a technology commercialization workshop at the Slavutych Laboratory. Ukrainian specialists learned methods for developing technology-based businesses.

- With DOE assistance, workers installed a satellite receiving dish at the Slavutych Laboratory's headquarters, which will provide it with electronic mail service and reliable telephone access to the rest of the world.

- The specialists also are working with U.S. experts and other Ukrainian organizations to develop a nationwide plan for spent fuel management.

- With U.S. Government assistance, Ukraine is evaluating ways in which to improve the capacity factor of its existing VVER-1000 reactors.

Russia

- Instructors at the Balakovo training center trained approximately 500 workers from Soviet-designed plants.

- Novovoronezh NPP was provided an analytical simulator for training control room operators.

- The Smolensk Training Center was provided a thermo-mechanical training loop. The loop provides hands-on training for a variety of technicians by simulating the mechanical, electrical, and control-and-protection systems of an NPP.

- Workers installed a satellite-based communications device at Bilibino to exchange safety and maintenance information regularly with their counterparts in Russia and the United States. The U.S.-supplied device also provides Bilibino with an emergency early-warning system.

- Bilibino instructors participated in courses on the Systematic Approach to Training, a U.S. methodology for improving instruction at NPPs.

- Kursk Unit 2 and Novovoronezh Unit 3 were provided safety parameter display systems. The display systems provide crucial information for controlling a plant in the event of an accident.

- Smolensk NPP workers applied a fire-retardant material to electrical cables.

- Smolensk NPP received fire suppression equipment and protective gear for firefighters.

- AtomEnergoProyekt designed plant modifications the Kola NPP to enable workers to hook up the emergency water supply system to the reactor coolant system.

- Novovoronezh NPP was provided a mobile emergency water pumping system.

- With support from U.S., Swedish, and British experts, Russian specialists completed the initial quantification of a probabilistic risk analysis for the Leningrad NPP in-depth safety assessment (ISA).

- Russian specialists completed a RELAP5 computer model for the Kola Unit 4 ISA.

- Russian specialists completed quality assurance guidelines and technical guidelines for a probabilistic risk analysis and a deterministic safety analysis for the Novovoronezh ISA.

- Personnel from RDIPE and Kursk participated in courses on probabilistic risk analyses for the Kursk ISA.

- Russian specialists participated in extensive training on the RELAP5 thermal-hydraulic code for safety analyses, and also attended international forums and workshops for exchanging information on in-depth safety assessments of Soviet-designed reactors.

- Russian specialists completed the design of a reliability database for the country's RBMK and VVER reactors. They also completed a software quality assurance plan to be used in the development and operation of the database.

- Two GosAtomNadzor (GAN) specialists worked with staff at DOE headquarters for four weeks, studying the Department's system for analyzing abnormal operating events at nuclear facilities.

- During 1998, GAN personnel participated in workshops on radiation protection inspections and fire protection and chemical process safety.

- GAN representatives developed a radiation protection inspection plan, which they field-tested at the hot-cell facilities of Argonne National Laboratory West in Idaho.

- In 1998, the Safety Center sponsored a week-long technical workshop on severe accident management in Obninsk, Russia. Also, nine Russian specialists worked on technical projects at the U.S. center.

U.S. NUCLEAR REGULATORY COMMISSION (NRC) - NUCLEAR SAFETY REGULATION PROGRAM

The NRC's efforts to strengthen the nuclear safety and regulatory authorities of the counties of the NIS that operate Soviet-designed reactors (Russia, Kazakhstan, Ukraine and Armenia) continued apace in 1998. Safety assistance activities continued to focus on increasing the regulatory authorities institutional capacity and stature, so as to help ensure the operational safety of their countries nuclear power reactors. NRC regulatory assistance activities began with the Nuclear Regulatory Administration of the Ministry for Environmental Protection and Nuclear Safety of Ukraine (NRA/MEPNS) and with the Russian Federal Nuclear and Radiation Safety Authority (GAN) in 1992. Since then, NRC has provided assistance to both organizations in such areas as licensing of nuclear power plants, development of a legislative basis for nuclear regulation and legal enforcement, development of an emergency response capability, development of an analytical simulator and development of a regulatory training program and training center, as well as other safety-related activities. NRC regulatory assistance activities with the Armenian Nuclear Regulatory Authority (ANRA) and the Kazakhstani Atomic Energy Agency (KAEA) began in 1994. Since then, NRC has provided training for ANRA personnel in such areas as fire protection, radiation embrittlement of metals, radioactive waste and spent fuel management, seismic issues and decommissioning of nuclear power plants, as well as supporting ANRA in developing a safety analysis review capability. NRC has provided training for

KAEA personnel in such areas as inspection techniques for operating nuclear power and research reactors and licensing of nuclear power plants, as well as also supporting the KAEA in developing a safety analysis review capability. Since FY 1992, NRC has received approximately $30 million in funds from USAID to support nuclear safety assistance activities in the countries of the NIS. These funds have been used to conduct the activities highlighted above. During FY 1998, NRC provided training to approximately 75 Russian, Ukrainian, Kazakhstani and Armenian nuclear regulators, bringing the total number of regulatory officials trained by NRC since 1992 to approximately 600.

U.S. ENVIRONMENTAL PROTECTION AGENCY (EPA)

In FY 1998, EPA activities in the NIS were centered in Russia and Ukraine, with about 25 EPA projects under way, half of them in Russia and half in Ukraine. EPA also established Regional Environment Centers in Moldova and Georgia for the Caucasus region. Apart from work done with central governments through U.S. bilateral commissions, EPA has implemented large, multi-year projects in 11 of Russia's 89 regions, and smaller projects in another eight or nine regions. EPA has worked intensively with eight oblasts (regions) in Ukraine, and less intensively with another three to four oblasts. EPA activities in the NIS have covered most aspects of environmental protection, including air, water, and waste; pesticides and toxins; and environmental planning and policy. EPA's approach in the NIS has emphasized three primary objectives: (1) strengthening the management capacity of NIS environmental institutions, because it is these institutions that will generate and manage the resources necessary for environmental protection; (2) improving environmental quality where possible, primarily through the use of low-cost, innovative environmental technologies, and (3) using demonstration projects at specific sites, with subsequent dissemination to other regions and incorporation of project results into national policy. The principal results achieved with NIS partners in FY 1998 include the following:

Russia

- the reduction of pollution discharges into the Volga River by up to 50 percent at three municipal wastewater treatment plants through improved operations and maintenance procedures, and the reduction of discharges into these plants from four to five industrial plants through a variety of low-cost measures (directly affecting the drinking water basins north and west of Moscow);

- in Nizhniy Tagil in the Urals region, significant improvements in the city's water supply, through the installation of new chlorinators at the city's treatment plant; drinking water filters in schools and hospitals; and new filters at the Urals Railway and Tank Plant, which have improved water quality in the hot-water system for 125,000 residents of Dzerzhinsk Rayon (County);

- also in Nizhniy Tagil, a reduction in the frequency and severity of asthma attacks among children by up to 70 percent, through the introduction of an early detection and treatment program for children at risk; and a reduction of up to 500,000 pounds of airborne particulate emissions, including heavy metals, from the nearby Cheremshansk site;

- at the Dorogobuzh district heating plant, 90-percent completion of installation of "E-SOx," a U.S. technology for the retrofitting of electrostatic precipitators, to add sulfur dioxide control to particulate control. Projected results in 1999 are a 50- to 60-percent reduction in sulfur dioxide emissions (using calcium as a sorbent);

- in Murmansk, 90-percent completion of reconstruction of a facility for the treatment of low-level liquid radioactive waste resulting from the decommissioning of nuclear submarines. In FY 1999, construction at the facility will be completed, and initial testing and start-up will begin;

- at the Elektrostal thermal power plant near Moscow, the replacement of a steam turbine by a modern gas turbine, whose purchase was facilitated by EPA's project with MosEnergo on integrated resource planning for electric utilities. Starting in January 1999, annual carbon dioxide reductions at Elektrostal will be an estimated 25,000 tons;

- negotiation with the World Bank of a program that, upon its completion in FY 2001, will have resulted in a phase-out of the production of ozone-depleting substances (ODSs) at all relevant facilities in Russia. Russia is the world's second-largest producer of ODSs. When finished, the World Bank program will enable Russia to comply fully with the Montreal Protocol.

Ukraine

- in Kiev, installation, initial testing, and startup of E-SOx at the municipal waste incinerator. Projected results in 1999 are at least 70-percent sulfur dioxide control (using sodium as a sorbent).

- in Ivano-Frankivsk Oblast (Region), as a result of EPA's training and demonstration project on oil and gas exploration, environmental impact laws and procedures are being modified to include analysis of energy alternatives and public participation;

- EPA's introduction of "re-burn" technology, which resulted in a 50- to 60-percent reduction of nitrous oxide emissions from a 300-megawatt boiler at the Ladyzhin regional power plant, has yielded an important domestic precedent. In 1998, a U.S. court ruled that the data generated from this project could be used to set nitrous oxide limits for U.S. cyclone and wet-bottom boilers, on the premise that nothing bars EPA from using data from outside the United States. This ruling will allow EPA to take advantage of significant cost-saving opportunities in conducting technology demonstrations.

NIS - Regional

- the establishment of a network of Regional Environmental Center (REC) offices in Russia, Ukraine, Moldova and Georgia to serve NGOs and government authorities in raising environmental awareness, promoting civil society, and building regional and international cooperation;

- in addition to the RECs, the establishment of seven other NIS environmental centers that provide training, information, and technical assistance. These centers have trained more than 1,000 environmental specialists, and have gained the expertise to provide advanced technical advice on key projects;

EPA's principal successes have been at the local level at individual facilities, whereas the principal obstacles have been equipment certification issues and VAT and customs duties on imported goods and equipment. More broadly, the principal difficulty has been in moving beyond demonstration sites to exert an influence over the whole of the NIS. In this sense, it is far too early to speak of any systemic breakthroughs in NIS environmental performance, and the overall environmental situation in the NIS remains critical.

EPA has sought, where possible, to introduce clean, cost-effective technologies in the NIS, as a means to bring about fundamental environmental change. These technologies include the following: (1) chloramines, used as a secondary disinfectant in drinking-water systems, to cut microbial contamination in leaking distribution networks and reduce cancer risks associated with chlorination, applicable in all drinking water treatment plants in the NIS; (2) "pre-cast deltas," a more modern type of cover on electric arc furnaces at steel mills, which can reduce fugitive emissions by up to 50 percent and improve production efficiency at the estimated 400 to 600 electric-arc furnaces in the NIS; (3) the application of bio-solids to establish vegetative caps on mine and smelter waste to reduce sludge accumulation and reduce air and water pollution in NIS mining areas; and (4) technologies for the recovery of fugitive methane from coal mines to cut emissions of greenhouse gases, provide clean energy, and improve mine safety and viability in NIS coal regions (Ukraine, Kazakhstan and Russia). Nevertheless, the lack of environmental capital and the absence of effective trade and professional associations in the NIS have significantly slowed the pace of technology innovation.

In FY 1999, EPA will continue to build on successful projects in the NIS, fill gaps in the environmental program undertaken so far, and work to introduce more systemic or fundamental change in NIS environmental protection regimes. EPA's priorities will be the following: (1) climate change, including emissions trading; (2) mobile-source pollution, (3) persistent bio-accumulative toxic chemicals, (4) environmental policy, (5) environmental security issues, and (6) environmental finance.

U.S. DEPARTMENT OF THE INTERIOR - U.S. FISH AND WILDLIFE SERVICE

Since 1972, the U.S. Fish and Wildlife Service has been cooperating with its Russian counterparts in the conservation of wildlife and wildlife habitat under the U.S.-Russia Agreement on Cooperation in the Field of Protection of the Environment and Natural Resources. Joint fieldwork on marine mammal and migratory bird species has provided valuable data on population abundance and ecology that have assisted both Russian and U.S. wildlife managers.

FY 1998 saw an expansion of ties between fisheries managers in the Russian Far East and the U.S. Fish and Wildlife Service, in partnership with the States of Oregon and Washington. The two sides discussed artificial propagation of salmonids and ways to preserve natural salmon populations. The two nations moved closer to reaching an agreement on the conservation and management of the Alaska-Chukhotka polar bear population.

In April 1998, trade in caviar came under international regulation by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). This change was made to reduce harvest pressures on sturgeon, particularly in the Caspian Sea.

In FY 1998, 35 U.S. specialists visited Russia for to conduct cooperative fieldwork and provide training, and 85 five Russian biologists visited the United States. During summer 1998, 10 Russian nature reserve staff participated in a training session on environmental education conducted in Maryland and Missouri.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - FOREST SERVICE

In FY 1998, USDA's Forest Service and the Federal Forest Service of Russia (FFSR) continued their partnership, highlighted by a meeting of the Joint Working Group for Cooperation in the Field of Forestry in August. This partnership focuses primarily on four issues of mutual interest identified by the Joint Working Group: (1) planning and policy development, (2) forest health protection and monitoring, (3) sustainable pilot projects, and (4) research. FY 1998 activities in planning and policy development included the FFSR's nomination of Russian experts to attend U.S. forest management seminars and the creation and implementation of criteria and measures to insure the sustainablity of forests. Activities under the Forest Health Protection and Monitoring Initiative consisted of exchange programs dealing with forest fire management and suppression and cooperation on generating methods for monitoring the risk of pest infestation of ships and cargo. Sustainable pilot projects included joint projects with USAID and the World Bank in demonstrating fire management, regeneration, forest planning and forestry sector policies. The pilot projects were concentrated in the Russian Far East. Research activities were conducted under several of the projects listed above, including research on the effects of large forest fires, pollution and methods for promoting forest preservation and sustainablity.

In FY 1999, the Forest Service will continue to be pursue the following goals: protection of biodiversity, technology and skill transfer, the legal and administrative aspects of forest management, and the management of forest preserves. The Forest Service will implement a sister-forest program involving at least two forests in Russia and two in the United States. In addition, the U.S. co-chairperson of the Joint Working Group will visit Russia to exchange information and monitor cooperative projects.

SECURITY PROGRAMS

U.S. DEPARTMENT OF DEFENSE (DoD) - COOPERATIVE THREAT REDUCTION (CTR) PROGRAM

DoD's Cooperative Threat Reduction (CTR), or "Nunn-Lugar," program was initiated in FY 1992 to reduce the threat posed to the United States by the weapons of mass destruction (WMD) remaining on the territory of the former Soviet Union. Under the CTR program, DoD provides assistance to states certified as eligible to receive such assistance—in FY 1998, Russia, Ukraine, Kazakhstan, Georgia, Uzbekistan and Moldova were certified—to promote denuclearization and demilitarization, and to prevent weapons proliferation. Through the CTR program, the U.S. Government helped Belarus, Kazakhstan and Ukraine become nuclear-weapons-free states, and has been helping these countries fulfill other arms control commitments, as well as accelerating START reductions in Russia. CTR projects support the safe, secure transport of nuclear weapons prior to their destruction, and the safeguarding and storage of nuclear materials. CTR efforts also seek to help Russia initiate and accelerate the destruction of chemical weapons. Pursuant to legislative requirements, the CTR program provides separate, detailed semi-annual reports to the U.S. Congress.

U.S. Government CTR assistance has supported or encouraged the following major developments over the life of the CTR Program:

- the decisions by Belarus, Ukraine and Kazakhstan to become non-nuclear-weapons states and the implementation of those decisions;
- the withdrawal of over 3,300 strategic warheads from Ukraine, Kazakhstan and Belarus to Russia for eventual dismantlement;
- the early deactivation of all SS-24 ICBMs and elimination of 144 SS-19 missile and launch-control silos and 106 SS-19 ICBMs in Ukraine;
- the purchase and transfer to secure storage of nearly 600 kilograms of weapons-usable uranium from Kazakhstan and additional fissile material from Georgia;
- the purchase of 21 nuclear-capable MiG-29 airplanes, 500 air-to-air missiles, and associated equipment from Moldova;
- the removal of 104 SS-18 ICBMs from their launchers in Kazakhstan and their return to Russia;
- the elimination of 147 SS-18 silo launchers in Kazakhstan;
- the safe and secure withdrawal of all 81 of Belarus's SS-25 mobile ICBMs and launchers to Russia;
- using CTR-provided equipment, the elimination in Russia of 136 SLBM launchers, 50 ICBM silos, 40 strategic bombers, and over 247 ICBMs;
- the completion of START Treaty government-to-government communication links;
- support for nearly 15,000 former Soviet weapons scientists and engineers by the International Science and Technology Center (ISTC) in Moscow and the Science and Technology Center in Ukraine (STCU) in peaceful research projects (in FY 1996, funding for these activities was shifted to the Department of State);
- establishment of the Civilian Research and Development Foundation (CRDF), which awarded its first grants in 1996 to help civilian scientists and engineers pursue peaceful research opportunities and help preserve the scientific infrastructure of the NIS countries (in FY 1997, funding for these activities was shifted to the Department of State);
- the enhancement of NIS export control capabilities (in FY 1996, funding for these activities was shifted to the Department of State); and

- enhanced nuclear material protection, control and accounting (MPC&A) capabilities initiated at over 40 nuclear institutes and facilities in the NIS (in FY 1995, funding responsibility for these activities was transferred to the Department of Energy).

Weapons Destruction and Dismantlement: Under this largest single category of CTR assistance, the U.S. Government is helping destroy delivery vehicles for strategic nuclear weapons and key weapons-system components. CTR assistance also is being used to assist in the elimination of chemical weapons. Key projects include the following:

- **Strategic Offensive Arms Elimination (SOAE):** The U.S. Government is providing Russia equipment, training, services and logistic support to assist in expediting the elimination of strategic offensive arms pursuant to the START Treaties. This includes assistance with liquid rocket fuel disposition, SLBM launcher and associated submarine elimination, solid rocket motor elimination, SS-18 and heavy bomber dismantlement, and other projects. This also includes provision of equipment for emergency support in case of an accident involving the transport or elimination of missiles. In Ukraine, the U.S. Government is providing assistance to deactivate SS-19 and SS-24 missiles, dismantle their silos, and neutralize the fuel from those missiles. DoD is also assisting in the dismantlement of 44 START-accountable heavy bombers. In Kazakhstan, the U.S. Government is providing support to eliminate SS-18 launch and launch-control silos and to close nuclear weapons test tunnels at the Degelen Mountain complex.

- **Chemical Weapons Destruction:** The U.S. Government is helping Russia destroy its chemical weapons (CW) stockpile and associated infrastructure. Efforts have focused on design of a CW destruction facility at Shchuchye that the U.S. Government will help construct. Construction has already begun on a Central Analytical Laboratory (CAL) that will enhance Russia's ability to conduct chemical-agent monitoring at CW storage and destruction sites. The U.S. Government has procured and delivered three mobile analytical laboratories to support Russian CW destruction projects. U.S. Government-funded efforts also continue to eliminate CW infrastructure at the KhimProm Volgograd and Novcheboksarsk chemical complexes.

Chain of Custody: CTR "Chain of Custody" projects help prevent the proliferation of nuclear materials, increase the security of nuclear warheads while in transit or in storage, and ensure that fissile materials from dismantled warheads are stored in safe, centralized and environmentally sound locations. Key projects include the following:

- **Fissile Material Storage Facility at Mayak:** Construction continues on a facility for the storage of fissile material derived from dismantled Russian weapons at Mayak. DoD is providing design assistance, construction support and equipment, and facility equipment. Exterior walls on main buildings and the construction of interior structures and the roof have almost been completed. The U.S. Government is also providing the Russian Ministry of Atomic Energy with containers for the transport and storage of fissile materials from dismantled weapons. Production of the containers began in October 1995, and initial shipments to Russia began in December 1995. Through FY 1998, more than 32,000 fissile material containers have been produced.

- **Weapons Protection Control and Accounting (WPC&A):** This CTR project focuses on improving the security of nuclear weapons during transportation and interim storage. The project was formally established in April 1995 under two CTR implementing agreements with Russia. Assistance provided under this projects includes supercontainers, railcar upgrades, emergency support equipment, automated inventory control and management systems, computer modeling, a personnel reliability program, 50 sets of "quick-fix" fencing and sensors for storage sites, and the development of a Security Assessment and Training Center to test and evaluate new security systems for storage sites.

- **Material Protection, Control and Accountability (MPC&A) Projects:** MPC&A efforts enhance the security of fissile materials at NIS facilities and institutes, and improve capabilities to prevent, detect and deter theft, diversion, or other unauthorized use of nuclear materials. CTR provided $78.5 million for MPC&A activities from FY 1992 to FY 1995. The U.S. Department of Energy began managing and funding MPC&A programs in FY 1996. (see DOE-MPC&A section below.)

- **Enhancing Export Controls:** Through FY 1995, approximately $39 million for export control assistance to the NIS was funded under the CTR program. This assistance was provided to Belarus, Kazakhstan, Russia, and Ukraine to help establish effective and sustainable national export control systems. In FY 1996, funding responsibility for NIS export control assistance shifted to the U.S. Department of State. This assistance has consisted of exchanges for government and industry representatives to acquaint them with the need for effective export controls; training for border guards and customs agents to enhance their proficiency; and equipment to support effective export control enforcement. (see State-NDF-Export Control section below)

Demilitarization: The third major area of CTR assistance involves efforts to facilitate the demilitarization and transition of the NIS countries to democratic institutions and market economies. These non-proliferation efforts provide alternative peaceful, civilian uses for former Soviet WMD-related production resources and alternative employment opportunities for former Soviet weapons scientists and engineers. Several projects have been established to provide demilitarization assistance.

- **Defense Conversion:** The U.S. Congress prohibited the obligation of CTR funds for defense conversion activities after FY 1996. As a result, no new defense conversion efforts were initiated under CTR in FY 1998; however, ongoing projects continued to assist in the transformation of the former Soviet defense complex into peaceful and productive civilian commercial entities. DoD previously awarded 17 contracts to 13 U.S. companies to work with former Soviet WMD facilities to convert portions of their production capability into non-military commercial ventures. Some examples of the resulting products include integrated circuit boards, air traffic control hardware and software, laser pointers, hearing aids, and dental equipment.

- **Defense Enterprise Fund (DEF):** In FY 1995, CTR shifted the focus of defense conversion efforts from direct creation of joint ventures to DEF projects. The DEF provides loans and grants and makes equity investments in joint defense conversion projects involving U.S. companies and former Soviet enterprises formerly involved in WMD production. Such activities support the elimination of weapons production capability while promoting market economies and democratic political systems. The Fund has converted more than 57,000 square meters of military plant facilities to peaceful activities and helped provide alternative employment for more than 3,700 former weapons scientists. In FY 1997, funding responsibility for the DEF was transferred to the Department of State under the FREEDOM Support Act (see also Enterprise Funds section above).

- **Science Centers:** The International Science and Technology Center (ISTC) in Moscow and the Science and Technology Center in Ukraine (STCU) were established to provide former Soviet weapons scientists opportunities to work on peaceful civilian research activities so they would not be tempted to sell their expertise to countries of proliferation concern. The Science Centers are multilateral efforts involving the , United States, European Union, Japan and other donors. Through FY 1995, the U.S. Government contributed $49 million to the ISTC and $15 million to the STCU under the CTR Program. Beginning in FY 1996, direct program funding responsibility shifted to the Department of State under the FREEDOM Support Act. (see Department of State - Science Centers section below)

- **U.S. Civilian Research and Development Foundation (CRDF):** The CRDF was established in August 1995 by the National Science Foundation (NSF) with an initial CTR grant of $5 million matched by a $5 million grant from George Soros. The CRDF is a non-governmental, non-profit foundation that has also received funding from the State Department, NSF and the National Institutes of Health (NIH). Its goals are to help sustain highly competent scientists and engineers in the NIS, including those from the former Soviet defense sector, and support the development of a market economy in the NIS. The CRDF funds project-related grants for NIS scientists, collaborative projects with commercial potential, travel grants for first-time visits to the United States by NIS researchers seeking U.S. partners, and new equipment for selected NIS facilities to enhance their experimental capabilities. (see also CRDF section below)

- **Collaborative Biotechnical Programs:** DoD initiated a program to fund collaborative biotechnical research with former biological weapons scientists to increase access to Russian scientists, to enhance the transparency of their work, and to address pressing public health needs in the area of infectious diseases. CTR also is seeking to enhance the security of Russian biotechnical facilities.

- **Defense and Military Contacts:** In FY 1998, the CTR Program funded over 240 defense and military contact events in the NIS, including military exercises, high-level exchanges, unit exchanges, ship visits and exchanges of delegations on defense and military topics.

CTR COUNTRY HIGHLIGHTS

(for detailed information on the International Science and Technology Center (ISTC), Export Control, and Material Protection, Control and Accounting (MPC&A) projects, see the State Department and Energy Department sections below)

BELARUS

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination*	$10,678,000	$2,834,227
2. Emergency Response Training/Equipment	$5,000,000	$4,982,934
3. Industrial Partnerships	$19,270,000	$19,246,385
4. Defense Enterprise Fund	$5,000,000	$5,000,000
5. Defense and Military Contacts	$1,200,000	$462,933
6. Material Control and Accounting	$2,700,000	$2,649,683
7. Science and Technology Center	$1,034,460	$1,034,460
8. Export Control	$12,583,000	$12,480,808
9. Continuous Communications Link	$1,036,000	$1,114,700
10. Environmental Restoration	$25,000,000	$24,919,598
TOTAL:	**$83,501,460**	**$74,725,728**

*Only $28.9 million in SOAE agreement

as of 11/23/98

Overview

The United States and Belarus have signed a government-to-government umbrella agreement on CTR assistance, eight agency-to-agency CTR implementing agreements, and one memorandum of understanding and cooperation. The umbrella agreement, which was extended for one year in October 1997, has expired. DoD has notified to the U.S. Congress more than $83 million in CTR assistance to Belarus, of which over $74 million has been obligated through FY 1998 and over $71 million disbursed. DoD does not intend to request additional funds for Belarus, as the President did not certify Belarus as eligible to receive CTR and other assistance for FY 1997 or FY 1998 and therefore funds that were not obligated prior to March 4, 1997, cannot be spent.

Projects

Strategic Offensive Arms Elimination (SOAE): SOAE programs seek to facilitate the expeditious, safe and environmentally sound elimination of WMD delivery systems. Of the $16 million initially agreed upon, up to $8 million is designated for elimination of fixed structures associated with the SS-25 mobile ICBMs and for the disposition of approximately 10,000 metric tons of liquid fuel and oxidizer. Following technical discussions on liquid propellant disposition, an incinerator was delivered in April 1996. Test burns were scheduled to begin once the Government of Belarus gave permission to proceed, the site was selected, and support materials were in place. The test burns would enable environmental certification for propellant incineration as the means to destroy 180 metric tons of heptyl. However, no further funds are available to continue this project due to the non-certification of Belarus under CTR in 1997, and this project has stopped.

In consultation with the Belarusian Ministry of Defense, DoD awarded a fixed-fee contract in March 1996 to Controlled Demolition Inc. (CDI) to dismantle 81 SS-25 fixed structure/launch pads over a 25-month period. The $1.95 million contract was based in part on the contractor receiving site access by August 1996. The work was scheduled to be completed by April 1998. In August 1996, CDI had its construction equipment delivered to Belarus and made preparations for a prototype demonstration of its mechanical demolition process at Slutsk.

However, the Belarusian Government did not authorize site access. Repeated diplomatic efforts to get site access were unsuccessful. As a result, CDI removed its equipment from Belarus and the contract was terminated. No further work will be done on this project. A one-year extension to the SOAE Agreement was signed in October 1997, but was not renewed in October 1998.

Continuous Communications Link (CCL): The objective of CCL assistance was to provide Belarus with its own capability to fulfill its reporting requirements under the INF and START Treaties; which it had previously been doing through Russia. Initial operational capability of the first of two planned circuits was established at the end of August 1993. Final operational cut-over with a modernized system equipment configuration was achieved in mid-October 1995. As for the second circuit, DoD and Belarus had developed a proposed arrangement under which DoD would provide in March 1997 a single-channel ground station to the Belarusian Government, which would then modify the station to multi-channel use and would lease the extra non-CCL channels. Proceeds from the leasing would be applied to the operation of the CCL, including the lease of the second satellite circuit. However, due to the non-certification of Belarus in March 1997, no funds are available for this project.

Emergency Response Equipment and Training: The objective of this assistance is to provide equipment and training to respond to an accident or incident involving a nuclear weapon or fissile material. Equipment, training, and technical manuals have been provided. Subsequent to an audit and examination (A&E) finding that the equipment was unused, the Belarusian Government was provided with guidance to clarify use of the equipment. With the removal of the last nuclear warhead from Belarus, DoD is now considering a proposal to allow Belarus to use the equipment for training and response to incidents involving non-nuclear weapons materials. Procurement actions for this program were completed in FY 1996, and deliveries and installation of a computer network upgrade and connectivity were completed in April 1997.

Export Control: The objective of CTR export control programs is to assist in the building of export control institutions, infrastructure and legislation. Assistance provided to Belarus includes the installation of a local area network (LAN) and a wide-area network (WAN) for Belarus's licensing administration, establishment of an automation training center, pursuit vehicles, communication equipment, and interdiction equipment. Delivery of a cargo x-ray machine, baggage x-ray machines, and radiation detection equipment was completed by August 1996. In December 1996, six pedestrian portal monitors arrived at Los Alamos National Laboratory for testing and calibration. Testing was completed and the portal monitors were awaiting U.S. Government licensing for shipment. The equipment was delivered through January 1998, including vehicle portal monitors; automated computer connectivity between the main Customs Ministry, the Ministry of Foreign Economic Relations (MFER), regional Customs offices, and border checkpoints; additional portal monitors; and replacement forklifts. Hand-held radiation detectors and MFER software were delivered in March 1997. An opening ceremony took place in October 1998 at the Customs Ministry, and DoD planned to extend the implementing agreement until October 22, 1998, to cover the remainder of the project undertaken by the Department of Commerce with CTR funds.

Material Control & Accounting (MC&A), and Physical Protection (PP): The objective of this assistance is to create a national system to facilitate the control, accounting, and physical protection of nuclear material used for peaceful purposes. This program is administered by the U.S. Department of Energy (DOE) and since 1996, all additional funding has come from DOE. All MPC&A work at the Institute of Nuclear Power Engineering at Sosny was completed in September 1996. This included MC&A, PP, and non-destructive assay (NDA) training courses at the Sandia and Los Alamos National Laboratories. All MC&A upgrades for Building 33, including those at the fresh fuel storage vault, were completed by August 1996.

Defense Conversion: The objective of defense conversion assistance is to convert former military enterprises to the production of civilian goods, assist in construction of housing to enable demobilization of Strategic Rocket Forces (SRF) officers, and establish retraining centers for qualifying demobilized SRF officers. The completed Belarus Defense Conversion Program was the earliest such CTR effort. Joint ventures and cost-sharing facilitated several joint venture projects (including contracts with Federal Systems Group (FSG) of Virginia; Byelocorp Scientific, Incorporated of New York; and KRAS Corporation of Pennsylvania) that helped support work carried out with local firms. Two of these three partnerships have not succeeded commercially and are now dormant. The third partnership, between FSG and Minsk Computer, had produced and sold battery rechargers, but the partnership did not develop further and is being terminated.

- At the request of the Belarusian Government, CTR assistance was provided (from funds available prior to FY 1997) for the construction of housing for demobilized SRF officers who, under Belarusian law, must be provided with housing upon their retirement. Construction was carried out through a Corps of Engineers-managed project awarded to ABB SUSA. While no joint venture is required by the contract, a Belarusian construction firm was hired as a subcontractor.

- Equipment for a computer training center, automotive repair training center, English language-teaching laboratory, and woodworking retraining center was delivered during the 1993-95 period. During an audit and examination (A&E) of the retraining center program, DoD discovered that civilian dependents of SRF officers were receiving training at those centers for a fee. DoD officials stressed to their Belarusian counterparts that the retraining center was for the explicit use of demobilized SRF officers. The delivery of additional training assistance was postponed, pending further evaluation of training needs. Any future training assistance would be carefully targeted and sized to reduce any excess capacity, which had been taken advantage of by the families of the SRF officers. The U.S. Congress has prohibited the use of any additional available prior-year CTR funds for job-retraining assistance.

Defense Enterprise Fund (DEF): Up to $5 million of the funds provided for the DEF have been allocated for equity investments, grants, and loans in joint ventures with Belarusian WMD enterprises. Because of difficulties with Belarusian privatization laws and DEF conditions, the DEF has not reached agreement on any projects in Belarus.

International Science and Technology Center (ISTC): The ISTC provides alternative employment opportunities for former WMD scientists and engineers so they can pursue peaceful research. The U.S. Government has obligated $5 million for ISTC projects in Belarus. The first U.S. project award ($488,000) was made in December 1995. In FY 1996, funding responsibility was transferred to the Department of State under the FREEDOM Support Act (see Science Centers section below).

Environmental Restoration: The objective of this assistance is to provide Belarus with the capability to conduct the environmental restoration of former Strategic Rocket Forces (SRF) bases. This project consists of three elements: (1) the establishment of an analytical chemistry laboratory, which was completed in April 1995; (2) the provision of remote sensors and geographic information system (GIS) equipment and the establishment of GIS and photographic processing laboratories, which were dedicated in March and April 1996, respectively; and (3) the modification of a Belarusian AN-26 aircraft, in Kiev, to accommodate remote sensors and the provision of technical assistance and training. The AN-26 plane was dedicated in July 1996, and additional installation and follow-on training continued through July 1997. Additional equipment for the chemistry lab was delivered in March 1996 with follow-on training in July 1997.

- A contract was awarded in April 1995 to Arthur D. Little, Inc. (ADL) to complete site assessments at Postavy and Ruzhany, provide field technical training in conducting site assessments, prepare site remediation plans, train Belarusian officials in the organization and management of environmental remediation projects, and co-sponsor an annual environmental conference. Site assessments at both Postavy and Ruzhany revealed similar contamination from semi-volatile organic materials and heavy metals. The Belarusian Government requested a change in focus from academic and governmental training to demonstration and training in the technologies recommended for remediation. Procurement actions were initiated to redirect ADL's efforts for Postavy, where the first site assessment is to be completed. These technologies will also have application to Ruzhany. An extension to the Environmental Restoration Agreement was signed, effective July 22, 1997.

Audits and Examinations (A&E's): Four A&E's were conducted in Belarus in 1995. DoD's Belarusian counterparts were helpful, and the A&E's proved very useful. Two A&E's (of export control and industrial partnership programs) were conducted in 1996. Three A&E's were conducted in 1997 of SOAE liquid-fuel incineration, environmental restoration, and emergency response equipment and training; no problems were found. No A&E's were conducted in FY 1998. A&E's will be conducted concurrently in January and February 1999.

Other Donors: The United States is not alone in providing dismantlement-related assistance to Belarus. Germany's ongoing and planned projects include export controls, officer resettlement/retraining, and housing. Germany recently concluded a framework agreement with Belarus; and although no specific programs have been identified, Germany is considering a project to help the Belarusian Government eliminate oxidizers associated with

liquid-fueled ICBMs. The United Kingdom has its own program of defense and military contacts with Belarus. The European Union provided $60,000 for an ISTC project in June 1996, and Japan provided $169,000 in ISTC funds for a project in September 1994. NATO allies regularly brief each other on the progress of their projects in Belarus through the Senior Politico-Military Group on Proliferation (SGP) and bilateral discussions. These issues have also been discussed in G-7 fora. The U.S. Government works with all of its allies to ensure that security programs in Belarus are complementary and cooperative.

KAZAKHSTAN

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	$76,200,000	$61,995,506
2. WMD Infrastructure Elimination	$25,500,000	$23,031,827
3. Emergency Response Training/Equipment	$5,000,000	$4,895,304
4. Industrial Partnerships	$15,000,000	$14,985,514
5. Defense Enterprise Fund	$7,000,000	$7,000,000
6. Defense and Military Contacts	$2,300,000	$1,352,519
7. Material Control and Accounting	$23,000,000	$22,553,265
8. Science and Technology Center - Kazakhstan	$9,000,000	$9,000,000
9. Export Control	$7,260,000	$7,153,542
10. Government-to-Government Communications Link	$2,600,000	$2,214,770
TOTAL:	**$172,860,000**	**$154,182,247**

as of 11/23/98

Overview

The United States and Kazakhstan have signed a government-to-government umbrella agreement on CTR assistance, and eight agency-to-agency CTR implementing agreements, as well as a memorandum of understanding and cooperation. DoD has notified to the U.S. Congress over $172 million in CTR assistance to Kazakhstan, over $154 million of which has been obligated to date and over $111 million of which has been disbursed. Overall, programs with Kazakhstan have gone smoothly, although DoD experienced occasional difficulties with taxation and licensing. In particular, Kazakhstan's Ministries of Defense (MoD) and Science (MSAS), and the Committee on the Defense Industry (CDI), have been good partners and eager to maintain close relations. DoD does not intend to request additional CTR funding in future years for Kazakhstan, although program implementation continues under FY 1997 and prior-year funds.

Projects

Strategic Offensive Arms Elimination (SOAE): The objective of this assistance is to facilitate START I implementation. The primary project under this agreement assisted Kazakhstan in the safe elimination and cleanup of all SS-18 silo launchers and launch-control centers, training silos, and silo test launchers, enabling Kazakhstan to fulfill its START I obligations. This project consisted of two phases. In Phase I, Russia was responsible for destroying the silo headworks; contracts valued at approximately $1.2 million were awarded to two Kazakhstani companies to remove equipment deemed valuable to the Kazakhstani Government, prior to the destruction of the headworks by Russia. The second phase involved completing the elimination and re-grading of the destroyed silo sites, including recovery of metal within the site perimeters, under a contract awarded to the Brown and Root/ABB SUSA joint venture for $31.5 million in November 1995. The last of the 147 silo sites was eliminated and regraded in October 1998. Kazakhstan has been seeking U.S. Government assistance to address environmental remediation outside the site perimeters, but since such assistance cannot be provided under CTR legislation, other sources of funding are being explored.

The SOAE agreement was amended in July 1995 to allow the U.S. Government to provide additional dismantlement assistance, such as elimination of infrastructure associated with strategic offensive arms, disposition of excess liquid rocket fuel, and elimination of heavy bombers. At a DoD-MoD/CDI technical meeting in

October 1995, requirements were defined for elimination of the seven Bear-G heavy bombers abandoned by the Soviet Union at the Chagan (Dolon) Aerodrome. DoD procured and delivered the agreed-upon elimination equipment to Kazakhstan in fall 1997, and the bombers were verified as eliminated in February 1998. DoD and MoD/CDI have also jointly defined requirements to dispose of the excess liquid rocket fuel left behind by Russia, to eliminate pipes and tanks for fuel at the missile bases, and to dismantle former nuclear weapons storage sites at missile bases and at the Chagan Aerodrome. The final tasks will be accomplished in two phases. Phase I, which involved assessment and preparation for dismantlement, has been completed. Phase II, actual dismantlement, was expected to start late in 1998 and be completed by 2000.

Government-to-Government Communications Link (GGCL): The objective of GGCL assistance is to provide Kazakhstan with its own capability to fulfill its reporting requirements under the INF and START Treaties, which it previously did through Russia. The single circuit link was installed in 1995, and a second multi-channel link is being installed. The Kazakhstani Government will use funds earned from leasing the extra channels to pay for the operations of the second GGCL channel. This is the final CTR GGCL project in Kazakhstan. The Department of State is negotiating a separate agreement formalizing the current operational relationship.

Emergency Response Equipment and Training: The objective of this assistance is to provide equipment and training to respond to an accident or incident involving a nuclear weapon or fissile material; however, with the removal of the last nuclear warhead from Kazakhstan, DoD has agreed to allow Kazakhstan to use the equipment for training and response to incidents involving non-weapons-related nuclear materials. Further, in response to a request by Kazakhstan's Ministry of Science in early October 1997, DoD offered to provide Kazakhstan with mobile labs and associated equipment which would form the core capability of a nuclear emergency response laboratory to assess possible counterproliferation dangers in the Semipalatinsk/Polygon area. In mid-November 1997, the Kazakhstani Government accepted this offer. General Motors subsequently shipped four vehicles to Lawrence Livermore Laboratories, where they are being configured, with an estimated delivery date of May-June 1999; training will be conducted in that timeframe at former test sites in the Semipalatinsk region. Deliveries of initial equipment (including chemical and fire-fighting protective clothing, air sampling monitors, radiation monitors, and personal dosimeters) under the original project have been completed. A computer local-area network (LAN) was procured and a DoD technical team traveled to Kazakhstan to install the LAN and provide training in August 1997.

Export Control: The objective of this assistance is to help build export control institutions, infrastructure and legislation. CTR-provided computers, customs laboratory equipment, and patrol boats and vehicles now augment Kazakhstan's existing export control infrastructure. Delivery of and training on the customs laboratory equipment occurred in October 1995. In additionally, six patrol boats were procured to assist with enforcement on the Caspian Sea—five Boston Whaler Vigilants and one SeaArk Dauntless. The 27-foot Boston Whalers were delivered in April 1996, and the 42-foot SeaArk patrol boat was delivered in August 1996. Boat training was completed in October 1996. A wide-area network (WAN) for export control licensing was installed in Almaty, linking the Ministry of Industry and Trade, a regional training center (BusinessInform), the Council of Ministers, and other referral agencies. A formal opening ceremony for the training center took place in April 1997. Portions of this export control project supported the overall assistance program for Project Sapphire (which involved the purchase and transfer to secure storage of weapons-usable uranium from Kazakhstan to the United States, as well as related assistance) and were completed by the end of FY 1997. Delivery of pursuit and other vehicles with radios and automation equipment was completed in summer 1997. Installation of radios on the pursuit vehicles was delayed due to Kazakhstani reluctance to provide DoD with the frequencies they wanted to be programmed. Eventually, several standard frequencies were programmed in the United States, in lieu of providing more costly programmable radios. The final shipment to Kazakhstan was made in late April 1997. A total of 21 jeeps, minivans and rangers were shipped and arrived in Almaty in mid-May 1997. The remaining four vehicles, 28-passenger buses, were delivered in August 1997. These four vehicles are the last of the equipment for Project Sapphire and the final pieces of hardware to be delivered under the Kazakhstani export control project.

Material Control & Accounting (MC&A) and Physical Protection (PP): The objective of this assistance is to strengthen Kazakhstan's existing MC&A and PP systems in a timely manner. DOE programs are under way at the Ulba State Holding Company Fuel Fabrication Plant, the Aktau BN-350 breeder reactor, the Almaty research reactor, and the IGR and Baikal reactor sites at Semipalatinsk in Kurchatov City. At the national level, the U.S. Nuclear Regulatory Commission (NRC) will assist in developing a Kazakhstani regulatory program as well as an

information and reporting system. Beginning in FY 1997, funding has been provided by DOE. At the facility level, DOE has established an MC&A and PP program at the Ulba Fuel Fabrication facility that can be a model for other Kazakhstani facilities. The first DoD technical meetings occurred in July 1994, and the program ran through FY 1998. A local area network (LAN) was delivered to the Atomic Energy Agency of the Republic of Kazakhstan (AEA-RK) in August 1995, and MC&A equipment was delivered to Ulba. Kazakhstan PP specialists have traveled to the United States for technical training, while DOE continues to install remote monitoring equipment at Aktau.

Expanded Defense and Military Contacts: The objective of this assistance is to promote democratic reform of Kazakhstan's military so that it can better interact with U.S. and NATO militaries. Over 30 military contact events were organized for 1997 and 43 were organized for 1998. These events have included a bilateral working group meeting in Washington, various U.S. National Guard visits to Kazakhstan to assist the country with military environmental cleanup procedures, Kazakhstani defense personnel participation in air doctrine symposiums, and a Kazakhstani visit to the U.S. Military Academy.

Industrial Partnerships: The objective of this assistance is to convert former military enterprises to the production of civilian goods. The following projects were funded prior to Congressional prohibition of defense conversion funding:

- **Byelocorp Scientific, Inc. (BSI):** BSI has been contracted to convert GidroMash, a former missile and aircraft systems production facility, to designing, manufacturing and distributing valves and pressure vessels for cryogenic materials and gases. The U.S. and Kazakhstani partners are working very well together. The first prototype of a stainless steel cryogenic valve was produced in June 1995, and the production lines for valves, fittings, and other components are up and running. Full production was reached in July 1996, and the export of cryogenic valves has begun. An additional $1.25 million was awarded to BSI in September 1997 to establish an additional production line for cryogenic intermodal containers at Byelkamit within 14 months. BSI plans to contribute an additional $2.1 million worth of equipment and services. This project will utilize additional former defense factory space and initially employ 67 former defense workers. Employment of former defense workers is expected to increase as sales improve. This joint venture is among the most successful in Kazakhstan.

- **Allen & Associates International:** Allen & Associates International has been contracted to convert BioMedPreparat, a former biological weapons research and production facility, to manufacturing, packaging and distributing vitamins. Initially, the project bottled vitamins imported from the United States; however, the project fell behind schedule, was plagued by cut-offs of electrical service due to BioMedPreparat's failure to pay its electric bills, and was terminated at the convenience of the U.S. Government.

- **Kras (Kazakhstan's National Nuclear Center):** Kras has been contracted to convert a former nuclear weapons testing facility into a printed circuit board (PCB) production plant. Production has begun and a formal opening ceremony for the joint venture was held in September 1996. The joint venture, KK Interconnect, is now selling its products—a patented universal telephone/modem adapter and universal TV remote control—in the United States and Europe. The venture has expanded its products to include PCBs for televisions and computers, and plans to begin production of PCBs for security systems and cash registers. The Defense Enterprise Fund (DEF) has taken a 31-percent share of the joint venture in exchange for an equity investment of $ 3.0 million.

- **Lucent Technologies:** Lucent Technologies has been contracted to convert KazInformTelecom (KIT), which owns a portion of the Saryshagan test range, into an international telecommunications company and to establish wireless telecommunication in 11 cities using Saryshagan as an international telecommunications downlink. The DEF will assist in capitalization and initial operation of the national/international phone system, and has approved a $3.0 million equity investment. The Kazakhstani side is concerned that DoD has not formally transferred the title to the DoD-provided equipment to the joint venture, thus continuing an anomalous tax situation and delaying the capital investment by one of the partners. DoD hopes to close the contract with Lucent in FY 1999. But, if contract closure is delayed, DoD will consider transferring the title prior to contract completion.

Defense Enterprise Fund (DEF): DoD has provided a total of $7 million to the DEF for equity investments, grants, and loans in joint ventures with Kazakhstani WMD enterprises. DEF funding includes the above-mentioned $3 million for the Lucent project and $3.0 million for the Kras venture.

International Science and Technology Center (ISTC): The ISTC provides opportunities for former WMD scientists and engineers to pursue peaceful research. Kazakhstan completed formal ISTC membership procedures in June 1995. A total of $9 million has been provided by DoD, all of which has been disbursed. In FY 1996, funding responsibility was transferred to the Department of State under the FREEDOM Support Act (see Science Centers section below).

Weapons of Mass Destruction Infrastructure Elimination (WMDIE): The objective of WMDIE assistance is to eliminate facilities or infrastructure that supported WMD. The WMDIE Program includes a $24.5 million project to assist Kazakhstan in infrastructure dismantlement at a former Soviet biological weapons (BW) plant at Stepnogorsk and the elimination of nuclear testing infrastructure associated with former Soviet nuclear test tunnels at Degelen Mountain and vertical test holes at Balapan. To date, 178 of 181 tunnels and all 13 remaining test holes have been sealed. A DoD contracting team visited Stepnogorsk in December 1996 and signed a contract with BioMedPreparat to inventory equipment at the facility, determine analytical laboratory requirements and prepare for dismantlement. In October 1997, parallel U.S.-Kazakhstani testing of some 1,000 samples taken at Stepnogorsk was completed. The testing was performed in a toxicology lab in Kazakhstan established with CTR assistance, which may be later be reutilized for environmental use. The Kazakhstani dismantlement plan was delivered to DoD in early November 1997, and dismantlement was initiated in September 1998 and will last 18 months. Under the Stepnogorsk Initiative, a broader U.S. Government interagency redirection effort, two project proposals under DOE's Initiatives for Proliferation Prevention (IPP) program are being developed. WMDIE funds also helped pay for activities under Project Sapphire, which involved the purchase and transfer to secure storage of weapons-usable uranium from Kazakhstan to the United States, as well as related assistance.

Audits and Examinations (A&E's): An A&E of Government-to-Government Communications Link (GGCL) activities was conducted in Kazakhstan in July 1995 and went very smoothly. In 1996, three A&E's were conducted in Kazakhstan on export control, emergency response and defense conversion activities. The A&E on export control assistance identified only one minor discrepancy, and corrective action was subsequently taken. In 1997, A&E's on WMDIE assistance at Degelen Mountain and on SOAE silo launcher elimination took place in August, an A&E on export controls was conducted in October, and an A&E on MC&A was completed in late 1997. In 1998, three A&E's were scheduled for Kazakhstan on emergency response equipment and training, WMDIE assistance (BW) at Stepnogorsk, and GGCL assistance. The A&E on emergency response equipment and training was conducted in June 1998, with one minor discrepancy identified and subsequently corrected. The two remaining A&E's for Kazakhstan were conducted in August 1998 and found no major discrepancies. Kazakhstan continues to be a very cooperative partner in the conduct of A&E's.

Other Donors: The United States is not alone in providing dismantlement-related assistance to Kazakhstan. Germany's ongoing and planned projects include export control and officer resettlement/retraining assistance. The U.S. Government is supporting Japan's MC&A upgrade project at the Aktau BN-350 breeder reactor, which involves the installation of a spent-fuel gate monitor. The European Union has funded two ISTC projects worth approximately $443,500, Sweden has funded three projects for a total of $425,000, and Japan has funded one ISTC project at $215,400. NATO allies regularly brief each other on the progress of their projects in the Senior Politico-Military Group on Proliferation (SGP) and in bilateral discussions. These issues have also been discussed in G-7 fora. DoD continues to work with other nations to ensure that our programs in Kazakhstan are complementary and cooperative.

RUSSIA

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	$373,700,000	$320,722,114
2. Weapons Transportation Security	$34,000,000	$32,306,365
3. Armored Blankets	$3,322,000	$2,991,247
4. Security Enhancement for Russian Railcars	$21,500,000	$21,494,092
5. Weapons Storage Security	$91,500,000	$35,771,262
6. Emergency Response Training/Equipment	$15,000,000	$14,798,762
7. Fissile Material Storage Facility Design	$15,000,000	$14,998,584
8. Fissile Material Storage Facility	$150,000,000	$149,557,241
9. Fissile Material Storage Containers	$80,500,000	$62,018,896
10. Core Conversion	$51,000,000	$49,461,582
11. Chemical Weapons Destruction	$192,100,000	$135,322,606
12. BW Proliferation Prevention	$5,000,000	$115,749
13. Industrial Partnerships	$38,000,000	$36,348,444
14. Defense Enterprise Fund	$10,000,000	$10,000,000
15. International Science and Technology Center	$35,000,000	$34,999,964
16. Research and Development Foundation	$10,000,000	$10,000,000
17. Defense and Military Contacts	$16,050,000	$13,267,078
18. Material Control and Accounting	$45,000,000	$44,523,592
19. Export Control	$2,260,000	$2,245,494
20. Arctic Nuclear Waste	$30,000,000	$29,951,550
TOTAL:	**$1,218,932,000**	**$1,020,894,621**

as of 11/23/98

Overview

The United States and Russia have signed a government-to-government umbrella agreement on CTR assistance, twelve agency-to-agency CTR implementing agreements, one implementing protocol, and one memorandum of understanding and cooperation. DoD has notified to the U.S. Congress over $1.2 billion in CTR assistance to Russia, of which over $1 billion has been obligated through FY 1998 and over $603 million disbursed. Cooperation has evolved and strengthened over the years in DoD's interaction with the Russian ministries administering the CTR program, including the Ministry of Defense (MoD), the Ministry of Atomic Energy (MinAtom), the now-disbanded Ministry for Defense Industry (MDI), and the Ministry of Economy (MinEcon).

Since FY 1997, the CTR program has focused increasingly on Russia. About $415 million of the $440.2 million appropriated for CTR in FY 1999 is earmarked for Russia. To assist Russia in reducing its force structure to START II or III levels, DoD, MoD and MinEcon agreed in December 1997 on new CTR projects to support the required missile systems dismantlement, strategic submarine elimination, and enhance nuclear weapons and fissile material security. Several of these projects are already under way. Projects are also being developed to help the Russians process and package fissile material in the post-dismantlement stage and to prevent the proliferation of biological weapons (BW) expertise and technology.

Projects

Strategic Offensive Arms Elimination (SOAE): The objective of SOAE assistance is to provide Russia with equipment, training, services and logistical support to help expedite the elimination of strategic offensive arms pursuant to the START treaties. This effort includes assistance with liquid rocket-fuel transportation and disposition, SLBM launcher and associated submarine elimination, ICBM silo launcher elimination, solid rocket-motor elimination, ICBM dismantlement, heavy bomber elimination and other projects. It also includes equipment for emergency support in case of an accident during the transport or elimination of missiles. Equipment shipments have continued steadily since July 1994. MinEcon has assumed executive agency duties from the disbanded MDI.

DoD has awarded a contract to eliminate 7 SSBNs with SLBM launchers and plans to contract to eliminate at least 30 additional SSBNs with SLBM launchers. DoD also is procuring infrastructure and equipment to expand SLBM launcher and associated submarine elimination. In FY 1998, DoD also awarded a contract to transport, defuel, eliminate, neutralize and dismantle submarine-launched ballistic missiles (SLBMs) from the Yankee- and all Delta-class SSBN submarines. Together, these projects will increase Russia's capability to eliminate its SSBN submarines from 5 to 10 per year. A solid rocket-motor elimination facility contract was awarded in April 1997 to Lockheed Martin for $52.4 million, but the project was delayed 18 months by a Russian Government decision to change the facility location from Perm to Votkinsk and the need to accomplish a new technical feasibility study. The new facility will eliminate SS-24s, SS-N-20s and SS-25 solid rocket motors. DoD is developing a project to eliminate SS-18 heavy-lift ICBMs in accordance with the stringent START II procedures by procuring equipment and building additional infrastructure needed for Russia's existing SS-18 dismantlement facility at Surovatikha. DoD is currently designing modifications to the SS-11 elimination facility at Piban Shur to configure it to eliminate SS-19 and SS-17 ICBMs.

Nuclear Weapons Transportation Security: DoD and the MoD are cooperatively working to enhance the security of nuclear weapons during transport in connection with their destruction. CTR has completed procurement of armored blankets, security enhancements for warhead transport rail cars, 150 supercontainers, and emergency support equipment.

- **Armored Blankets:** The objective of this assistance is to provide ballistic protection by wrapping warheads or containers with armored blankets. A total of 1,500 surplus U.S. Army LANCE ballistic blankets were shipped in July 1992, and 2,520 new kevlar blankets had been shipped by June 1993.

- **Rail Car Security Enhancements:** The objective of this assistance is to provide training and equipment to modify cargo and guard rail cars for transport of nuclear weapons destined for dismantlement. Security upgrade kits for 100 cargo and 15 guard railcars had been provided to MoD as of October 1994, and all but 32 were installed by Russia. Due to the MoD's lack of funds, DoD contracted with a plant in Tver to install the remainder in April 1996. A new project is being developed to procure computer equipment for an information analysis system to support nuclear accident assessment, response, and clean-up activities.

- **Supercontainers:** Supercontainers enhance nuclear weapons security and safety during transport. In February 1998, the 150th British-designed supercontainer for enhanced physical security and adverse environment safety during transportation was delivered. Two prototypes will be provided for use in training.

- **Emergency Support Equipment:** The objective of this assistance is to provide equipment, training and technical manuals to enhance the MoD's capability to respond to accidents involving nuclear weapons in transit to dismantlement activities. Subsequent follow-on training may be conducted. Five sets of emergency support equipment and overpack containers to be carried on the nuclear weapons shipment trains for use in case of a rail accident were delivered in 1997. The last pieces of equipment—three Canberra radiation detection units being modified for underwater use—were delivered in March 1998. Efforts are under way to extend this project until June 1999 to continue necessary logistical support.

Nuclear Weapons Storage Security: The objective of this assistance is to establish cooperation between DoD and the Russian MoD in enhancing the security of nuclear weapons storage in connection with their destruction, and the prevention of nuclear weapons theft or diversion. Important improvements to the security of Russia's nuclear weapons storage include an Analytical System and Software for Evaluation of Safeguards and Security (ASSESS) computer model, as well as training to assess site and guard-force security vulnerabilities. As Russia currently does not allow access to its sensitive nuclear weapons storage sites, DoD and MoD have developed special audit and examination (A&E) procedures to ensure that assistance for nuclear weapons storage sites is being used for its intended purpose.

- **Security Assessment and Training Center (SATC):** A new SATC is being built at Sergiev Posad to test and evaluate new security alarm and access denial equipment. In November 1997, the Russian company Eleron was awarded a contract to produce the security design for the SATC, and the U.S. company Bechtel was awarded a contract to outfit and establish the SATC. Once a suite of equipment is selected it will be procured and installed at up to 50 of Russia's national nuclear weapons storage sites, up to 48 Russian Air Force and

Navy sites, and as many as 25 Strategic Rocket Forces (SRF) sites. A 90-percent design review was completed in November 1998. Deliveries of "quick-fix" upgraded fencing and sensors (50km) took place from September through December 1997. The MoD has installed about fifteen percent of the equipment at the first 50 national weapons storage sites and is working to install the remainder as soon as possible.

- **Nuclear Weapons Automated Inventory Control and Management System (AICMS):** Initial computer equipment for establishing an AICMS has been procured and delivered. The MoD's analysis of the AICMS prototype was completed in 1997, and the MoD agreed to have a U.S. integrating contractor assist in the development of computer architecture and the procurement computer and interface components. Equipment installation by MoD is currently delayed due to an MoD request for CTR assistance with certification and installation.

- **Personnel Reliability Program (PRP):** CTR has provided equipment and training for upgrading Russia's PRP. Portable drug and alcohol testing equipment arrived in November 1997, and related training was completed in early 1998. Polygraph equipment arrived and was installed in January 1998. A fixed-site laboratory contract was awarded in December 1998.

Fissile Material Storage Facility (FMSF): The objective of this assistance is to help the Russian Government provide safe and secure storage for fissile material from dismantled nuclear weapons. DoD is committed to provide design assistance, construction support, and construction and equipment for the storage facility being built at Mayak. DoD is currently reexamining the amount that it plans to contribute to support the cost of building the facility; initially, DoD expected the Russian Government to budget an amount sufficient to cover the remaining construction costs and all related infrastructure costs, but now this does not appear likely. DoD provided $15 million for technical design assistance materials, services and training for the Russian-led design effort for the facility. A total of $150 million in CTR funding is being used for the Russian-led construction of the facility and procurement of facility equipment, as well as for additional design assistance. U.S.-provided construction equipment (e.g., bulldozers, excavators and cranes) has been delivered to Mayak and is being used in Phase I of the construction process. DoD's on-the-ground presence for the duration of the project as part of the joint administrative team at Mayak is helping to expedite construction. Construction of exterior walls on main buildings and the building of interior structures and the roof have almost been completed. As a result of delays caused by Russian Government funding shortfalls, the first storage building with a capacity of 25,000 cans of material is scheduled to be completed by 2002. A decision on the fate of a second building with an equivalent capacity will be made by 2000, based on a reevaluation of Russian storage requirements and availability of funding. DoD continues to monitor project milestones, as well as the status of Russian Government funding for this project.

Fissile Material Containers (FMCs)/Post-Dismantlement Processing: The objective of this assistance is to provide MinAtom with containers for the transport and storage of fissile material from dismantled weapons. The original plan was to store 50,000 FMCs in the Mayak facility. DoD has awarded a contract for the delivery of 33,000 FMCs. As of the end of November 1998, 32,453 FMCs had been produced and 26,456 had been shipped to Russia. The rest are in storage in the United States until the Russian storage requirements are finalized. MinAtom has also requested U.S. assistance in the post-dismantlement and conversion process, which includes building inserts for the FMCs to hold the fissile material, reshaping the material and loading the inserts. Initial joint technical discussions have taken place, and DoD has indicated that it will proceed with this project; however, there are many questions that still need to be answered by MinAtom. One important requirement for the project will be adequate transparency, which probably will require access to sensitive facilities.

Core Conversion: The objective of core conversion assistance is to modify the cores of Russia's three remaining plutonium(Pu)-producing reactors in Tomsk and Krasnoyarsk in order to halt the production of weapons-grade Pu by December 31, 2000, while allowing the reactors to continue to provide heat and electricity to the regions' residents. DoD is the project manager, with technical assistance provided by DOE and the Nuclear Regulatory Commission. DoD has contracted the Phase II effort (design and testing) with DOE-Richland and Pacific Northwest National Lab. A CTR implementing agreement was signed in September 1997. DoD is moving toward a final U.S. Government decision on the type of fuel to be used in the converted cores—highly enriched uranium (HEU) or low-enriched uranium (LEU). Actual implementation of the project—the reactor modifications—is scheduled to begin in 1999, although a lack of Russian funding may delay completion of the project until 2001.

Under a revised MinAtom work plan, one reactor would be converted in 2000, but the other two would not be shut down for conversion until April 2001.

Chemical Weapons Destruction Assistance: This program, whose objective is to assist Russia in destroying its chemical weapons (CW) stockpile and associated infrastructure, has three elements: (1) provision of chemical-agent analytical monitoring capabilities, (2) design and construction of a CW destruction facility (CWDF), and (3) elimination of chemical weapons production facilities. The U.S. Government plans to provide CTR assistance for the construction of a CWDF with an initial design capacity not to exceed 500 metric tons of nerve-agent filled artillery munitions. The facility is to be located at Shchuchye, in the Kurgan Oblast (Region), where some 14 percent of Russia's nerve agent munitions are stored. Compliance with Russian feasibility and environmental regulations is expected to delay construction permit approval until summer 1999. U.S. and Russian scientists tested the Russian two-stage (neutralization/bituminization) chemical agent destruction process, and results are expected in early 1999. The Russian Government's Environmental Expert Review Board approved the overall Russian justification of investment (JOI) for the CWDF project in January 1998, allowing the Main State Expert Review Board to complete its review of the JOI and the Kurgan Oblast authorities to select the site for the destruction facility near Shchuchye in June 1998. Site dedication took place in September 1998. The three mobile labs required for the Chemical Agent Analytical Monitoring Project were delivered to Shchuchye in September 1996. An engineering management support (EMS) contract was awarded to the Ralph M. Parsons Company in December 1996 for the integration of activities necessary to establish the CWDF. EMS tasks include the destruction process and related equipment, designs for agents and munitions, process scale-up, facility design, equipment acquisition/installation, construction, operator training, systemization and start-up. At the October 1997 meeting of the CW Destruction Program Senior Implementing Group (CHEMSIG) in Moscow, agreement was reached on a project schedule that aimed at processing the first CW munitions in late 2002. However, site selection delays and the lack of Russian Government funding for infrastructure to support the CWDF have delayed the construction completion date until September 2004 and the start of CW munitions processing until December 2004.

- Now that Russia has ratified the Chemical Weapons Convention (CWC), international donors are needed to provide assistance to Russia's overall CW destruction effort. A NATO-based process to help coordinate such assistance is now under way. In addition, efforts are proceeding to eliminate chemical weapons infrastructure and capabilities of the former CW weapons production facilities within the KhimProm, Volgograd and KhimProm Novocheboksarsk chemical complexes. The goals of these efforts are to help bring the KhimProm chemical complexes into compliance with the CWC and help stimulate U.S. commercial interest in scientific and technical personnel and proposals at the KhimProm Volgograd facility. A proposed amendment is awaiting Russian Government approval and would provide authority to cover future demilitarization activities at both complexes. In addition, CTR is exploring the provision of security enhancements for Russia's CW storage sites.

Biological Weapons (BW) Proliferation Prevention: The objective of this assistance is to prevent the proliferation of BW technology and expertise by joint research at former Soviet BW institutes on biodefense. Building on a pilot project carried out by the National Academy of Sciences, DoD is establishing the management and contracting structure to identify research priorities, evaluate proposals, identify partners, and allocate funding for this project. CTR is working in conjunction with the Department of State and a number of other U.S. Governmental agencies to develop these collaborative relationships. These efforts increase transparency and access and build confidence that such former Soviet facilities are not being used for military modernization. These projects also provide exchange opportunities to Russian and American scientists. In addition, CTR is developing a BW site-security enhancement project similar to the one associated with Russia's nuclear sites.

Defense Conversion: The objective of defense conversion programs is to convert former military enterprises to the production of civilian goods. The following projects were funded prior to Congressional prohibition of defense conversion funding:

- **Industrial Partnerships:** Three industrial partnerships in Russia succeeded in converting and privatizing former WMD-related military facilities to establish civilian production of high-performance hearing aids, dental chairs and infection-control solutions, and air traffic control hardware and software. These partnerships have enhanced the commercial potential of former high-technology military enterprises and have served as a visible reminder of the vital importance of involving private partners and capital in the conversion endeavor.

- **Housing:** DoD provided $20 million for American Housing Technologies, Inc. (AHT) to work with one or more Russian defense firms to convert and privatize defense facilities and establish housing-assembly and component-manufacturing capabilities for the production of prefabricated housing for demobilized Russian officers and the Russian housing market. The project envisions establishing a lumber-finishing plant and production lines for windows and doors, brass casting (for the production of boilers), roofing, and housing assembly by converting three Russian aerospace enterprises formerly engaged in production of WMD-related items. More than 70 percent, or 20,000 square meters, of factory space at the enterprise Komposit is being converted to produce fiberglass windows, doors, window glass, faucets and shingles, ultimately employing 2,500 former defense workers. Mashinostroeniye has converted 3,000 square meters and will employ 300 former defense workers to produce windows and doors. Production on these lines is expected to begin during the first half of 1999. Despite continuing progress in these areas, a housing-assembly partnership has not yet been formed, despite repeated attempts by AHT and the MoD to identify a suitable Russian partner. Two potential Russian partners backed out, and a third offered by the MoD was unable to privatize due to taxation problems.

Defense Enterprise Fund (DEF): The DEF has invested in eight projects in Russia, primarily in the areas of telecommunications, information technology, and materials recycling. The DEF has been extremely effective, not only funding successful conversion projects in Russia, but also helping the Russian Government and the Russian defense industry understand the requirements conversion projects must meet in order to attract private venture capital. As a direct result of DEF investments, a former manufacturer of nuclear submarine components is now building excavation equipment, scientists and engineers who were involved in nuclear weapons testing now produce circuit boards, and satellite tracking technology is now employed in private telecommunications applications.

International Science and Technology Center (ISTC): The Moscow-based ISTC provides opportunities for former Soviet WMD scientists and engineers to pursue peaceful research. The ISTC is a multinational organization to which DoD provided $64 million in CTR funds before funding responsibility was transferred to the State Department under the FREEDOM Support Act in FY 1996 (see Science Centers section below).

Civilian Research and Development Foundation (CRDF): The CRDF provides research and development (R&D) opportunities for NIS scientists, particularly from the defense sector, and encourages links between NIS scientists and U.S. scientists and businesses. CTR funds, contingent upon the receipt of matching funds ($5 million was initially provided by the Soros Foundation), were provided to establish this National Science Foundation-administered program (see CRDF section below).

Material Control and Accounting, and Physical Protection (MC&A and PP): The objective of this assistance is to strengthen Russia's capability to detect and deter possible theft, diversion, or other unauthorized use of nuclear material. Physical protection enhancements help to detect, delay and respond to adversarial acts, including theft and sabotage. The U.S. Government also helps national and facility-level Russian authorities enhance their capability to effectively track and report on nuclear material inventories as well as illicit transfers. In FY 1995, the U.S. Department of Energy became the executive agent for these programs, and beginning in FY 1996, funding responsibility for this program shifted to DOE.

Export Control: Export control assistance helps prevent proliferation by strengthening Russia's export control capabilities. CTR funding has supported the Russian Government's participation in conferences, training and information exchanges in order to integrate it into the international export control community and to facilitate more

effective control of sensitive exports and adherence to international control regimes. Responsibility for this program was shifted to the Department of State in 1996. All remaining DoD funds have been obligated and disbursed (see State Department Export Control section below).

Arctic Nuclear Waste Assessment: The objective of this assessment is to investigate and analyze nuclear waste disposal in the Arctic regions. Several studies were performed under this initiative, which was established in FY 1993 as primarily a unilateral U.S. Government effort. The Russian side has been cooperative, but no formal agreements have been reached, and none are planned. DoD has obligated almost all the $30 million notified to the U.S. Congress for this effort and has completed the research.

Audits and Examinations (A&E's): Although the U.S. Government's rights to conduct A&E's are spelled out in the CTR Umbrella Agreement and various CTR implementing agreements, in response to Russian requests, DoD worked with various Russian counterpart agencies in late 1995 and early 1996 to define administrative arrangements for the conduct of A&E's. Since then, A&E's in Russia have generally operated smoothly, with a few exceptions where projects were under MinAtom's purview. In September 1997, supplementary special arrangements were developed to permit DoD to account for assistance being provided to enhance the physical security of sensitive nuclear weapon storage sites. The initial trial A&E for this unique project successfully occurred in mid-1998. A&E's are expected to continue at least through 2001, as agreements provide for their execution for three years following the terms of the relevant implementing agreements.

Other Donors: The United States is not alone in providing dismantlement-related assistance to Russia. Germany's ongoing and planned projects in Russia include emergency response equipment and training, fissile material conversion, chemical weapons destruction, nuclear reactor safety, environmental protection and housing. Germany has also completed projects on officer resettlement and retraining, has provided a large robot to be used in case of a radiation accident, and is interested in developing MPC&A projects in Russia. Germany is also providing equipment for CW destruction at Gorny. Italy is involved in providing emergency response equipment and training and is considering support for social infrastructure at Russian CW destruction sites. France is assisting with dismantlement tools, supercontainers, radiation protection and detection equipment, and a storage facility for hydrogenated-lithiated materials resulting from the dismantling of Russian nuclear weapons, as well as sponsoring a joint French-Russian study on the potential use of nuclear materials recovered from Russian weapons elimination (particularly plutonium) in civilian reactors through transformation into mixed oxide fuel. France is also considering CW destruction assistance. The United Kingdom is also providing supercontainers and trucks specially outfitted for weapons transport, and is funding officer resettlement and retraining. Canadian funding supports defense conversion projects, nuclear reactor safety and environmental protection. Norway is developing submarine elimination and related projects and is considering assisting with CW elimination. DoD is working with the Japanese to define useful areas for their assistance in the field of weapons material protection, safety and security. Japan has expressed interest in supporting emergency response assistance and has awarded a contract for a low-level liquid waste elimination barge to support Russian submarine elimination. The Netherlands, Sweden and Finland are supporting Russian CW destruction at Kambarka, and the Netherlands are also considering support for submarine elimination. NATO allies regularly brief each other on the progress of their projects. These issues have also been raised and discussed in G-7 fora. The U.S. Government continues to work with many nations to ensure that our programs remain complementary and cooperative. The U.S. Government has offered to assist the Russian Government in planning and conducting a second international assistance conference to accelerate CW destruction efforts, which is expected to take place in early 1999.

UKRAINE

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Nuclear Arms Elimination	$366,400,000	$320,085,877
2. WMD Infrastructure Elimination	$23,400,000	$8,036,591
3. Emergency Response Training/Equipment	$3,400,000	$3,129,796
4. Industrial Partnerships	$55,730,000	$54,914,895
5. Defense and Military Contacts	$7,500,000	$4,491,754
6. Material Control and Accounting	$22,500,000	$22,215,542
7. Science and Technology Center	$15,000,000	$14,876,022
8. Export Control	$13,890,000	$13,253,655
9. Government to Government Communications Link	$2,222,000	$1,967,412
10. Multilateral Nuclear Safety Initiative	$11,000,000	$11,000,000
TOTAL:	**$521,042,000**	**$453,971,543**

as of 11/23/98

Overview

The United States and Ukraine have signed a government-to-government umbrella agreement on CTR assistance, nine implementing agreements, and one memorandum of understanding. To date, DoD has notified to Congress more than $521 million in CTR assistance to Ukraine, of which over $453 million has been obligated through FY 1998 and over $359 million disbursed. Despite some early difficulties, CTR efforts in Ukraine have become one of DoD's most successful programs. With the Ukrainian Government's official decision to eliminate the SS-24 missile system and eliminate several Bear H and Blackjack heavy bombers and their associated air-launched cruise missiles (ALCMs), CTR projects and further funding requests are expected to continue through FY 2002.

Projects

Strategic Nuclear Arms Elimination (SNAE): SNAE activities help facilitate START I implementation and will help eliminate all strategic nuclear weapons systems in Ukraine, including the SS-19 and SS-24 ICBM systems, and up to 44 heavy bombers. SNAE assistance has included grants that were critical to the removal, processing and transportation of all strategic nuclear warheads (approximately 1,900) from Ukraine to Russia, allowing Ukraine to announce its nuclear-free status in June 1996. Through November 1998, nearly all of the 130 SS-19 missiles, launch silos (including one training silo), and all 13 SS-19 launch control center silos have been eliminated. SNAE assistance to Ukraine is focused on eliminating the SS-19 and SS-24 launchers and missiles, as well as the remaining START-accountable heavy bombers. Assistance provided through November 1998 included equipment and personnel training, logistics and maintenance services, integration of contractors to eliminate missiles and silos, and housing for retiring SRF officers. An SS-19 missile neutralization and dismantlement facility (NDF) that can process up to six missiles per month was commissioned in July 1996. The pace of the barely year-old SS-24 project accelerated in June 1998, when contracts were awarded to Bechtel for silo elimination and Morrison Knudsen for initial disassembly and storage. DoD expects all SS-19 missiles and silos and approximately 10 SS-24 silos to have been eliminated by December 1999. In addition to elimination of the delivery system, a missile liquid-fuel storage facility was expanded by 3,800 metric tons (MT) to hold over 5,000 MT of SS-19 fuel. The fuel from all 130 missiles is already in storage. CTR-funded SNAE projects in Ukraine also include a bomber component. In December 1997, the Ukrainian Government submitted an official request to the Secretary of Defense for specific CTR assistance in eliminating as many as 44 START-accountable heavy bombers (the START Treaty lists 25 Bear Hs and 19 Blackjacks in Ukraine) and 1,068 associated ALCMs. Raytheon was awarded an integrating contract for bomber elimination in June 1998, and the first bomber elimination began in November 1998, witnessed by Senator Lugar and a Congressional delegation. In addition, CTR will be providing assistance in destroying a number of non-deployed START-accountable ICBMs (SS-11s, SS-17s and SS-19s). Ukrainian law provides that military officers must receive housing on retirement. To provide the officers' housing required for

dismantlement of the SS-19 system and to assist in downsizing the Ukrainian military, DoD constructed 605 housing units for SRF officers at Pervomaysk and Khmelnitskyy. This project was completed in 1997.

Weapons of Mass Destruction Infrastructure Elimination (WMDIE): The objective of WMDIE assistance is to eliminate the infrastructure necessary to support WMD forces, including physical plants, support systems and materials. All WMDIE programs are scheduled to be concluded by FY 2002. Elimination of missile propellant and deactivation of nuclear weapons support infrastructure at the Pervomaysk and Khmelnitskyy ICBM Divisions is already under way.

Export Control: The objective of this assistance is to strengthen export control systems by building export control institutions and infrastructure. DoD has provided automation equipment for Ukraine's licensing, enforcement, and customs administrations, as well as customs interdiction equipment. Equipment procured under this program includes office automation equipment, local area networks (LANs), customs laboratory equipment, and X-ray enforcement and radiation-detection equipment. Although funding and administration of this effort shifted to the Department of State in 1996, the CTR Export Control Implementing Agreement has been extended to complete an ongoing project using prior-year funds.

Material Control & Accountability and Physical Protection (MC&A and PP): The objective of this assistance is to help establish a national MC&A system, and upgrade the physical protection and MC&A of four facilities. This program provides systems to detect and deter the theft, diversion or other unauthorized use of nuclear material. Beginning in 1996, funding responsibility for this program was transferred to DOE. Work is under way at four nuclear sites in Ukraine to provide the infrastructure associated with implementing MC&A and PP. Throughout FY 1998, technical exchanges and site visits were used to identify specific hardware requirements and to demonstrate systems. Training courses in non-destructive assay, as well as MC&A and PP were held for staff from all Ukrainian nuclear facilities. Procurement actions have been initiated for x-ray vans, baggage x-ray machines, contraband detectors, access control systems, and perimeter and interior intrusion-detection systems for all four facilities.

Civilian Cooperative Nuclear Reactor Safety Upgrade: The objective of this assistance is to provide a nuclear reactor simulator for training of reactor operators and engineers to enhance safe operation of nuclear power plants. The U.S. Government has helped establish a National Nuclear Training Center with a computer-based, full-scope simulator that simulates the behavior of a VVER-1000 nuclear power plant. This project is administered by DOE, and involves simulator hardware and software design and engineering, training, construction and testing, shipping, installation, spare parts, and other support. The simulator was delivered by the U.S. Government in October 1997.

Government-to-Government Communications Link (GGCL): The objective of GGCL assistance is to provide Ukraine with its own capability to fulfill its reporting requirements under the INF and START Treaties, which it had previously done through Russia. The first GGCL circuit is now installed and operational. A software upgrade was completed in March 1996. Software and operations training took place in mid-August 1996. DoD technical teams visited Ukraine in November 1996, February 1997, and June 1997 to prepare for the installation of the second GGCL circuit, which will use a single-channel satellite ground station provided by DoD. Ukraine will modify this station at its own expense into a multi-channel circuit and will use the proceeds from leasing the extra channels to pay for the leasing and operation of the second circuit.

Emergency Response Equipment and Training: The objective of this assistance is to provide the MoD with equipment and training to respond to an accident or incident involving nuclear weapons during transit related to dismantlement. Although emergency response equipment was delivered, including communications equipment for a command and control computer network, fire-retardant suits, anti-contamination suits, cranes, and personal dosimeters, the completion of the transporting of all nuclear weapons back to Russia obviated the need for most of this equipment. As a result, the corresponding implementing agreement was allowed to lapse after December 18, 1996. DoD has approved a plan to sell some of this equipment to fund needed maintenance to SS-24 missile monitoring systems. All activities associated with this program, including training and equipment support, are being terminated.

Science and Technology Center-Ukraine (STCU): The STCU provides opportunities for former Soviet weapons scientists and technical experts to pursue peaceful research. U.S. Government funding is complemented by $2

million from Canada and $2 million from Sweden. Funding responsibility for the STCU shifted to the Department of State in FY 1996 (see Science Centers section below).

U.S.-Ukraine Industrial Partnerships: The objective of these joint industrial partnerships between U.S. and Ukrainian firms is to convert former Soviet military production capability to peaceful, civilian uses.

- **Federal Systems Group (FSG)/Kommunar:** In this project, FSG was awarded a $3.25 million contract by Defense Special Weapons Agency (DSWA), now the Defense Threat Reduction Agency (DTRA), to form KomTel, a joint venture with Ukraine's Kommunar Production Association, Inc., to assemble and manufacture cellular phones. FSG was to contribute $1.5 million to the creation of this $4.4 million joint venture. FSG provided equipment and completed the contract; however, serious performance-related issues arose prior to the completion of the contract. It was subsequently determined that a termination for default would not be sustainable. Kommunar was extremely dissatisfied with its U.S. partner and requested U.S. Government assistance in finding a new joint venture partner. The KRAS Corporation received an $80,000 contract to conduct a feasibility study of cellular phone production at Kommunar, with the end goal of identifying a new investor for the joint venture. The study found that cellular phone production in Ukraine was economically feasible but that finding a new cellular phone partner for Kommunar was unlikely due to a non-competitive agreement between FSG and Kommunar. DTRA contracted with the International Executive Service Corps (IESC) to work with Kommunar to develop business plans and search for potential partners for products other than cell phones. Over $700,000 in FY 1998 funds was notified to the U.S. Congress to provide additional assistance in this area.

Audits and Examinations (A&E's): A&E's help ensure that CTR assistance is being used for its intended purposes. Responding to Ukrainian requests, DoD worked to develop administrative arrangements in 1995 and 1996 for the conduct of A&E's as provided under the CTR Umbrella Agreement. DoD conducted four A&E's in 1995 on a trial basis. In 1996, DoD conducted successful A&E's of rocket propellant disposition, silo launcher elimination assistance under the SNAE agreement, export control assistance, emergency response equipment, and MPC&A assistance in Kharkiv and Kiev. A total of five A&E's were conducted in Ukraine in 1997. In response to a January 1997 Ukrainian Government request, DoD conducted a comprehensive A&E covering $68 million worth of SNAE assistance. Other A&E's were completed in fall 1997 on the GGCL, export control and defense conversion projects. An additional A&E in December 1997 covering SNAE silo launcher elimination and liquid rocket propellant disposition found several major pieces of equipment in unserviceable condition, but repairs were expected to be made by the end of 1998. U.S. A&E rights in Ukraine will end with the termination of individual implementing agreements or of the CTR Umbrella Agreement, whichever occurs first.

Defense and Military Contacts: The objective of these contacts is to promote improved defense relations between U.S. and Ukrainian military personnel and institutions. Over 182 events have been supported between various DoD organizations and their Ukrainian counterparts, including Bilateral Working Group meetings and Joint Staff Talks in Ukraine, Ukrainian visits to the U.S. National Training Center, U.S.-hosted peacekeeping simulation exercises, and a U.S. Air Force Air Mobility Command visit to Ukraine. These contacts are scheduled to continue, with exchanges and interaction currently planned through the fourth quarter of FY 2005.

Other Donors: The United States is not alone in providing dismantlement-related assistance to Ukraine. The United States is prohibited from pursuing any new housing projects or environmental projects in Ukraine, making those areas prime candidates for assistance from other donor nations. Germany's ongoing and planned projects include silo elimination assistance, officer resettlement and retraining, housing, defense conversion and energy conservation projects. Italy is also involved in the latter. Six SS-19 silos were destroyed in 1996 and 1997 with German assistance, using a water cutting technique. The Germans have also received a Ukrainian Government request for eliminating up to nine SS-24 silos using this same technique. DoD is coordinating closely with Ukrainian and German officials to optimize silo elimination efforts. The United Kingdom offered assistance to help dispose of rocket fuel, as well as retraining and medical support for the officers working with the toxic fuel. Ukraine declined the first offer, stating that it prefers to store the fuel. The Netherlands and Norway are providing medical equipment to Ukraine. Canada and Sweden are partners in the STCU, and the European Union and Japan have expressed interest in participating as well. Canadian funding also supports industrial projects, MPC&A, nuclear reactor safety, and an environmental restoration program, all of which are closely coordinated with DoD's SNAE assistance. NATO allies regularly brief each other on the progress of their projects in the Senior Politico-Military

Group on Proliferation (SGP) and in bilateral discussions. These issues have also been discussed in G-7 fora. The United States continues to work with other donor nations to ensure that security programs in Ukraine are complementary and cooperative.

U.S. DEPARTMENT OF DEFENSE (DoD) - ARCTIC MILITARY ENVIRONMENTAL COOPERATION

In 1995, the DoD began discussions with the Norwegian and Russian Ministries of Defense on Arctic military environmental cooperation (AMEC) to jointly address critical environmental issues related to these militaries' unique capabilities and activities in the Arctic region. In September 1996, U.S. Secretary of Defense Perry, Norwegian Minister of Defense Kosmo, and Russian Minister of Defense Rodionov signed a declaration launching a cooperative effort among these three military forces under the AMEC framework. The AMEC program initiated support of joint activities to ensure the safe handling and storage of radioactive materials, and proper disposal of hazardous toxic materials, and to exchange information on risk assessments and clean-up technologies and methods. All projects are focused on demonstrations of existing "off-the-shelf" technology. Program funding is provided by all three parties, with each country principally paying for its own participation. There were six initial projects to be conducted under the AMEC program: (1) the development of a prototype container for interim storage of spent nuclear fuel; (2) technology review and implementation for solid radioactive waste volume reduction; (3) review and implementation of technologies for the improvement of interim storage facilities for solid radioactive waste; (4) health training and monitoring technologies; (5) remediation of hazardous waste sites on military bases; and (6) review and implementation of clean ship technologies. In FY 1998, the three countries completed an overall program management manual and continued action on all approved projects. Each country will draw on scientists, engineers, and other Arctic professionals from within the ranks of the military and elsewhere, as needed. Within the United States, AMEC activities are part of an interagency effort with the U.S. Environmental Protection Agency and the Departments of Energy, State and Defense, with DoD serving as the lead agency for the U.S. side. Funding in FY 1997 was $1.8 million. In FY 1998, Congress earmarked $5 million in CTR funds to support AMEC, approximately $3 million of which has been obligated.

U.S. DEPARTMENT OF DEFENSE (DoD) - COUNTERPROLIFERATION PROGRAMS

Under separate legislation, the U.S. Congress directed the Secretary of Defense to develop and implement, jointly with the U.S. Customs Service and the Federal Bureau of Investigation (FBI), two counterproliferation initiatives to provide training and technical assistance to NIS law enforcement, customs and border guard personnel. These two programs, the DoD/FBI Counterproliferation Program and the DoD/U.S. Customs Service Counterproliferation Program, are overseen by the National Security Council, coordinated with the State Department and implemented by the Office of the Secretary of Defense, the Defense Threat Reduction Agency (DTRA) and other agencies.

DoD/FBI Counterproliferation Program: The National Defense Authorization Act for FY 1995 (P.L. 103-337), authorized the Secretary of Defense and the Director of the FBI to develop a joint program to expand and improve U.S. Government efforts to deter, interdict and prevent the possible proliferation and acquisition of WMD by organized crime groups and individuals in the NIS. The focus of the program is on nuclear, chemical and biological weapons-related law enforcement training to prevent smuggling and trafficking. The program's workplan is divided into three elements: policy consultations and program development, training and assistance, and equipment procurement. Program plans and the first country assessments were initiated in 1996 to determine program requirements. Following training and reviews of existing assistance, some equipment may be provided to enable trained personnel to execute their responsibilities more efficiently and competently. The program has three principal objectives: (1) to assist in the establishment of a professional cadre of law enforcement personnel within participating nations who are trained and equipped to prevent, deter, and investigate crimes related to proliferation and/or diversion of WMD and related materials; (2) to assist participating nations, upon their request, in developing appropriate laws, regulations and enforcement mechanisms in accordance with international standards; and (3) to build a solid and long-lasting bureaucratic framework reinforced by political commitment that would enable participating governments to address the proliferation problem.

The U.S. Congress authorized DoD to reprogram up to $10 million in support of this joint initiative. During FY 1997, the first year of the program's execution, $450,000 was obligated and expended—$280,000 for Kazakhstan

and $170,000 for Uzbekistan. In FY 1998, the DoD/FBI Counterproliferation Program budget was $2 million, of which $623,000 was obligated and $520,000 expended. Estimated expenditures were $130,000 each for Kyrgyzstan and Georgia, $100,000 each for Kazakhstan and Uzbekistan, and $40,000 for Moldova.

In FY 1998, the DoD/FBI Counterproliferation Program conducted the following activities:

- Two WMD basic training seminars at the FBI's International Law Enforcement Academy (ILEA) in Budapest, Hungary, for 44 Kyrgyzstani and 28 Georgian mid-to-senior-level law enforcement officials in February and June 1998, respectively. Attendees included judges and other justice, customs, law enforcement, and national security officials.

- Two legal colloquia engaging 20 Kazakhstani and 20 Uzbekistani officials in a dialogue on legal issues related to WMD proliferation in March and April 1998, respectively.

- Policy consultations and country assessments in Georgia and Moldova.

In FY 1999, the DoD/FBI Counterproliferation Program plans to sponsor three additional WMD basic training sessions, including one for 40 Moldovan and 40 Turkmenistani officials, specialized training for law enforcement officials from two Central Asian countries, and policy consultations and country assessments for at least three new NIS countries, with the expectation of inviting them to participate in the program.

DoD/U.S. Customs Service Counterproliferation Program: The DoD/U.S. Customs Service (USCS) Counterproliferation Program was authorized in Section 1424 of the National Defense Authorization Act for FY 1997, entitled "International Border Security." Unlike the DoD/FBI Counterproliferation Program, the DoD/Customs program focuses heavily on equipment in its initial implementation. A government-to-government counterproliferation agreement must be in place between the United States and a participating nation prior to the delivery of U.S. equipment. These agreements serve as umbrella agreements for this program and future U.S. bilateral initiatives, establish proper government commitments to stop WMD proliferation and trafficking, and guarantee the legality, privileges and tax exemptions for U.S. equipment and personnel. Agreements are currently in place with Georgia, Moldova, Kazakhstan and Uzbekistan, and the U.S. Government is in various stages of negotiations with Armenia, Azerbaijan (this program is exempt from Section 907 restrictions on assistance to the Government of Azerbaijan), Kyrgyzstan and Turkmenistan. The DoD/Customs Counterproliferation Program has three objectives: (1) to assist in the establishment of a professional cadre of border enforcement personnel who are trained to detect, identify, interdict and investigate all aspects of smuggling and trafficking related to the proliferation and diversion of nuclear, biological and chemical weapons and related materials; (2) to assist in developing appropriate legislation, laws, regulations, and enforcement mechanisms; and (3) to help build a solid, long-lasting bureaucratic and political framework for counterproliferation in participating nations.

During FY 1997, $1.7 million was obligated and expended. In FY 1998, $2.5 million was budgeted, of which $2.06 million was obligated and $791,000 expended. During FY 1998, DoD and USCS achieved several program milestones, including policy discussions on program objectives in Georgia and Armenia; negotiations with eight nations to establish bilateral agreements on the legal frameworks for counterproliferation cooperation; three advanced WMD-detection training courses for officials from Kazakhstan, Uzbekistan and Kyrgyzstan that involved the first international use of the new state-of-the-art hazardous materials facility at the Hanford Nuclear Site in Washington State; and in-country training and equipment delivery to Kazakhstani customs and border guards at three sites.

In FY 1999, policy and assessment visits are planned for Azerbaijan, Moldova, Turkmenistan and Uzbekistan. Short-term WMD advisors will be placed in at least three nations. In-country basic training and associated equipment delivery will be conducted in three nations, beginning with Georgia. In addition, two advanced WMD-detection training courses will be conducted at the Hanford Nuclear Site.

U.S. DEPARTMENT OF DEFENSE (DoD) – MILITARY-TECHNICAL COOPERATIVE EFFORTS

DoD has actively pursued a number of opportunities to expand its level of military-technical cooperation with the NIS. To date, cooperative efforts have taken the form of either contractual arrangements with foreign research centers or participation in the DoD-sponsored Foreign Comparative Testing Program. However, few government-to-government collaborative research and development programs have been initiated, and no cooperative armaments programs exist between the U.S. and NIS. This is due to several factors, including stringent controls by the NIS governments on areas of cooperation and the absence of relevant government-to-government agreements. Cooperative umbrella agreements with the NIS would provide the necessary legal basis for subsequent detailed agreements on specific projects involving data exchange, sponsored work, and joint research and development. Collaborative research and development could then lead to co-production programs, acquisition and cross-servicing agreements, and memoranda of understanding (MOUs) on logistical support, as exist between the United States and its NATO allies.

Russia

The most pressing issue with Russia continues to be the negotiation of an umbrella agreement on cooperation in dual-use technologies, which DoD has been pursuing since 1994. Negotiations began in earnest in November 1997, after Russia agreed to consider a U.S. draft. Subsequent negotiations between the two sides have proceeded through meetings and exchanges of drafts in March, May and October 1998. DoD anticipates that an agreement will help build the body of law within Russia to facilitate appropriate technology transfer. On the other hand, Russia appears to intend to use the agreement to control and regulate technology transfers. A final round of discussions is planned for early March 1999, with the goal of concluding an agreement that can be addressed during the Gore Primakov Commission meeting scheduled for late March.

Two programs in America's military-technical relationship with Russia have the potential to become major, long-term cooperative efforts, while the decision regarding continuation of a third, the Russian-American Observational Satellite (RAMOS), is under review at the highest levels. The first program is the K-36 ejection seat program, which is a contender for placement in the Joint Strike Fighter. The technology within this seat will save lives by providing pilots with the capability for high-speed ejection from disabled aircraft with a high probability of landing safely and without injury. A U.S. company has been granted exclusive production and marketing rights to this Russian ejection seat, has opened a plant in Connecticut, and plans to employ over 200 Americans in the production of this seat, modified to meet U.S. specifications. A second program involves the MA-31 supersonic sea-skimming target drone, which when modified by a U.S. contractor, provides a realistic training device for the U.S. Navy and will generate approximately 50 U.S. jobs.

Other possible military-technical cooperative programs include programs on shared early warning, an advanced plasma experiment, the Automatic Ejection Seat Program (for safe, instantaneous ejection in an unrecoverable loss of aircraft control), the Express T-160 Thruster, the TMD Exercise Program, and scientific and technical research. The dollar value of these U.S.-Russian cooperative programs has been increasing, with $310.7 million expended in FY 1998, $401 million planned for FY 1999, and $426.5 million planned for FY 2000. A formal DoD review of contracts and contracting practices with Russia was completed in November 1998.

Ukraine

The Ukrainian Government has continued to show interest in military-technical cooperative programs, and while there has been a delay in the signing of a master information exchange agreement (MIEA), despite three substantive negotiating sessions, the U.S. Government hopes to sign an MIEA in mid-1999. These negotiations and related discussions have resulted in a number of cooperative opportunities that bode well for increased cooperative activities in FY 1999, especially if an MIEA is signed. For example, cooperative efforts in welding technology, solid oxide fuel cells, and optical data-storage devices are just a few of the potential projects awaiting in-depth review following the signing of an MIEA. There also are projects from other sectors under way now that may lead to direct MoD-DoD cooperation in FY 1999, such as the Sea Launch Program, which proposes to use the Zenit launch vehicle of the Yuzhnoye Design Bureau, produced at the YuzhMash plant, to launch communications satellites from the Equator. At this early stage, both sides are learning the ground rules for cooperation and are looking to establish mutually beneficial security controls.

U.S. DEPARTMENT OF DEFENSE AND U.S. DEPARTMENT OF STATE - WARSAW INITIATIVE / PARTNERSHIP FOR PEACE

Overview: Initiated in 1994 by President Clinton, the Warsaw Initiative aims to help America's new democratic partners work with the United States to advance the goals of the Partnership for Peace (PFP). The Departments of State and Defense provide support under the Warsaw Initiative to facilitate participation in PFP exercises, conferences, seminars, and other events, and they provide partners with equipment and training to improve interoperability with NATO and its allies.

U.S. Department of Defense - Warsaw Initiative: DoD's Warsaw Initiative activities are designed to facilitate NIS participation in PFP activities and events. The program funds partner countries' participation in PFP exercises and DoD interoperability programs, a series of informational exchanges and studies to help PFP partner countries reform their militaries and develop closer relationships with NATO. In FY 1998, approximately $10 million in DoD Warsaw Initiative funds was obligated to support NIS partner-country participation in over 20 PFP exercises and other activities, and just under $3 million was used to support NIS participation in DoD interoperability programs. For FY 1999, DoD has budgeted approximately $10 million for PFP exercises and events and $6 million for interoperability programs.

FY 1998 Exercise Highlights

- **CENTRASBAT '98** was the second "in-the-spirit-of-PFP" (ISO PFP) peacekeeping field training exercise in Central Asia. Participants included the Central Asian Battalion (CENTRASBAT, which includes Kazakhstan, Kyrgyzstan and Uzbekistan), Azerbaijan, Georgia, Russia, Turkey and the United States.

- **Seabreeze '98** was an ISO PFP multilateral maritime exercise in the Black Sea that included amphibious, peacekeeping, humanitarian assistance/relief, and search-and-rescue operations. Participants included Ukraine, Georgia, Russia, Romania, Bulgaria, France, Turkey and the United States.

- **Combined Endeavor '98** was an ISO PFP command, control and communications interoperability field training exercise held in Germany. Participants included Ukraine, Belarus, Russia, the United States and a number of other NATO and PFP states.

- **Cooperative Osprey '98** was a NATO/PFP exercise for peacekeeping support field training held at Camp Lejeune, North Carolina. Participants practiced combined peacekeeping and humanitarian relief tactics, techniques and communication procedures at the company and platoon levels. Participants included Georgia, Ukraine, Moldova, Kazakhstan, Kyrgyzstan, Uzbekistan, Poland, the Baltics, Romania, Bulgaria, Canada, the Netherlands, and the United States.

FY 1998 DoD Interoperability Highlights

- **Partnership Information Management System (PIMS):** PIMS is a computer network system designed to link PFP partner capitals with U.S. Government facilities and the PCC in Mons, Belgium. The system enables partners to communicate directly on-line with U.S. planners at European Command (EUCOM) and Atlantic Command (ACOM). PIMS was successfully implemented in all eligible NIS countries.

- **Defense Resource Management Study (DRMS):** DRMS is an in-country program that focuses on defense planning and force structure methodologies to improve partner countries' resource management and procurement processes. Georgia and Uzbekistan participated in this program in FY 1998.

- **Defense Resources Management Institute (DRMI):** DRMI is a bilateral seminar conducted at the Naval Postgraduate School in Monterey, California. The four-week DRMI course focuses on defense budgeting and procurement issues and reviews key economic management principles. Kazakhstan participated in DRMI in FY 1998.

- **Defense Public Affairs Exchanges:** These exchanges bring partner countries' military and civilian officials to the United States to learn how to conduct open public affairs with the national press. Ukraine participated in defense public affairs exchanges in FY 1998.

- **Logistics Exchanges:** These exchanges help NIS countries gain an improved understanding of U.S. and NATO logistics doctrine, systems and operations. They consist of five-day seminars on U.S. defense logistical support for military operations, the impact of host-nation management and business practices on logistics, and logistics support of multinational operations. Ukraine participated in logistics exchanges in FY 1998.

U.S. Department of State - Warsaw Initiative: The Department of State provides Foreign Military Financing (FMF) funds through the Department of Defense to PFP partner countries for the acquisition of U.S. defense articles and services. Eight NIS countries—Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Uzbekistan, and Ukraine—received $12.8 million in FY 1997 and $20.45 million in FY 1998 under the FMF program. The Department of State will provide an estimated $13 million to these countries in FY 1999. Despite initial hurdles, the NIS countries are beginning to implement their respective PFP programs. In 1997, FMF funds were used to conduct communications equipment surveys in eight countries—Moldova, Georgia, Ukraine, Turkmenistan, Kazakhstan, Uzbekistan, Kyrgyzstan and Russia—to enhance basic communications capabilities. In general, FMF funds are being used to purchase tactical communications and vehicles, English-language training equipment and publications, medical equipment, night-vision devices, computers, and specialized training, including medical, English-language and non-commissioned officer (NCO) training. Currently, the NIS countries have signed letters of offer and acceptance for the delivery of over $7 million worth of defense articles and services, and price and availability data are currently being prepared for another $15 million worth of articles and services.

INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET)

The State Department's IMET Program is designed to foster greater respect for and understanding of the principle of civilian control of the military, to contribute to responsible defense resource management, and to improve military justice systems and procedures in accordance with internationally recognized human rights. The IMET Program, which is administered through DoD, complements other PFP activities by providing a wide range of specialized training in the United States for military officials and select civilian officials. One of the most important elements of the NIS component of IMET is English-language training for military officers. In FY 1998, the Department of State provided approximately $4.64 million in IMET funding to the NIS and expects to provide $4.74 million in FY 1999.

U.S. DEPARTMENT OF STATE/U.S. CUSTOMS SERVICE - GEORGIA BORDER SECURITY AND LAW ENFORCEMENT PROGRAM

In FY 1998, the U.S. Customs Service became the executive agent for a Congressionally mandated, multi-agency Border Security and Related Law Enforcement Assistance Program in Georgia, funded under the FREEDOM Support Act. This program responds to Congressional direction in the FY 1998 Foreign Operations Appropriations Act that "training and infrastructure support for customs and border control should be a high priority" for the use of funds earmarked for the Government of Georgia. The Department of State budgeted $17.8 million in FY 1998 funds for the Georgia Border Security and Law Enforcement Program, and designated the U.S. Customs Service (USCS) as the executive agent for this program. USCS works closely with the Departments of State, Justice, Defense and Energy, as well as with the U.S. Coast Guard, in implementing this program. USCS has developed and is implementing a focused, multi-year program of assistance to enhance Georgia's border security and customs capabilities. This program is designed to help the Georgian Border Guards and Customs Service gain and maintain control over Georgia's borders as Russian border guards pull out. Specific goals include the following: (1) to help Georgia gain control of its seacoast, particularly the Port of Poti; (2) to establish a transparent land-border regime, with an initial focus on the boundaries with Armenia and Azerbaijan, and then with Turkey; and (3) to enhance Georgia's capacity to prevent, deter and detect potential WMD smuggling, focusing on the border with Russia.

In FY 1998, USCS placed a retired USCS agent and a U.S. Coast Guard official in Georgia to serve as team leader and maritime advisor, respectively. They were joined by a border patrol advisor in late 1998. This team of U.S. advisors interacts with the Georgian Border Guards (GBG) and Customs Service on a daily basis, maintaining close contact with the U.S. Embassy in Tbilisi and key Georgian Government officials to ensure that the program meets both Georgian and U.S. objectives. The program has conducted the following activities:

- the completion of a C3I system assessment and efforts to develop a request for proposal for Phase I of the resulting program;
- the start of construction of modular barracks at Poti and Red Bridge;
- the purchase of 16 vehicles for GBG and Customs Service;
- the delivery of a 40-foot patrol boat to Poti for GBG/Coast Guard use, with the delivery of a second boat planned for February 1999;
- the delivery of a tug boat to Poti for law enforcement, refueling and resupply, salvage, fire-fighting, and search-and-rescue missions;
- the evaluation and initiation of repairs for existing ships and cutters;
- the purchase of fuel for Coast Guard operations;
- the purchase of a twin-engine patrol aircraft for the GBG for long-range patrols over water;
- the purchase of am MI-8MTV helicopter for rigorous mountain border security operations;
- the procurement and delivery of radiation pagers, bulletproof vests, night-vision goggles, flashlights, handcuffs and other basic law enforcement equipment;
- the procurement of uniforms for GBG; and
- the initiation of technical exchanges and U.S.-sponsored training programs for GBG and the Customs Service.

Activities planned for FY 1999 include the accelerated fielding of radar and acoustical sensors for Supsa; the construction of an operations center, fuel storage facility, and a dredging project at Poti; the construction of a GBG operations center at Red Bridge; the renovation of a GBG academy/training center; the procurement of a second helicopter, a second patrol aircraft, additional vessels for the Coast Guard fleet, and equipment for a forensics lab; the development of a curriculum for the GBG Academy; increased training for the Coast Guard in the operation of the new vessels; and the procurement of X-ray machines, forklifts, and miscellaneous law enforcement equipment.

U.S. DEPARTMENT OF STATE - SCIENCE CENTERS

The Science Centers nonproliferation program is implemented through two intergovernmental organizations: the International Science and Technology Center (ISTC) in Moscow, which was established by agreement in November 1992, and the Science and Technology Center in Ukraine (STCU) in Kiev, which was established by agreement in October 1994. The program's primary objective is to provide peaceful research opportunities to qualified NIS scientists and engineers who are experts in weapons of mass destruction (nuclear, biological, and chemical) and delivery systems. This multilateral program complements other bilateral efforts and has successfully leveraged significant financial resources from the European Union, Japan and other contributors. Since 1994, the Science Centers have funded over 700 projects involving more than 24,000 scientists.

Although the end of the Cold War reduced the threat to international security posed by possible superpower confrontation, the breakup of the Soviet Union led to severe economic and social destabilization in the elite research institutes devoted to the development of weapons of mass destruction (WMD) and their delivery systems. The potential proliferation of these technologies represents one of the most serious threats to international peace and stability faced by the international community today. To deter proliferation, the governments of the United States, Canada, Sweden, Japan, Russia, Ukraine and the European Union established the ISTC and STCU to help NIS institutes adapt to the post-Cold War environment. The financial crisis that shook much of the world in 1998 further magnified the difficulties faced by the former Soviet states, especially Russia and Ukraine. Close monitoring of the Russian financial crisis and rapid responses to developing situations in August 1998, ensured that U.S. and other funds provided to the Science Centers were not put at risk. The Science Centers have five objectives: (1) to provide NIS weapons scientists an opportunity to redirect their talents to peaceful activities; (2) to support basic and applied research and technology development; (3) to facilitate the transition to market-based economies; (4) to help integrate NIS scientists and engineers into the global scientific community; and (5) to contribute to solving national and international technical problems.

Partners Program: Since the end of 1997, the Partners Program has allowed both Science Centers to include private industry, foundations, academic and scientific institutions and other inter-governmental and non-governmental organizations in their activities. Partners can direct their own research and development (R&D) funds to specific projects or programs of work in former Soviet weapons institutes, in accordance with the objectives listed above. In particular, this expanded participation enhances the ability of the Science Centers to support the transition to market economies and redirect industrial-technical potential from military to peaceful endeavors. Use of the Science Centers as a vehicle for developing partnerships offers unique advantages to private industry and other interested organizations:

- NIS research institutes employ some of the best scientists and engineers in the world, many of whom are engaged in research projects with rich commercial potential;
- Potential investors need help in identifying these scientists and centers of excellence in research;
- The Science Centers process direct, tax-free payment of grants to participating NIS scientists and have access to project facilities for international auditing and technical monitoring;
- Legally binding project agreements stipulate the rights and responsibilities of all parties;
- Official host-country concurrence for all Science Center projects ensures support from governmental agencies;
- Science Center in-country infrastructure facilitates smooth operation in challenging environments; and
- Partner-funded projects undergo an expedited review and approval process.

Current Science Center Partners: In 1998, Science Center Partners funded approximately $6 million (not including five-percent administrative fees) in ISTC and STCU projects in a range of science and technology fields. New U.S. Science Center Partners in 1998 included the Battelle Memorial Institute, the Consortium for Plasma Science, FED Corporation, General Electric Company, Global Partner Ventures, Growth and Development

Corporation, Inc., Interactive Pictures Corporation, Lawrence Livermore National Laboratory, Lockheed Martin Idaho Technology Company, Los Alamos National Laboratory, Mobil Technology Company, Procter and Gamble Company, Southern Research Institute and VEECO. In addition, a growing number of U.S. Government agencies have chosen to use the Science Center Partner mechanism to fund R&D support for their own programs, including the Defense Advanced Research Projects Agency (DARPA), the Defense Threat Reduction Agency (DTRA), the National Cancer Institute, the U.S. Department of Energy (DOE), the U.S. Department of Agriculture (USDA) and the Defense Department's Cooperative Threat Reduction (CTR) Program. The Science Centers provide tax and customs exemptions, direct grants payments to scientists, and auditing regimes to all U.S. Government programs working under the Centers' umbrella.

New Biotechnology Initiative: The possibility that former Soviet biological weapons (BW) facilities could contribute, directly or indirectly, to bio-terrorism or attempts to build biological weapons programs, is of concern not only to the United States, but also to many other countries. The U.S. Government funds a number of programs designed to counter this possible threat. The Science Centers Program was the first to establish a foothold in the key civilian institutes that were part of the former Soviet biological weapons program. During 1998, a concerted U.S. Government interagency effort was mounted to expand the range of projects and activities that engage these institutes. Russian institutes are the primary focus of this initiative, since they house the majority of these facilities. New projects, including a biotechnology project development grant program and other activities, were inaugurated in 1998. In addition to serving a clear nonproliferation need, the redirection of these facilities to constructive civilian activities supports a number of goals, including improved public health; the integration of previously isolated weapons specialists into the broader international community; and the development of technological and commercial potential. Consistent with the U.S. Government's nonproliferation policy, the objective of these activities is to provide support and promote cooperation in meaningful civilian scientific, research and commercial projects to prevent the flow of expertise and technology to countries or organizations of proliferation concern. Facilities and government officials in countries where the United States pursues such engagement understand that cooperation with countries of concern or terrorist entities, or any behavior inconsistent with the Biological and Toxin Weapons Convention (BWC), would have an immediate and negative impact on any U.S. cooperation. The U.S. Government places a great importance on involving multilateral partners in this effort, particularly the European Union and Japan, through the ISTC.

International Science and Technology Center (ISTC)

Overview: Since beginning operations in March 1994, the ISTC has provided over $190 million to fund 651 projects employing thousands of scientists and engineers at hundreds of NIS scientific institutes. These institutes also contribute to projects with in-kind contributions of personnel and facilities and payment of payroll tax and other overhead. Science Center projects cover a broad range of science and technology areas, many of which address problems of global importance. These projects include radiation monitoring of the environment; improved safety for nuclear reactors; improved methods of nuclear waste management; vaccines for bacterial and viral diseases; treatment of heart disease, cancer and other illness; improvements in civil aviation; and advanced concepts for future energy production. The ISTC's activities are managed by an international staff based in Moscow, with branch offices in Armenia, Belarus and Kazakhstan.

Funding/Support: In 1998, the European Union, Japan, Norway, and the United States contributed over $33 million to 148 projects and $2.3 million to the administrative budget for 1998. The Republic of South Korea began funding projects as a new party to the ISTC Agreement in late 1998. ISTC Partner contributions continue to represent a significant and growing new source of funding for the ISTC. (For a detailed accounting of actual expenditures for FY 1998, please refer to the Auditor's Statement in the ISTC 1998 Annual Report Supplement.)

Proposals: The ISTC Secretariat receives approximately 40 proposals for new projects each month from scientists and engineers working throughout the NIS countries. Each project submitted for ISTC consideration is accompanied by the written concurrence of the state(s) in which the work is to be carried out. When received, project proposals are assigned to ISTC Senior Project Managers who work with the project leaders to ensure that the proposals meet ISTC guidelines. If the project is selected for funding, the Senior Project Manager will continue to monitor the project through to its completion.

Awards: Completed proposals are forwarded to the ISTC Parties for funding consideration. Funding decisions are made three times per year during meetings of the ISTC Governing Board, or action may be taken exceptionally between Board meetings by written procedure. Individual projects are funded either entirely by one Party or Partner or by a combination of interested Parties. The Parties make their funding decisions based on a combination of selection criteria, including technical merit, relevance to ISTC objectives, and policy and budgetary priorities.

Project Monitoring and Auditing: Funded projects are subject to a binding project agreement that governs the basis on which funds and equipment are provided directly to the project leaders and participants. While work is in progress, ISTC Senior Project Managers, along with technical experts designated by the funding Parties, carry out both regular and periodic monitoring activities that include visits to the project site and consultation during scientific meetings. Annual financial audits of each funded project are carried out by either ISTC auditors or auditors appointed by financing Parties. In 1998, approximately 200 technical monitoring trips were conducted and 263 financial audits were made on 123 ISTC projects, including 112 final and 11 annual audits. In addition, the U.S. Government, through the Defense Contract Audit Agency, conducts audits on a number of U.S.-funded projects each year.

ISTC Seminar Program: In 1994, the ISTC Seminar Program began promoting exchanges and collaboration in a wide range of research fields between former weapons developers in the NIS and their counterparts around the world. Since then, the ISTC has organized 15 seminars, three of which were held in 1998 (two in Russia and one in Kyrgyzstan).

ISTC Business Management Training Program: As more ISTC-funded projects reach their final stages, it is becoming apparent that much of the technology developed has substantial commercial applications and could facilitate the NIS countries' transitions to market economies. The ISTC established the Business Management Training Program (BMT) in March 1997 to help former weapons scientists promote the results of their ISTC work in international technology markets. The program consists of training courses ranging in duration from two days to two weeks on basic business planning, management principles and intellectual property rights (IPR). Each course is offered to 15 to 30 participants at locations where ISTC projects are under way. In 1998, 88 scientists and specialists representing 79 ISTC projects from 57 institutes participated in three regional courses held in Almaty, Kazakhstan, and Novosibirsk and St. Petersburg in Russia. In addition, an IPR and business planning workshop was given for the ISTC Secretariat staff, an IPR training manual was published, and creation of a business planning training manual was begun.

ISTC Project Development Grants Program: The goal of this program is to assist NIS weapons specialists in engaging foreign partners on research projects and securing input on project proposal development. Through the ISTC, applicants are granted funds to attend international conferences and/or visit foreign institutes and laboratories to present their project proposals and research plans. Recipients of project development grants often have a better chance of receiving ISTC funding for their proposals as a result of this type of collaboration and feedback.

ISTC Promising Research Abstracts Database: In 1998, the ISTC made publicly available a database of promising research either planned or currently under way in scientific institutes throughout the NIS. The purpose of the database is to provide an overview of unique research and its potential applications for a wide audience in the NIS and around the world. The database helps integrate NIS weapons specialists into the international scientific community and assist in transitions to market economies by promoting unique research activities with possible commercial applications to potential investors. The database, which contains hundreds of abstracts, is available at the ISTC website (www.istc.ru), as well as on CD-ROM.

ISTC Patent Support Program: The ISTC provides financial support to project grant recipients to cover costs in the initial stages of obtaining patents for their work. The long-term goal of this effort is to facilitate national and international patenting for inventions developed by ISTC project grantees. In 1998, Russian and/or PCT patent applications were filed for 15 projects.

Science and Technology Center in Ukraine (STCU)

The Science and Technology Center in Ukraine (STCU) was established in 1995, under an international agreement among the United States, Canada, Sweden and Ukraine. In FY 1998, the STCU completed its third year of operation at its headquarters in Kiev. The STCU also manages three branch offices in major Ukrainian research complexes in Kharkiv, Dnipropetrovsk and Lviv, thereby facilitating participation in the STCU by a broader range of the former Soviet weapons research establishment in Ukraine. In FY 1998, the STCU had funded 170 projects across Ukraine, valued at $22 million and employing over 3,400 former Soviet weapons scientists, plus substantial numbers of other technical and support personnel. The STCU also runs a range of activities similar to those managed by the ISTC, including a Partner Program that brings in additional funding from the private sector and other sources. The STCU's membership expanded in FY 1998 with the European Union's (EU) accession to the STCU agreement (the EU attended its first Governing Board meeting and planned to fund its first projects in December 1998) and financial contributions by Japan to a number of STCU projects. The STCU's NIS membership also grew in FY 1998 with the formal accession of Georgia and Uzbekistan.

CIVILIAN RESEARCH AND DEVELOPMENT FOUNDATION (CRDF)

The Civilian Research and Development Foundation (CRDF) funds U.S.-NIS collaboration on civilian basic and applied research conducted in the NIS in order to redirect efforts of former defense scientists toward peaceful purposes and to promote the development of market economies. CRDF is a non-governmental, non-profit foundation that was established in August 1995 by the National Science Foundation with an initial DoD-CTR grant of $5 million, matched by a $5 million grant from the Soros Foundation. It has also attracted funds from the NIS ($2.4 million) and American industry (approximately $1 million), and its accomplishments are regularly highlighted during meetings of the U.S.-Russian Joint Commission on Economic Cooperation. Funding for the CRDF's activities shifted to the Department of State under the FREEDOM Support Act in FY 1996.

The CRDF received $1.8 million in FY 1998, including $1.6 million from the Department of State (under the FREEDOM Support Act) and $200,000 from the National Institutes of Health (NIH). All funds received by the CRDF have been committed to its current awards, except for about $310,000 for its "Next Steps to the Market" Program, which provides further support to CRDF projects that have a potential for marketplace applications. Next Steps awardees may request additional funds for the next logical and reasonable step in taking their technology to the marketplace, and U.S.-NIS partners may apply for support to determine whether their collaboration could lead to a commercial venture. These projects are pre-competitive and consistent with the CRDF's overall objectives, and should help reduce the risk associated with the early stages of international collaboration.

The CRDF has made over 300 awards for research collaboration, involving more than 2,000 NIS and 400 American scientists. Of the NIS researchers, 264 were weapons or former weapons scientists, 154 had knowledge and experience with WMD, and 113 worked on other defense technologies. In each case, the researchers in question—including those at the nuclear facilities at Sarov and Snezhinsk—agreed to perform only civilian work while receiving support from the CRDF. In addition, the CRDF supported first-time visits to the United States by over 190 non-Russian NIS researchers seeking U.S. partners, and some of these exchanges led to Next Steps program proposals.

Country Highlights

Armenia: With support from USAID, the CRDF provided assistance to develop an indigenous capacity for funding science on a competitive merit basis. In support of this objective, the CRDF sponsored a joint competition in applied chemical and biological sciences—fields identified by the Armenians as priorities—with the newly established National Foundation for Advanced Science and Technology (NFAST). The CRDF contributed program management training, office equipment and other material support to help launch the NFAST.

Kazakhstan: The CRDF supports three Kazakhstani research groups that involve scientists from the former biological weapons facility as Stepnogorsk, and will fund a Regional Experimental Research Center at the Physical

Technical Institute near Almaty to house important analytical instrumentation. The CRDF will purchase the center's equipment and has arranged for its tax- and customs-free entry into the country.

Russia: The CRDF was asked by the National Science Foundation and the Russian Foundation for Basic Researchers (RFBR) to administer a special program enabling young researchers to participate in existing CRDF cooperative research projects. An NSF award of almost $500,000 will cover the U.S. costs of this activity, while the RFBR will cover Russian costs. In addition, CRDF will support seven projects in Russia under the Next Steps to Market Program, including the establishment of Russian business incubators for three of the projects to establish business plans. The CRDF will devote almost $800,000 will to this effort, while private-sector contributions total almost $500,000. An American partner is involved in each project.

Ukraine: A Small Business Research and Development (R&D) Program was initiated during FY 1998. Under the program, 10 Ukrainian researchers came to the United States to work with American commercial partners on project proposals, which were prepared for submission at the end of 1998 and should be awarded by mid-March 1999.

Uzbekistan: The CRDF conducted a workshop on technology management in Tashkent in March 1998 that focused on the Western technology commercialization process.

NIS Regional: With funding from the U.S. Department of Commerce, the CRDF will support three workshops on commercialization of R&D for NIS participants. The workshops will be held in Kiev (for Ukraine and Moldova), Yerevan (for the Caucasus) and Tashkent (for Central Asia). At the conclusion of their training, participants will travel to the United States to meet with American companies to discuss their technologies.

U.S. DEPARTMENT OF STATE – SCIENCE COLLABORATION/REDIRECTION OF BIOTECHNICAL ACTIVITIES (USDA/HHS)

In FY 1998, the Department of State initiated a pilot project aimed at redirecting scientists in former Soviet biological weapons(BW)-related facilities to civilian commercial, agricultural and public health activities. These efforts support the broad U.S. policy goals of integrating NIS scientists into the international scientific community, addressing urgent public-health needs and reducing risks of proliferation of weapons expertise. The economic crisis in Russia increased the need to address possible proliferation risks from these facilities and scientists. A number of agencies are involved in this program, including the Departments of State, Agriculture (USDA) and Health and Human Services (DHHS). These agencies undertake activities through the International Science and Technology Center (ISTC), which can leverage multilateral funding as well.

USDA Agricultural Research Service (ARS) - Biotechnology Science Collaboration: USDA's program, initiated in 1998 with $550,000 in FREEDOM Support Act funds, draws on its capabilities in animal and plant pathogens and its network of Agricultural Research Service (ARS) laboratories and related facilities to establish agricultural research collaboration with Russian institutes. The ARS program, which advances basic and applied research in agriculture, funded some three projects in its first year at facilities in Russia. A key feature of the ARS program is substantial contact between ARS and Russian scientists to optimize the collaboration at the scientist level and share the success between the U.S. and Russian laboratories. Funding also supports short, medium and long-term exchange visits of Russian scientists with ARS counterparts in the U.S. and exchange visits of ARS scientists to Russia.

U.S. Department of Health and Human Services (HHS) - Biotechnology Science Collaboration: In FY 1998, HHS developed a new multi-year pilot program of biotechnology assistance. Through the Centers for Disease Control and Prevention (CDC), the Food and Drug Administration (FDA) and the National Institutes of Health (NIH), HHS will work with Russian and other NIS biotechnology scientists to better understand and control infectious diseases. Funds will support public-health-related infectious disease research projects and training in HHS labs on topics including good laboratory, manufacturing, and clinical practices and emergency response to biological hazards. These efforts will be coordinated as part of the broader U.S. Government-funded program of engagement of former Soviet biotechnical scientists. The program also will be integrated with other public health assistance efforts involving the Russian Ministry of Health, Academy of Medical Sciences, and other NIS medical

institutions. The HHS program also supports the broad U.S. policy goals of integrating NIS scientists into the international scientific community, addressing areas of urgent public health needs in the NIS and reducing the risk of proliferation of weapons of mass destruction expertise.

The USDA and HHS programs will significantly increase the number of collaborative research projects; support short, medium and long-term scientist exchanges; increase business training opportunities; and aid in design and reconstruction of facilities to meet international standards necessary to allow participation in international public health research. Funds may also be used to initiate indigenous production of high-demand vaccines and support possible use of unique Russian facilities for first-responder emergency response training. These activities are coordinated with DoD's CTR BW dismantlement and infrastructure elimination activities.

U.S. DEPARTMENT OF STATE - EXPORT CONTROL ASSISTANCE

Helping the NIS develop effective export control systems and capabilities is a critical element of U.S. Government efforts to prevent, deter or detect potential proliferation of weapons of mass destruction and weapons materials. The objective of U.S. Government export control assistance is to help build export control institutions, infrastructure, and legislation in the NIS to help prevent weapons proliferation. Initially under the DoD Cooperative Threat Reduction (CTR) program, the U.S. Government provided approximately $39 million in export control assistance to Russia, Ukraine, Kazakhstan and Belarus through FY 1995, with the Departments of Commerce, Energy, State and Treasury (Customs Service) as the primary implementing agencies. In FY 1996, funding responsibility for export control assistance shifted to the Department of State under the Nonproliferation and Disarmament Fund (NDF). State Department funding for export control assistance became a separate budget line-item in FY 1998 under the Non-proliferation, Anti-terrorism, Demining and Related Activities (NADR) appropriation. The Department of State provides policy direction and coordinates all agencies providing export control assistance.

Nonproliferation and Disarmament Fund (NDF): The NDF provides resources to support bilateral and multilateral nonproliferation disarmament efforts to prevent, deter or detect potential proliferation of WMD, WMD components and delivery systems pursuant to Section 504 of the FREEDOM Support Act of 1992. In FY 1998, five NDF-funded projects totaling $4.925 million included assistance to Russia, Kazakhstan, Azerbaijan, Armenia, Kyrgyzstan, Moldova and Uzbekistan. An additional NDF-funded training program valued at $1 million will extend assistance to several, if not all, of the NIS upon its implementation. Highlights from NDF export control activities in FY 1998 include the following:

- Approval of the Tracker automated licensing system for Kazakhstan. The Tracker system permits countries to track (in real-time) exports of proliferation concern and to consult electronically with other government ministries and with foreign governments. It provides the foundation for the eventual establishment of a global network for information about items of proliferation concern. A training program for Tracker was also developed in FY 1998 for approved NIS countries.

- The X-Ray Detection Van Program was approved for expansion to Armenia, Azerbaijan, Kyrgyzstan, Moldova and Uzbekistan to improve their border enforcement capabilities. Prior to FY 1998, the Detection Van program was approved for Kazakhstan.

- An enforcement program and a legal workshop were developed to train Azerbaijani officials on how to detect or stop WMD exports.

- A project to secure nuclear materials was approved for Kazakhstan.

- Once implemented, NDF-funded WMD training at the Hammer facility in Richland, Washington, will include representatives from several, if not all, of the NIS.

- An ongoing project involving plutonium conversion is underway in Russia. FY 1997 NDF funds in the amount of $2.85 million were approved for activities in support of an automated non-destructive assay system in Russia.

Nonproliferation, Anti-Terrorism, Demining and Related Activities (NADR): In FY 1998, export control assistance provided from the NADR account focused on helping the NIS, and countries along potential transit routes for the smuggling of WMD and related material to potential proliferators, to develop effective export control regimes. Assistance is designed to help recipients establish the necessary legal and regulatory basis for effective export controls; improve licensing procedures and practices; coordinate, train and equip export enforcement agencies, including border enforcement authorities; develop and install automated information systems for licensing and enforcement; and foster effective interaction between government and industry on export controls. The FY 1998 NADR appropriation of $3 million was obligated for the following projects involving the NIS:

- the fourth annual Symposium for Foreign Export Control Officials, which brought together representatives of 16 countries from the NIS, the Baltics, and Eastern Europe to build a basis for export control enforcement cooperation ($250,000);

- the purchase of three large X-ray vans equipped with radiation detectors for the Russian Customs Service ($900,000); and

- export control and nonproliferation training for officials from 22 countries, including representatives from the NIS, the Baltics, Eastern Europe, the Middle East and East Asia, on establishing and administering effective export control regimes ($1.5 million).

U.S. DEPARTMENT OF ENERGY - NUCLEAR MATERIALS PROTECTION, CONTROL AND ACCOUNTING (MPC&A)

Overview: Since 1993, the United States and the NIS have engaged in an historic partnership to prevent the theft or loss of nuclear material that is not in weapons form. This joint effort to improve nuclear material protection, control and accounting (MPC&A) directly addresses a key threat to the security of the entire global community. MPC&A improvements, designed to keep nuclear materials secured in the facilities that are authorized to contain them, are the first line of defense against nuclear smuggling that could lead to nuclear proliferation or nuclear terrorism.

The objective of the MPC&A program is to complete rapid upgrades at all NIS facilities that use or store weapons-usable material. The program seeks to foster the development of an indigenous safeguards culture and capability to maintain long-term MPC&A upgrades. In addition, other cooperative projects and a wide range of training programs are designed to help institute national MPC&A standards and strengthen NIS national nuclear regulatory systems. To rapidly improve the security of nuclear materials that are usable in nuclear weapons, DOE is providing nuclear facilities in the NIS with modern safeguards equipment, including radiation monitors for pedestrian and vehicular traffic to detect attempts to remove nuclear material, modern access-control devices for areas containing nuclear material, alarm stations and computers to process data coming from sensors installed inside facilities and around their perimeters, and tamper-indicating devices to prevent unauthorized removal of nuclear material. This vital cooperation has overcome many difficulties, including tensions from the forty-year-old legacy of Cold War confrontation, a lack of working relationships at the technical level, the closed nature of nuclear facilities, and language and cultural differences. It is truly a remarkable achievement that former rivals are now working together to improve the security of nuclear materials at over 50 sites in the NIS.

From FY 1993 to FY 1995, MPC&A activities were managed and executed by DOE with a total of $78.5 million in funding under DoD's Cooperative Threat Reduction (CTR) Program. In addition, DOE initiated a direct $2 million program to support MPC&A activities. These efforts have grown significantly over the past six years. In FY 1996, the U.S. Congress provided DOE a direct appropriation of $70 million for MPC&A activities, followed by $112 million in FY 1997 and $137 million in FY 1998. In addition, DOE received an additional $15 million from FY 1996 CTR funds. Total U.S. Government MPC&A funding from FY 1992 through FY 1998 is about $414 million. Significant developments in the MPC&A program during FY 1998 include the following:

Railcar Transportation Security Projects: The purpose of this effort is to perform rapid security upgrades on railcars that transport nuclear materials not in weapons form. DOE delivered one upgraded prototype railcar each

to the Mayak Production Association and the Siberian Chemical Combine. Ongoing work to upgrade more than 30 existing railcars is scheduled for completion by March 1999.

Truck Transportation Security Project: Under this project, DOE upgraded truck sets (both transport and escort vehicles) utilized in the intra-site and inter-site transport of special nuclear materials by modifying the vehicles to prevent unauthorized access to special nuclear material. DOE delivered an upgraded truck to the Siberian Chemical Combine and completed truck set upgrades for the Russian Navy's Northern Fleet. Upgrades of truck sets for the Russian Navy's Pacific Fleet are in progress.

Major NIS Operational Upgrades Completed: DOE fully completed an additional 13 operational upgrades, bringing the total to 19 site-wide upgrades. Upgrades were completed at the Institute of Nuclear Physics in Tbilisi, Georgia (October 1997); the Institute of Nuclear Power Engineering in Minsk, Belarus (October 1997); the Joint Institute of Nuclear Research in Dubna, Russia (February 1998); the Moscow Research and Development Institute of Power Engineering (February 1998); the Moscow Institute of Theoretical and Experimental Physics (February 1998); the Karpov Institute of Physical Chemistry in Russia (February 1998); the Khlopin Radium Institute in Russia (April 1998); the Sverdlovsk Branch of Scientific Research Design Institute of Power Technology in Russia (May 1998); the Beloyarsk Nuclear Power Plant in Russia (May 1998); the Chelyabinsk-70 Pulse Research Reactor Facility in Russia (May 1998); the Moscow State Engineering Physics Institute (June 1998); and the Tomsk Polytechnic University in Russia (July 1998).

- **Ongoing Upgrades in Russia:** Upgrades are under way at the Naval Fuels Building of the Kurchatov Institute; site-wide upgrades are under way at Arzamas-16 (the All-Russian Scientific Research Institute of Experimental Physics in Sarov) and Chelyabinsk-70 (the All-Russian Scientific Research Institute of Technical Physics in Snezhinsk); security upgrades are under way at the RT-1 plant's perimeter and two plutonium oxide storage buildings at Mayak; the installation of detectors, physical protection, radio communications and central alarm stations is under way at Tomsk-7 (the Siberian Chemical Kombinat in Seversk), Krasnoyarsk-45 (an electrochemical plant in Zheleznogorsk) and Sverdlovsk-44 (an electrochemical kombinat in Novouralsk); the installation of special nuclear material portal monitors and metal detectors is under way at Novosibirsk; upgrades are under way at Dmitrovgrad and Luch; and consolidation of direct-use material is under way at Luch.

- **Ongoing Upgrades in Kazakhstan:** New MPC&A site-wide systems are currently being installed at the Aktau BN-350 breeder reactor and the Almaty research reactor, and should be commissioned in the next six months.

- **Ongoing Upgrades in Ukraine:** New MPC&A site-wide systems are currently being installed at the Kharkiv Institute for Physics and Technology, the Sevastopol Naval Institute, and the South Ukraine Nuclear Power Plant. Commissioning ceremonies for the three are expected to occur in early 1999.

- **Major Upgrades at Russian Navy/Icebreaker Fleets:** The Site 49 Annex outfitting is nearly complete and was doubled in size in May 1998, and the Site 34 design and expansion contract was put in place in May 1998. Implementation contracts are in place and well underway for the Imandra refueling ship and Atomflot Port.

MPC&A Training: A second class of 12 students started studies in September 1998 at the Moscow State Engineering Physics Institute (MEPHI). Nine students from the first class of the MPC&A master's degree program have completed all classroom instruction and are preparing theses for completion in spring 1999.

DOE Cooperation with the Russian Ministry of Internal Affairs (MVD): A memorandum of cooperation between DOE and the Main Command of the MVD's Internal Troops—the first of its kind—was signed on July 24, 1998, and is designed to enhance the effectiveness of physical protection of nuclear material stored at MPC&A locations in Russia by training MVD troops in the operation of modern physical protection systems. With the signing of this memorandum, the MVD and DOE entered a new phase of cooperation that includes infrastructure, equipment, communication capabilities and training. The first cooperative activity was a fall 1998 workshop in Russia attended by MVD and DOE technical experts.

Expanded DOE Cooperation with Serial Production Enterprises: In January 1998, DOE signed a protocol to expand cooperation with the four serial production enterprises in Russia. This protocol allows the MPC&A program to install security upgrades at Russian weapons assembly/disassembly sites, including the Avangard Electrochemical Plant in Sarov, the Penza-19 Production Association in Zarechny, the Zlatoust-36 Instrument Building Plant in Trekhgorny, and the Sverdlovsk-45 Urals Electrochemical Instrument Combine in Lesnoy.

Expanded Cooperative Work with the Russian Navy: On December 12, 1997, DOE signed a protocol to expand cooperative work at all identified Russian Navy sites. This protocol will expand the security upgrades to cover all of the Russian Navy's fresh fuel by the year 2000.

Expanded Cooperation at the All-Russian Scientific Research Institute of Technical Physics (VNIITF): Since July 1998, site officials have demonstrated more openness in discussions on material amounts and locations, leading to more cooperative work at the site, which was formerly known as Chelyabinsk-70.

Export Controls: The U.S. Department of Commerce granted DOE's MPC&A program an export license in November 1997, permitting the pre-approved export of 1,000 different pieces of equipment.

Cooperation with GosAtomNadzor (GAN): DOE continued to cooperate with GAN, the Russian Nuclear Regulatory Agency, to develop MPC&A program procedures in accordance with Russian federal and GAN-level rules and regulations, and licensing and inspection practices. DOE completed work on MC&A licensing requirements, an item facilities manual, an item facilities inspection program and regulations on physical protection inspections. In addition, in September 1998 meetings, DOE and GAN discussed three additional sites for cooperation that are now under consideration.

DOE-MinAtom MPC&A Agreement: DOE has been negotiating with MinAtom to update and replace the U.S. Department of Defense-MinAtom MPC&A Agreement that expired in September 1998.

U.S. DEPARTMENT OF ENERGY - FISSILE MATERIALS DISPOSITION PROGRAM

The DOE Fissile Materials Disposition (MD) program has both a U.S. and a Russian component. Both efforts focus on the disposition of surplus plutonium that is no longer required for defense purposes. In the United States, DOE is implementing a hybrid plutonium disposition strategy involving the burning of surplus plutonium as mixed oxide (MOX) fuel in existing, domestic commercial reactors; and the immobilization of surplus plutonium in ceramic material that is surrounded by vitrified high-level waste. Both technologies meet the spent-fuel standard under which plutonium is rendered as inaccessible and unattractive for retrieval and weapons use as the residual plutonium in spent fuel from commercial reactors. The program's work with Russia is aimed at attaining reciprocal Russian strategies, actions and outcomes for the disposition of Russia's excess plutonium.

In FY 1995 and FY 1996, the MD program spent approximately $3.9 million for activities related to plutonium disposition in Russia, including a number of technical exchanges, as well as a joint U.S.-Russian study of technical options for plutonium disposition. In both FY 1997 and FY 1998, the U.S. Congress provided $10 million to fund a series of U.S.-Russian small-scale tests and demonstrations of plutonium disposition technologies. Major activities under way in FY 1998 included the following:

Fabrication of MOX Fuel for Thermal Reactors: The purpose of this activity is to assist and encourage Russia to develop a MOX fuel fabrication process that is compatible with surplus weapons-grade plutonium, test the resulting fuel, and qualify it for use in a VVER-1000 water reactor. Final fabrication and use of the fuel is subject to approval by GosAtomNadzor (GAN), Russia's nuclear regulatory authority, which will license the use of MOX. RosEnergoAtom, the Russian utility that operates nuclear power reactors, also is involved in the effort as the ultimate user of the MOX fuel.

Validating the Performance of MOX-Fueled Nuclear Reactors: VVER-1000 water reactors in Russia are currently fueled with uranium. Considerable work is required to ensure that they can be fueled with mixed plutonium oxide and uranium oxide fuel. The first stage of this effort involves computer feasibility studies. This

joint U.S.-Russian project is aimed at verifying and updating computer codes used to predict the behavior of MOX fuel in VVER-1000 reactors. Studies for presentation to GAN for licensing approval are under way.

Converting the Russian Fast Neutron Reactor to a Plutonium Burner: DOE is helping Russia assess the feasibility of converting Russia's BN-600 reactor, a fast-neutron reactor, into a net burner of plutonium. The BN-600 currently operates a fuel cycle that consumes uranium and produces some plutonium. Preliminary estimates indicate that the reactor could be modified to burn MOX fuel, perhaps even utilizing a full MOX core. DOE-supported Russian design studies, safety analyses, and an economic analysis are currently under way.

Plutonium Conversion Technology and Plutonium Disposition: The objective of this work is to design and build a facility for converting weapons-origin plutonium metal into an oxide form suitable for use in MOX fuel and for international inspection. The conversion facility will have an initial capacity of two metric tons per year of metal, increasable to five metric tons per year through expansion of facilities and the utilization of additional reactors. Current work is aimed at selecting a conversion technology and a site. Additional tests and analyses have been initiated that will lead to the design of a nondestructive assay system for the oxide produced. Parallel efforts are under way to negotiate and implement a bilateral agreement with the Russian Federation on the disposition of weapons-usable plutonium no longer needed for defense purposes (approximately 50 metric tons in both the United States and Russia) and conversion to forms unusable for nuclear weapons. This agreement, which the Administration hopes to have in place in early 1999, will fulfill commitments made by the U.S. and Russian Presidents at the September 1998 Moscow Summit. It is anticipated that this agreement will specify the technological approaches to be followed by each country, the types of facilities to be constructed in Russia, and commitments with respect to the financing of these activities in Russia. The Plutonium Disposition Initiative received strong Congressional endorsement in the form of a $200 million FY 1999 supplemental appropriation. Release of this funding is dependent on finalization of the bilateral agreement, which should give an added impetus to the ongoing negotiations. DOE hopes to use this funding in the FY 1999-2001 timeframe to initiate design, licensing and equipment procurement for plutonium disposition facilities in Russia. The $200 million will not fund the entire Russian plutonium disposition program, which is expected to cost in excess of $1 billion, but will provide a much-needed "jump-start" for this initiative.

Plutonium Immobilization: DOE is conducting research and development to implement immobilization as part of its hybrid plutonium disposition strategy. Russia has stated that all of its plutonium could be used for fuel and that none would have to be immobilized. Following extensive discussions between U.S. experts (principally from the Lawrence Livermore National Laboratory) and Russian experts, Russia has confirmed that, in fact, some Russian plutonium should be immobilized. Small-scale projects with Russia are under way to explore appropriate technologies.

U.S.-Russian-Canadian Project to Burn Mixed Oxide (MOX) Fuel in a Canadian Nuclear Reactor: This effort will examine the technical feasibility of burning MOX fuel made from surplus U.S. and Russian weapons plutonium in existing Canadian Deuterium Uranium (CANDU) reactors. The scope of the project involves fabrication, irradiation, and post-irradiation examinations of a small number of MOX fuel rods. The Los Alamos National Laboratory has fabricated a limited quantity of fuel pellets for use in the demonstration. Russia's A.A. Bochvar All-Russian Scientific Research Institute is expected to fabricate a similar number of pellets. The test irradiation and post-irradiation examinations would be conducted at the Chalk River reactor facility in Canada.

Gas Reactor Technology Development: The U.S. Congress earmarked $5 million in the FY 1999 Energy and Water Development Appropriations Act for DOE's Fissile Materials Disposition Program to fund joint U.S.-Russian development of gas reactor technology to dispose of excess weapons-derived plutonium. Of this funding, $2 million will be available for work in the United States and $3 million for work in Russia. The latter funds are releasable only if the Russian Federation matches them with comparable funding or in-kind contributions; the U.S. Congress intends for these funds to serve as "seed money" in efforts to gain financial commitments from other countries and the private sector. The development will build on already completed conceptual work and will involve three Russian institutes: OKBM, Kurchatov and Bochvar.

U.S. DEPARTMENT OF ENERGY - REDUCED ENRICHMENT FOR RESEARCH AND TEST REACTORS (RERTR)

The objective of the Joint U.S.-Russian Reduced Enrichment for Research and Test Reactors (RERTR) program is the further reduction of international commerce in highly enriched uranium (HEU) through the conversion of Soviet-designed research and test reactors from HEU to low-enriched uranium (LEU) fuel. In 1995, the Argonne National Laboratory (ANL) and Russia's Research and Development Institute of Power Engineering (RDIPE) signed an agreement to cooperate in the development of Russian-designed research and test reactors, both within and outside of Russia, that convert HEU fuel to LEU fuel. A new contract containing language on intellectual property rights (IPR) was signed between ANL and Russian labs in June 1996.

In 1996, the U.S. Government provided $450,000 in funding used for direct payments to Russian institutes for contract deliverables, from the State Department's Nonproliferation and Disarmament Fund (NDF) for the first full year under the contract. Plans were made for Russia to provide approximately $3 million for the same period and for projected work to take place over a period of at least five years. In FY 1997, work continued on the tasks covered by the first year of the contract. Negotiations on the second year contract began in 1997, with a planned U.S. Government funding level of $520,000. The Russian Ministry of Atomic Energy continued to provide funding to Russian institutes participating in RERTR work, although the amount of this funding has not yet been determined.

In FY 1998, negotiations continued toward a new contract, but were not concluded due to reorganization and bureaucratic delays on the Russian side. RERTR work continued on each side independently, but there were no direct payments from the United States to the Russians for project deliverables. All costs for U.S. work under the joint U.S.-Russian RERTR program are included in funding from DOE to Argonne National Laboratory to support the global RERTR program. Funding for this program in FY 1998 was approximately $1 million, about $25,000 of which was used for the participation of and presentation of papers by four Russian scientists at the annual RERTR international meeting.

U.S. DEPARTMENT OF ENERGY (DOE) - EXPORT CONTROL ASSISTANCE/SECOND LINE OF DEFENSE

Since establishing the NIS Export Control Program in 1995, DOE has developed effective relationships with its governmental counterparts in the NIS. DOE's strategy has focused on two tracks: government-to-government and laboratory-to-laboratory arrangements. Recently, a third approach, multilateral cooperation among donor states, was added to optimize limited funding and take advantage of activities in a multilateral setting. The program has given highest priority to those countries with the greatest potential as suppliers of sensitive equipment, materials, and technology, i.e., Russia, Ukraine and Kazakhstan. DOE's comprehensive export control program for the NIS is comprised of its traditional nuclear export control programs and the Second Line of Defense (SLD) Program.

DOE's Export Control and SLD initiatives target areas that have not been fully addressed by the DoD Cooperative Threat Reduction (CTR) or State Department Export Control projects, or where DOE brings unique skills to bear. The traditional export control programs encompass five broad objectives: (1) the utilization of existing expertise, (2) the establishment or enhancement of a legal regulatory framework, (3) assistance in developing a licensing program, (4) enhanced industry awareness, and (5) promoting the adoption of multilateral standards of conduct. SLD is the first program for Russia designed to combat trafficking of illicit nuclear materials across border and control points. In FY 1998, DOE was allocated $3.2 million for its traditional export control assistance programs and $3 million for SLD. Projected funding for FY 1999 is $3 million for traditional programs and $1.5 million for SLD.

In FY 1998, DOE began to implement the SLD Program, whose primary objective is to assist Russia in strengthening its overall capability to prevent leakage of nuclear materials, equipment and technology to would-be proliferators. The SLD strategy is focused on two areas: procurement of Russian-manufactured detection equipment for Russian Federation State Customs Committee (RFSCC) sites and border crossings, and the development of training programs for RFSCC officials. A protocol signed by DOE and the RFSCC in June 1998 marked the beginning of collaborative efforts, and work was immediately begun to place detection equipment at Moscow's Sheremetyevo International Airport complex and the Caspian Sea port of Astrakhan (about 400 miles

from Iran). In September 1998, DOE Secretary Richardson, RFSCC Chairman Valeri Draganov and U.S. Senator Domenici participated at the Sheremetyevo ribbon-cutting ceremony to commemorate the project's efforts.

DOE also implements a Graduate Student Facilitators Program that places U.S. graduate students at NIS institutes for one year to facilitate DOE's export control assistance programs. Students are currently on assignment at the Russian Center for Export Control and the Kazakhstani Atomic Energy Agency, and one is scheduled for placement at the Ukrainian Scientific and Technical Center on Export and Import of Special Technologies.

FY 1998 Country Highlights

Russia: Workshops were held in Obninsk in April, St. Petersburg in June and Snezhinsk in September to facilitate formal involvement of Russian technical experts in export license reviews and to prompt dialogue among Russian agencies. Continued support was given to the Russian Center on Export Controls for quarterly newsletters and a new webpage (www.expcon.ru) to help distribute information on nonproliferation to government and industry.

Kazakhstan: DOE continues to work with Kazakhstani officials and institutions to integrate reliable technical expertise into the nuclear export control process. Since FY 1995, DOE has sponsored several workshops and seminars there, and the National Nuclear Center identified a core technical team to support the Kazakhstan Atomic Energy Agency on export controls. A review of Kazakhstan's control lists was completed in FY 1998.

Ukraine: In FY 1998, DOE assistance resulted in the development of a database to facilitate the technical review of nuclear-related export licenses. DOE continues to work with the Ukrainian Institute of Nuclear Research (INR), State Service for Export Controls, and Kharkiv Institute of Physics and Technology to assist in integrating reliable technical expertise into the nuclear export control process; a cooperation agreement was also recently established with the STC in Kiev. In spring 1998, the INR gave a nonproliferation seminar to a broader audience of Ukrainian nuclear experts.

U.S. DEPARTMENT OF ENERGY - INITIATIVES FOR PROLIFERATION PREVENTION (IPP)

Overview: The main objectives of the IPP Program are to identify and develop non-military applications for defense technologies and create long-term jobs for NIS weapons scientists and engineers in the high-technology commercial marketplace. IPP helps to identify opportunities for U.S. firms to invest in enterprises that create jobs in the NIS and the U.S. To this end, IPP provides seed funds for identification and maturation of technology and facilitates interactions between U.S. industry and NIS institutes for developing industrial partnerships, joint ventures, or other mutually beneficial arrangements. Since IPP's inception, over 4,400 NIS scientists, engineers and technicians have participated in IPP-funded projects. The responsibility for supporting each initiative is transferred from the U.S. Government to the private sector by means of a cost-shared phase over the life of the project.

Since the first IPP contracts were signed in August 1994, more than 400 IPP projects have been initiated, including over 310 "lab-to-lab" projects and over 90 industry cost-shared projects (about 85 percent involve institutes in the Russian Federation). Currently, six IPP projects are in the process of commercialization in areas as diverse as the recovery of valuable tungsten carbide from mixed scrap and the production of medical isotopes for worldwide sale. In September 1997, IPP approved 22 projects that address nonproliferation issues at chemical and biological weapons institutes in Russia and Kazakhstan. Through FY 1998, IPP has funded a total of 44 projects at these institutes.

IPP was developed on the basis of lab-to-lab interactions. The primary role of the DOE National Laboratories is to engage their NIS counterparts. The IPP has demonstrated that scientific peer relationships provide distinct advantages in developing profitable work relationships with personnel at NIS institutes. This is frequently and preferably a close-contact exercise, enabling NIS scientists to work and identify more closely with DOE National Laboratory staff, who are well positioned to assist their NIS colleagues in IPP proposal development. Most institute proposals require extensive revision to reflect the applied science and technology that will lead to

sustained interest from a potential private-sector sponsor. The core competencies in the NIS institutes are similar to those in the DOE National Laboratories, allowing the latter to knowledgeably direct and evaluate NIS technical capabilities, and to determine the status of any intellectual property that should be protected. In practice, the lab-to-lab approach has also resulted in an influx of technical information from the NIS institutes into DOE Laboratories, which has stimulated ongoing projects in materials, manufacturing, biotechnology, environmental technology and communications.

In FY 1994, IPP received $35 million under the FREEDOM Support Act. From FY 1996 to FY 1998, IPP was funded under the Energy and Water Appropriations Act. In FY 1996, IPP received $10 million under that appropriation, plus an additional $10 million from DoD's CTR Program. Funded at $30 million per year in FY 1997 and FY 1998, IPP has received total U.S. Government funding of $115 million through FY 1998.

Program Activities

IPP approved 64 projects in FY 1998, 16 of which involve activities at chemical and biological weapons (CW/BW) related institutes in Russia and Kazakhstan. This reflects IPP's goal of expending approximately 20 percent of its resources at CW/BW institutes and 80 percent at those affiliated with nuclear weapons or their delivery systems. Reflecting IPP's commitment to commercial development, 20 of these 64 approved projects are industry cost-share projects in which each dollar spent by the U.S. Government is matched by contributions from private industry.

During FY 1998, DOE began development of the Nuclear Cities Initiative (NCI), which is a separate program, but shares many of IPP's objectives. The IPP Director and staff were instrumental in developing the NCI and negotiating the agreement that was signed in September 1998 by U.S. Energy Secretary Richardson and Russian Minister of Atomic Energy Adamov. As part of the overall DOE strategy in the NIS, IPP will continue to support the NCI, which focuses on Russia's ten formerly closed nuclear cities. In FY 1998, 24 of the 64 approved IPP projects were in these cities.

During FY 1998, IPP's fourth year of operations, significant streamlining efforts were undertaken to review and restructure IPP program activities and elements. In late FY 1997, Booz, Allen and Hamilton completed a full audit that yielded over 50 recommendations for program improvement; by the end of FY 1998, over 95 percent of these had been implemented or responded to. DOE also increased the full-time IPP program staff from two to nine people, and upgraded IPP office space and administrative equipment. IPP was relocated to the Office of Arms Control and Nonproliferation (NN-40) and thus fully integrated into DOE's primary nonproliferation office—this will facilitate better intra-agency coordination.

In FY 1994, IPP funded the creation of the nonprofit, incorporated United States Industry Coalition (USIC) to facilitate commercial development activities between U.S. industry and NIS institutes and coordinate commercialization activities for the entire IPP program. Under a financial assistance agreement, DOE provided funds to the University of New Mexico to support and staff USIC until June 1998, when it was decided to terminate this agreement and support USIC directly. This change, while acknowledging the critical support and resources the University provided in USIC's initial development, is a signal that USIC has matured to the point that it is now capable of leading and managing itself as a fully independent organization. It was also determined that the goals and activities of USIC were no longer congruent with the educational goals of the university. As a result of this decision, IPP and the University began to phase out joint activities over the final six months of the year, and a new corporate assistance agreement was signed by DOE and USIC (a 501c3 corporation) on September 30, 1998.

FY 1998 Country Highlights

Russia: During FY 1998, IPP funded 59 projects in Russia, including 24 in Russia's closed nuclear cities, which were IPP's primary focus. Through its efforts in the closed nuclear cities, IPP supported the creation of the Nuclear Cities Initiative (NCI), which will serve as DOE's primary vehicle for engagement in these special cities. IPP also developed a closer relationship with the State Department-funded International Science and Technology Center (ISTC) in Moscow. At the beginning of the year, IPP assumed responsibility for providing and funding the U.S. ISTC Deputy Director position in Moscow, currently filled by a staff member of the Oak Ridge National Laboratory. IPP's funding of this position has provided an opportunity for closer coordination between the Departments of Energy and State and enabled ISTC to utilize vital technical expertise from DOE's National

Laboratories.

Ukraine: IPP funded 3 new projects in Ukraine in FY 1998, as well as ongoing work on 11 projects. One of the year's success stories was a group of projects focusing on the development of a radiation-hardened, television-guided robotics platform known as "Project Pioneer." Nearly completed, this versatile robot will be suitable for use in the containment sarcophagus at the Chornobyl nuclear power plant. Over the past year, the project has attracted considerable media attention, as well as additional funding from NASA and private industry, both of which would like to utilize this technology in their own programs. During the last quarter of FY 1998, IPP resolved issues surrounding Ukrainian taxation of IPP funds. The Ukrainian Government, through the Finance Ministry, agreed to utilize an existing mechanism to certify that IPP funds are exempt from taxes on a project-by-project basis. Over the past year, DOE's Nuclear Energy Division has used this system quite successfully, and there is full confidence that it will be equally effective for IPP. Implementation details are currently under negotiation.

Kazakhstan: IPP funded two new projects and continued to support 11 ongoing ones, with an emphasis on former nuclear weapons scientists working at the National Nuclear Center and former scientists and technicians from the Stepnogorsk biological weapons complex now working at the National Center on Biotechnology. At the close of FY 1998, the Government of Kazakhstan formally agreed to exempt all IPP funds from any taxes and duties, thus removing a significant barrier to developing new projects in Kazakhstan and demonstrating the impact that IPP has in providing jobs and revenue there. Finalization of implementation details is currently under way.

Belarus: Due the U.S. Government's policy of selective engagement with the Government of Belarus, IPP did not develop any new projects in Belarus, and will maintain a hold on all new project development there for the foreseeable future. In order to maintain ties with former Soviet weapons scientists in Belarus, IPP has allowed several projects initiated in FY 1996 and FY 1997 to continue until their scheduled completion in FY 1999. Once finished, the data from these projects could form the basis for a large-scale environmental remediation program addressing contamination from the Chornobyl accident.

SOCIAL-SECTOR AND HUMANITARIAN PROGRAMS

U.S. DEPARTMENT OF AGRICULTURE (USDA) - FOOD ASSISTANCE PROGRAMS

Armenia: In FY 1998, USDA donated approximately 11,000 metric tons (MT) of commodities through private voluntary organizations (PVOs) in Armenia. These PVOs included the American International Association of the Hematologists of the World for Children (AIA); the Fund for Armenian Relief; Armenian Technology Group, Inc.; and the United Methodist Committee on Relief (UMCOR). Under its 3,000 MT monetization program, UMCOR carried out several activities to assist health care providers and facilities and to improve agricultural facilities. The Fund for Armenian Relief used 1,550 MT of donated commodities for direct-feeding programs. Additionally, proceeds from the monetization of approximately 1,450 MT of commodities were used to revitalize the country's dairy industry. The Armenian Technology Group, Inc., monetized 3,000 MT of wheat to finance the promotion of Armenia's seed industry. Meanwhile, AIA distributed approximately 2,000 MT of rice and vegetable oil through feeding programs targeting children with hematological diseases. In addition to commodity donations under its Food for Progress program, USDA used the P.L. 480, Title I concessional sales program to finance the purchase of 75,000 MT of wheat, valued at $15 million, by the Government of Armenia in FY 1998. According to the purchase arrangement, the revenues generated by the sale of the commodities will be used to continue several internal market reform activities in Armenia. The Government of Armenia is expected to purchase U.S. agricultural commodities under the P.L. 480 program again in FY 1999.

Azerbaijan: In FY 1998, USDA provided assistance to Azerbaijan through a Food for Progress agreement with the Adventist Development and Relief Agency (ADRA) and the American Red Cross (ARC). A total of 5,900 MT of agricultural commodities was directly distributed and monetized by ADRA in continuation of its feeding program, as well as for the promotion of a technology transfer program targeted at Azerbaijan's agricultural sector. ARC

distributed 1,100 MT of soybean oil and wheat flour through its nine-month direct-feeding program, which served Azerbaijan's most vulnerable population.

Georgia: In FY 1998, USDA donated 4,500 MT of commodities to Georgia through the International Orthodox Christian Charities (IOCC) under a Food for Progress agreement. IOCC distributed approximately 3,000 MT and monetized approximately 1,500 MT of commodities in support of its direct-feeding program in southern and western Georgia. In addition, USDA provided approximately 50,000 MT of wheat and 4,000 MT of vegetable oil, with a combined value of $15 million, under the P.L.-480 Title I program. This wheat will be provided to vulnerable groups and used, in part, to support ongoing market reforms, including the privatization of agricultural enterprises. USDA expects to implement a concessional sale to Georgia under this program again in FY 1999.

Kazakhstan: Kazakhstan received approximately 7,300 MT of USDA-donated commodities through the Food for Progress program in FY 1998. These commodities were distributed through Mercy Corps International's (MCI) monetization program. Proceeds supported improvements in agricultural production and technology and the promotion of a free market society.

Kyrgyzstan: USDA donated approximately 8,500 MT of commodities to Kyrgyzstan through Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), AIA, and MCI through Food for Progress agreements. ACDI/VOCA monetized 3,500 MT of wheat to support the continuation of its rural credit program. AIA directly distributed approximately 3,000 MT of rice, wheat flour, and vegetable oil to institutions serving children afflicted with hematological diseases. Meanwhile, MCI distributed approximately 947 MT of rice and soybean meal to hospitals, boarding schools, and day-care facilities. In addition, MCI monetized approximately 1,050 MT of soybean oil to support its various programs, including agricultural credit, micro-credit for rural women, and food-for-work programs.

Moldova: In FY 1998, USDA, the International Partnership for Human Development (IPHD), and Citizens Network for Foreign Affairs, Inc., carried out a humanitarian assistance Food for Progress program in Moldova, providing 9,200 MT of food commodities. The distribution and monetization of 1,200 MT of commodities enabled IPHD to carry out its food and medical assistance program in Moldova for a fourth consecutive year. Proceeds from the monetization of 8,000 MT of soybean meal helped the Citizens Network for Foreign Affairs (CNFA) create a farmer credit union in Moldova.

Russia: USDA donated nearly 15,334 MT of food commodities to Russia under the Food for Progress program in FY 1998. This was accomplished through Food for Progress agreements reached with Russian Farm Community Project, Inc. (RFCP) and Project Aid Siberia (PAS). The RFCP program involved the local sale of 15,000 MT of USDA-donated wheat, with the proceeds being used to provide loans to private farmers, to establish a food processing, marketing, and distribution center, and to create a farmers marketing and supply association. PAS directly distributed 334 MT of commodities to vulnerable groups in Russia.

Tajikistan: In FY 1998, USDA reached Food for Progress agreements for Tajikistan with four organizations: the Aga Khan Foundation (AKF), Cooperative for Assistance and Relief Everywhere (CARE), MCI, and the Save the Children Federation (STCF). These organizations distributed approximately 16,845 MT of food commodities. AKF, CARE, and STCF carried out direct feeding programs for needy people affected by Tajikistan's ongoing civil conflict. In addition, the STCF program called for a Food for Work portion, which targeted the reconstruction of homes and public health facilities, the rubble clearance of water canals, and the planting of school gardens. Meanwhile, MCI distributed 2,500 MT of food commodities in a direct feeding and monetization program. The proceeds from MCI's monetization program were used to support an agricultural credit fund, a small business fund, health care improvement, and other initiatives.

Ukraine: Under its Food for Progress program, USDA donated nearly 7,220 MT of food commodities through two organizations in FY 1998: Agudath Israel of America and Global Jewish Assistance and Relief Network (GJARN). These multi-faceted programs targeted pressing agricultural and humanitarian needs in Ukraine. Agudath Israel of America monetized approximately 3,900 MT of commodities to set up a credit union, to expand a local housing project, to provide educational grants, and to aid several direct feeding programs. Meanwhile, GJARN distributed and monetized nearly 3,320 MT of commodities to support its direct feeding program, which targets needy people in Ukraine.

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE PROGRAMS

The Humanitarian Programs Division of the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C) is responsible for coordinating and facilitating the delivery of emergency and transitional humanitarian assistance to the NIS by over 16 U.S. Government agencies, as well as for coordinating U.S. Government humanitarian assistance efforts with other donor countries and several international organizations. In FY 1998, the Coordinator's Office expended over $14.3 million to leverage and facilitate the movement of privately donated and U.S. Government-provided humanitarian assistance commodities to targeted groups of needy individuals in the NIS.

Working closely with numerous U.S. private voluntary organizations (PVOs), contracted freight forwarders, and various government agencies, the Coordinator's Office transported and distributed over $200 million in privately donated and U.S. Department of Defense excess commodities to the NIS in FY 1998. The Coordinator's Office funded several emergency and transitional humanitarian assistance programs targeted at the most needy populations in the NIS. FY 1998 program highlights include the following:

- The initiation in April 1998 of a cooperative agreement with the U.S. PVO Counterpart to restart a transportation program for small and medium-sized PVOs. This program is designed to fill a gap between S/NIS/C's Large PVO Program and USAID's Ocean Freight Program, which allows smaller PVOs shipping as few as one or two containers to target groups in the NIS.

- The State Department-funded delivery, via a U.S. Air Force C-5 cargo plane, of over $8 million in humanitarian medical assistance to Yerevan, Armenia. This flight, which originated at Andrews Air Force Base just outside of Washington, D.C., was the 100th such mission implemented by the United Armenian Fund.

- The delivery of a follow-on hospital package to Yerevan, Armenia, to upgrade a U.S. Defense Department hospital package delivered there in fall 1997.

- The coordination and delivery of a $13.9 million Defense Department excess property hospital package to Baku, Azerbaijan. This project was accompanied by two airlifts in August 1998 carrying approximately $6.1 million in pharmaceuticals provided by five U.S. PVOs. This $20 million project was made possible by language in the FY 1998 Foreign Operations Appropriations Act exempting humanitarian assistance from Section 907 of the FREEDOM Support Act, which prohibits assistance to the Government of Azerbaijan. This prohibition had prevented hampered the U.S. Government's efforts to provide humanitarian assistance to Azerbaijani refugees, internally displaced persons (IDPs), and victims of the Nagorno-Karabakh conflict.

- The continuation of a large grant with Counterpart to screen and deliver U.S. Defense Department excess property to those in greatest need in nine NIS countries. The program, which funneled over $43 million in Defense Department excess commodities to the NIS in FY 1998, played a critical role in furnishing over $10 million in badly needed emergency commodities (including tents, stoves, sleeping bags, and clothing) to over 30,000 refugees in the Zugdidi region of Georgia. In Azerbaijan, Counterpart delivered Defense Department food (rice, humanitarian daily rations (HDRs), and bulk canned foods) to over 18 orphanages. These critical deliveries represented the bulk of the food available to the children cared for in these institutions.

- The continuation of grants to the United Methodist Committee on Relief (UMCOR) to carry on their humanitarian clinical work in all three Caucasus countries (Armenia, Azerbaijan and Georgia). UMCOR's efforts were especially critical in responding to the needs of refugee and IDP populations in Azerbaijan and Georgia.

- A grant to the U.S. PVO Citihope to deliver over $25 million in high-value pharmaceuticals to Kyrgyzstan, Ukraine, Azerbaijan, Armenia, Turkmenistan, Moldova and Uzbekistan.

- A grant to the U.S. PVO Project Hope to deliver over $15 million in humanitarian medical commodities to several locations in Russia, Azerbaijan and Tajikistan.

- A grant to the U.S. PVO A Call to Serve (ACTS) in support of a $10 million project to supply critically needed medical commodities to eight separate locations in the mountainous regions of Georgia.

- A grant for the PVO International Medical Corporation (IMC) in support of a $3 million program responding to the short-term medical needs of those displaced by the fighting in the Gali region of Georgia.

- A grant to the U.S. PVO Heart-to-Heart in support of an $8 million program to deliver high-value pharmaceuticals to Russia, Azerbaijan, Moldova, Armenia and Kyrgyzstan. The delivery of over $1 million in commodities to Novosibirsk and Akademgorodok, Russia, was the culmination of a partnership effort which began with First Lady Hillary Rodham Clinton's visit there in the fall 1997. Over 20 medical personnel associated with the American Academy and Physicians With Heart accompanied this delivery and conducted training seminars on family practice protocols.

- Coordination through USAID of the delivery of over $5 million in emergency natural gas assistance to Georgia for use in winter 1997-98.

- Coordination through USAID of the provision of over $1 million in assistance to Kyrgyzstan and $1 million to Tajikistan directed at alleviating the suffering caused by severe flooding in spring 1998.

- The provision of $3.5 million to USAID's Ocean Freight Program to facilitate the delivery of humanitarian commodities to the NIS.

- Coordination of initial demining programs for Azerbaijan, Georgia and Moldova with the Humanitarian Demining Program of the State Department's Bureau of Politico-Military Affairs.

The following tables provide a summary of humanitarian assistance provided by the Coordinator's Office since FY 1992:

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO ARMENIA

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	17		1.84	22.47	
1992	Surface		4	0.02	2.80	
Operation Provide Hope II (Food&Med.)				0.10	1.06	
S/NIS/C Admin & Program Support				0.76		
FY 1992 TOTAL		**17**	**4**	**2.72**	**26.33**	**29.05**
1993	Airlift	22		3.05	7.78	
1993	Surface		1024	6.08	23.92	
CARE Grant				0.83		
Fuel Shipments (Mazout)				5.15		
S/NIS/C Admin & Program Support				7.71		
FY 1993 TOTAL		**22**	**1024**	**22.82**	**31.70**	**54.52**
1994	Airlift	5		0.70	10.35	
1994	Surface		152	1.60	5.93	
Japanese Kerosene				0.50		
Fuel Shipments (Mazout)				3.00		
ATG Winter Wheat Seed				1.00		
Caucasus Logistics Assistance Unit				1.75		
CRS Grant				0.50		
WFP Grant				1.50		
CARE Grant				0.06		
UMCOR Grant				0.25		
S/NIS/C Admin & Program Support				2.60		
FY 1994 TOTAL		**5**	**152**	**13.46**	**16.28**	**29.74**
1995	Airlift	9		0.92	12.87	
1995	Surface		202	1.55	14.83	
Winter & Spring Fertilizer				0.12		
Winter Wheat & Barley Seed				0.43		
Winter Diesel, Kerosene & Mazout				2.04		
WFP Grant				0.95		
Heart to Heart Grant				0.16		
Counterpart Grant				0.10		
CARE Grant				0.17		
UMCOR Grant				0.33		
S/NIS/C Admin & Program Support				1.39		
FY 1995 TOTAL		**9**	**202**	**8.16**	**27.70**	**35.86**
1996	Airlift	8		0.96	19.04	
1996	Surface		161	0.93	15.76	
Barley Seed & 2,000 MT of Fall Wheat				0.30		
UMCOR Grant				0.36		
Counterpart Grant				0.18		
S/NIS/C Admin & Program Support				0.26		
FY 1996 TOTAL		**8**	**161**	**2.99**	**34.80**	**37.79**
1997	Airlift	1		0.13	2.05	
1997	Surface		355	0.45	7.85	
UMCOR Grant				0.30		
DoD Excess Hospital (Yerevan-Oct'96)				1.82	13.18	
S/NIS/C Admin & Program Support				0.81		
FY 1997 TOTAL		**1**	**355**	**3.51**	**23.08**	**26.59**
1998	Airlift	3		0.31	9.97	
1998	Surface		90	0.47	7.80	
Counterpart Mammography Clinic				0.02		
UMCOR Grant				0.20		
Citihope Grant				0.09		
S/NIS/C Admin & Program Support				0.14		
FY 1998 TOTAL		**3**	**90**	**1.23**	**17.77**	**19.00**
CUMULATIVE TOTAL		**65**	**1988**	**54.88**	**177.66**	**232.54**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO AZERBAIJAN

listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C),
surface transportation of U.S. Government excess property and privately donated commodities
d medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992.00	Airlift	5		0.22	8.80	
1992.00	Surface		2	0.02	0.42	
Operation Provide Hope II (Food&Med.)				0.30	1.30	
S/NIS/C Admin & Program Support				0.21		
FY 1992 TOTAL		**5**	**2**	**0.75**	**10.52**	**11.27**
1993.00	Airlift	4		0.13	0.92	
1993.00	Surface		0			
CARE Grant				0.44		
S/NIS/C Admin & Program Support				0.29		
FY 1993 TOTAL		**4**	**0**	**0.86**	**0.92**	**1.78**
1994.00	Airlift	8		0.60	4.70	
1994.00	Surface		4	0.01	0.40	
CARE Grant				0.04		
Relief International Grant				0.04		
Medicines Sans Frontiers				0.01		
WFP Grant				1.00		
S/NIS/C Admin & Program Support				0.41		
FY 1994 TOTAL		**8**	**4**	**2.11**	**5.10**	**7.21**
1995.00	Airlift	0				
1995.00	Surface		41	0.26	2.52	
Relief Int'l. Grant				0.03		
CARE Grant				0.17		
WFP Grant				1.60		
S/NIS/C Admin & Program Support				0.42		
FY 1995 TOTAL		**0**	**41**	**2.48**	**2.52**	**5.00**
1996.00	Airlift	1		0.07	0.53	
1996.00	Surface		30	0.29	2.58	
UMCOR Grant				0.36		
Project HOPE Grant				0.05		
Counterpart Grant				0.09		
Intl Relief Cmte Grant				0.01		
WFP Grant				0.40		
S/NIS/C Admin & Program Support				0.12		
FY 1996 TOTAL		**1**	**30**	**1.39**	**3.11**	**4.50**
1997.00	Airlift	5		0.29	5.40	
1997.00	Surface		19	0.15	5.42	
Intl Relief Cmte Grant				0.01		
Heart to Heart Grant				0.03		
UMCOR Grant				0.37		
Project HOPE Grant				0.03		
S/NIS/C Admin & Program Support				0.26		
FY 1997 TOTAL		**5**	**19**	**1.14**	**10.82**	**11.96**
1998	Airlift	8		0.64	8.54	
1998	Surface		287	1.29	15.99	
UMCOR Grant				0.43		
Counterpart Grant				0.17		
CitihHope				0.03		
Project Hope				0.04		
S/NIS/C Admin & Program Support				0.28		
FY 1998 TOTAL		**8**	**287**	**2.88**	**24.53**	**27.41**
CUMULATIVE TOTAL		**31**	**383**	**11.61**	**57.52**	**69.13**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO BELARUS

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	8		0.41	13.36	
1992	Surface		8	0.01	0.17	
S/NIS/C Admin & Program Support				0.16		
FY 1992 TOTAL		**8**	**8**	**0.58**	**13.53**	**14.11**
1993	Airlift	3		0.27	3.05	
1993	Surface		75	0.51	10.42	
S/NIS/C Admin & Program Support				0.40		
FY 1993 TOTAL		**3**	**75**	**1.18**	**13.47**	**14.65**
1994	Airlift	2		0.21	1.82	
1994	Surface		113	0.45	12.32	
DoD Excess Hospital (Minsk-Aug'94)				1.50	11.20	
S/NIS/C Admin & Program Support				0.52		
FY 1994 TOTAL		**2**	**113**	**2.68**	**25.34**	**28.02**
1995	Airlift	1		0.11	2.50	
1995	Surface		108	0.54	14.99	
Counterpart Grant				0.10		
S/NIS/C Admin & Program Support				0.45		
FY 1995 TOTAL		**1**	**108**	**1.20**	**17.49**	**18.69**
1996	Airlift	4		0.44	11.83	
1996	Surface		172	0.81	28.07	
Counterpart Grant				0.10		
S/NIS/C Admin & Program Support				0.13		
FY 1996 TOTAL		**4**	**172**	**1.48**	**39.90**	**41.38**
1997	Airlift	1		0.14	4.01	
1997	Surface		58	0.29	6.45	
Counterpart Grant				0.02		
S/NIS/C Admin & Program Support				0.13		
FY 1997 TOTAL		**1**	**58**	**0.58**	**10.46**	**11.04**
1998	Airlift	3		0.11	2.44	
1998	Surface		37	0.18	5.42	
S/NIS/C Admin & Program Support				0.06		
FY 1998 TOTAL		**3**	**37**	**0.35**	**7.86**	**8.21**
CUMULATIVE TOTAL		**22**	**571**	**8.05**	**128.05**	**136.10**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO GEORGIA

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	19		1.04	17.38	
1992	Surface		0			
DoD Excess Hospital (Tbilisi-Sep'92)				2.00	15.00	
ACTS Grant				0.05		
Operation Provide Hope II (Food & Med.)				0.10	1.92	
S/NIS/C Admin & Program Support				1.24		
FY 1992 TOTAL		**19**	**0**	**4.43**	**34.30**	**38.73**
1993	Airlift	10		0.89	9.90	
1993	Surface		386	2.33	22.71	
ACTS Grant				0.46		
CARE Grant				0.83		
Fuel Shipment (Mazout)				5.15		
S/NIS/C Admin & Program Support				4.93		
FY 1993 TOTAL		**10**	**386**	**14.59**	**32.61**	**47.20**
1994	Airlift	30		2.60	20.79	
1994	Surface		184	1.19	29.59	
Japanese Kerosene				0.30		
ACTS Grant				0.70		
CRS Grant				0.50		
CARE Grant				0.06		
UMCOR Grant				0.35		
WFP Grant				1.00		
Caucasus Logistics Assistance Unit				1.75		
S/NIS/C Admin & Program Support				2.02		
FY 1994 TOTAL		**30**	**184**	**10.47**	**50.38**	**60.85**
1995	Airlift	10		0.69	8.47	
1995	Surface		178	1.27	8.74	
Fuel Shipment (Mazout - Oct. '94)				2.00		
ACTS Grant				0.38		
WFP Grant				1.00		
Counterpart Grant				0.65		
CARE Grant				0.26		
UMCOR Grant				0.28		
DoD Hospital Upgrade (Tbilisi-Jun'95)				0.15	1.35	
S/NIS/C Admin & Program Support				2.20		
FY 1995 TOTAL		**10**	**178**	**8.88**	**18.56**	**27.44**
1996	Airlift	12		1.05	21.82	
1996	Surface		237	1.47	19.37	
UMCOR Grant				0.35		
ACTS Grant				0.33		
Counterpart Grant				0.25		
S/NIS/C Admin & Program Support				0.32		
FY 1996 TOTAL		**12**	**237**	**3.77**	**41.19**	**44.96**
1997	Airlift	5		0.40	26.66	
1997	Surface		139	0.77	29.17	
UMCOR Grant				0.20		
ACTS Grant				0.35		
S/NIS/C Admin & Program Support				0.57		
FY 1997 TOTAL		**5**	**139**	**2.29**	**55.83**	**58.12**
1998	Airlift	6		0.53	22.85	
1998	Surface		97	0.46	13.87	
A.C.T.S.				0.33		
IMC - Art Keys & Assoc.				0.20		
Counterpart Grant				0.34		
Heart to Heart Grant				0.03		
UMCOR Grant				0.27		
S/NIS/C Admin & Program Support				0.36		
FY 1998 TOTAL		**6**	**97**	**2.52**	**36.72**	**39.24**
CUMULATIVE TOTAL		**92**	**1221**	**46.95**	**269.59**	**316.54**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO KAZAKHSTAN

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	9		0.90	22.00	
1992	Surface		4	0.03	0.25	
Operation Provide Hope II (Food&Med.)				0.50	3.22	
S/NIS/C Admin & Program Support				0.55		
FY 1992 TOTAL		**9**	**4**	**1.98**	**25.47**	**27.45**
1993	Airlift	6		0.90	9.80	
1993	Surface		28	0.20	1.40	
S/NIS/C Admin & Program Support				0.56		
FY 1993 TOTAL		**6**	**28**	**1.66**	**11.20**	**12.86**
1994	Airlift	3		0.47	11.40	
1994	Surface		226	0.36	7.20	
UMCOR Grant				0.07		
S/NIS/C Admin & Program Support				0.22		
FY 1994 TOTAL		**3**	**226**	**1.12**	**18.60**	**19.72**
1995	Airlift	8		0.88	9.42	
1995	Surface		198	1.13	8.05	
DoD Excess Hospital (Almaty-Dec'94)				2.10	13.50	
Counterpart Grant				0.10		
UMCOR Grant				0.03		
S/NIS/C Admin & Program Support				0.49		
FY 1995 TOTAL		**8**	**198**	**4.73**	**30.97**	**35.70**
1996	Airlift	6		0.77	7.66	
1996	Surface		56	0.44	4.92	
Project Sapphire				0.10		
Counterpart Grant				0.10		
Heart to Heart Grant				0.11		
DoD Excess Hospital (Semi/Kurch-Nov'95)				0.68	5.32	
DoD Excess Hospital (Ust-Kamenogorsk-Jun'96)				0.02	1.48	
S/NIS/C Admin & Program Support				0.21		
FY 1996 TOTAL		**6**	**56**	**2.43**	**19.38**	**21.81**
1997	Airlift	5		0.64	11.97	
1997	Surface		84	0.62	13.33	
Counterpart Grant				0.09		
S/NIS/C Admin & Program Support				0.40		
FY 1997 TOTAL		**5**	**84**	**1.75**	**25.30**	**27.05**
1998	Airlift	6		0.25	1.71	
1998	Surface		61	0.47	9.68	
Counterpart Grant				0.42		
S/NIS/C Admin & Program Support				0.23		
FY 1998 TOTAL		**6**	**61**	**1.37**	**11.39**	**12.76**
CUMULATIVE TOTAL		**43**	**657**	**15.03**	**142.31**	**157.34**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO KYRGYZSTAN

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	6		0.37	10.40	
1992	Surface					
Operation Provide Hope II (Food&Med.)				0.10	2.15	
S/NIS/C Admin & Program Support				0.18		
FY 1992 TOTAL		**6**	**0**	**0.65**	**12.55**	**13.20**
1993	Airlift	8		0.86	5.61	
1993	Surface					
DoD Excess Hospital (Bishkek-Apr'93)				1.50	17.70	
S/NIS/C Admin & Program Support				1.20		
FY 1993 TOTAL		**8**	**0**	**3.56**	**23.31**	**26.87**
1994	Airlift	5		0.49	9.58	
1994	Surface		18	0.09	1.14	
S/NIS/C Admin & Program Support				0.14		
FY 1994 TOTAL		**5**	**18**	**0.72**	**10.72**	**11.44**
1995	Airlift	2		0.12	0.80	
1995	Surface		42	0.16	0.45	
DoD Hospital Upgrade (Bishkek-Jun'95)				0.15	1.35	
S/NIS/C Admin & Program Support				0.28		
FY 1995 TOTAL		**2**	**42**	**0.71**	**2.60**	**3.31**
1996	Airlift	0		0.00	0.00	
1996	Surface		36	0.26	3.17	
Heart to Heart Grant				0.11		
S/NIS/C Admin & Program Support				0.03		
FY 1996 TOTAL		**0**	**36**	**0.40**	**3.17**	**3.57**
1997	Airlift	8		0.58	5.14	
1997	Surface		32	0.34	6.98	
Counterpart Grant				0.10		
S/NIS/C Admin & Program Support				0.31		
FY 1997 TOTAL		**8**	**32**	**1.33**	**12.12**	**13.45**
1998	Airlift	19		0.49	11.77	
1998	Surface		40	0.33	7.81	
Counterpart Grant				0.09		
Project Hope				0.13		
CitiHope Grant				0.21		
S/NIS/C Admin & Program Support				0.23		
FY 1998 TOTAL		**19**	**40**	**1.48**	**19.58**	**21.06**
CUMULATIVE TOTAL		**48**	**168**	**8.86**	**84.05**	**92.91**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO MOLDOVA

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	4		0.20	7.50	
1992	Surface		6	0.05	0.57	
Operation Provide Hope II (Food&Med.)				0.30	1.10	
S/NIS/C Admin & Program Support				0.21		
FY 1992 TOTAL		**4**	**6**	**0.76**	**9.17**	**9.93**
1993	Airlift	4		0.36	7.00	
1993	Surface		109	0.52	6.00	
S/NIS/C Admin & Program Support				0.45		
FY 1993 TOTAL		**4**	**109**	**1.33**	**13.00**	**14.33**
1994	Airlift	4		0.09	0.50	
1994	Surface		55	0.30	9.20	
DoD Excess Hospital (Chisinau-Aug'94)				1.20	12.50	
Counterpart Grant				0.02		
Oil & Coal				4.10		
S/NIS/C Admin & Program Support				1.37		
FY 1994 TOTAL		**4**	**55**	**7.08**	**22.20**	**29.28**
1995	Airlift	0				
1995	Surface		113	0.62	6.17	
Counterpart Grant				0.02		
S/NIS/C Admin & Program Support				0.42		
FY 1995 TOTAL		**0**	**113**	**1.06**	**6.17**	**7.23**
1996	Airlift	3		0.17	0.69	
1996	Surface		103	0.35	6.84	
DoD Hospital Upgrade (Chisinau-Jul'96)				0.15	1.35	
S/NIS/C Admin & Program Support				0.06		
FY 1996 TOTAL		**3**	**103**	**0.73**	**8.88**	**9.61**
1997	Airlift	2		0.13	3.19	
1997	Surface		56	0.28	5.80	
Counterpart Grant				0.09		
S/NIS/C Admin & Program Support				0.15		
FY 1997 TOTAL		**2**	**56**	**0.65**	**8.99**	**9.64**
1998	Airlift	0				
1998	Surface		72	0.33	10.58	
CitiHope				0.08		
Counterpart Grant				0.01		
S/NIS/C Admin & Program Support				0.07		
FY 1998 TOTAL		**0**	**72**	**0.49**	**10.58**	**11.07**
CUMULATIVE TOTAL		**17**	**514**	**12.10**	**78.99**	**91.09**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO RUSSIA

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	65		5.53	130.94	
1992	Surface		311	1.50	16.96	
Heart to Heart Grant				0.02		
CARE Grant				2.00		
Operation Provide Hope II (Food&Med.)				2.60	29.51	
S/NIS/C Admin & Program Support				4.52		
FY 1992 TOTAL		**65**	**311**	**16.17**	**177.41**	**193.58**
1993	Airlift	12		1.14	25.34	
1993	Surface		1034	4.42	45.25	
CARE Grant				1.81		
Family to Family Grant				0.02		
Miramed Institute Grant				0.01		
Helping Hand & Open Curtain Grant				0.02		
CRS Grant				0.17		
Salvation Army Grant				0.02		
Operation Provide Hope III (MRE's, Food)				2.63	40.00	
Two DoD Excess Hospitals (Moscow-Oct'93)				1.70	36.00	
S/NIS/C Admin & Program Support				6.09		
FY 1993 TOTAL		**12**	**1034**	**18.03**	**146.59**	**164.62**
1994	Airlift	2		0.31	8.20	
1994	Surface		1176	4.39	86.44	
CRS Grant				0.50		
Counterpart Grant				0.28		
S/NIS/C Admin & Program Support				1.31		
FY 1994 TOTAL		**2**	**1176**	**6.79**	**94.64**	**101.43**
1995	Airlift	27		1.99	9.39	
1995	Surface		890	4.93	67.75	
Counterpart Grant				0.02		
S/NIS/C Admin & Program Support				4.58		
FY 1995 TOTAL		**27**	**890**	**11.52**	**77.14**	**88.66**
1996	Airlift	13		0.46	7.84	
1996	Surface		351	1.42	34.60	
DoD Excess Hospital (Vladivostok-Oct'95)				0.50	4.50	
S/NIS/C Admin & Program Support				0.22		
FY 1996 TOTAL		**13**	**351**	**2.60**	**46.94**	**49.54**
1997	Airlift	10		0.45	12.20	
1997	Surface		76	0.56	8.69	
S/NIS/C Admin & Program Support				0.30		
FY 1997 TOTAL		**10**	**76**	**1.31**	**20.89**	**22.20**
1998	Airlift	9		0.35	5.98	
1998	Surface		97	0.47	12.65	
Heart To Heart Grant				0.30		
S/NIS/C Admin & Program Support				0.22		
FY 1998 TOTAL		**9**	**97**	**1.34**	**18.63**	**19.97**
CUMULATIVE TOTAL		**138**	**3935**	**57.77**	**582.24**	**640.01**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO TAJIKISTAN

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	8		0.56	11.61	
1992	Surface		4	0.02	0.21	
Operation Provide Hope II (Food&Med.)				0.20	2.49	
S/NIS/C Admin & Program Support				0.30		
FY 1992 TOTAL		**8**	**4**	**1.08**	**14.31**	**15.39**
1993	Airlift	3		0.34	1.28	
1993	Surface		7	0.05	0.05	
Aga Khan Grant				0.28		
S/NIS/C Admin & Program Support				0.34		
FY 1993 TOTAL		**3**	**7**	**1.01**	**1.33**	**2.34**
1994	Airlift	4		0.57	3.10	
1994	Surface		4	0.02	0.09	
CARE Grant				0.04		
S/NIS/C Admin & Program Support				0.15		
FY 1994 TOTAL		**4**	**4**	**0.78**	**3.19**	**3.97**
1995	Airlift	2		0.32	0.75	
1995	Surface		39	0.31	2.42	
Aga Khan Grant				0.12		
S/NIS/C Admin & Program Support				0.50		
FY 1995 TOTAL		**2**	**39**	**1.25**	**3.17**	**4.42**
1996	Airlift	0		0.00	0.00	
1996	Surface		11	0.08	1.14	
Relief Int'l. Grant				0.02		
S/NIS/C Admin & Program Support				0.01		
FY 1996 TOTAL		**0**	**11**	**0.11**	**1.14**	**1.25**
1997	Airlift	1		0.01	0.04	
1997	Surface		25	0.17	1.64	
Counterpart Grant				0.12		
Heart to Heart Grant				0.03		
S/NIS/C Admin & Program Support				0.10		
FY 1997 TOTAL		**1**	**25**	**0.43**	**1.68**	**2.11**
1998	Airlift	1		0.11	1.19	
1998	Surface		17	0.13	1.73	
Humanitarian Daily Rations					1.70	
S/NIS/C Admin & Program Support				0.02		
FY 1998 TOTAL		**1**	**17**	**0.26**	**4.62**	**4.88**
CUMULATIVE TOTAL		**19**	**107**	**4.92**	**29.44**	**34.36**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO TURKMENISTAN

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANT	CARGO VALUE	TOTAL
1992	Airlift	9		0.77	12.53	
1992	Surface		2	0.02	0.30	
Operation Provide Hope II (Food&Med.)				0.10	1.44	
S/NIS/C Admin & Program Support				0.35		
FY 1992 TOTAL		**9**	**2**	**1.24**	**14.27**	**15.51**
1993	Airlift	3		0.20	1.44	
1993	Surface		0			
S/NIS/C Admin & Program Support				0.10		
FY 1993 TOTAL		**3**	**0**	**0.30**	**1.44**	**1.74**
1994	Airlift	5		0.33	2.04	
1994	Surface		1	0.01	0.18	
S/NIS/C Admin & Program Support				0.08		
FY 1994 TOTAL		**5**	**1**	**0.42**	**2.22**	**2.64**
1995	Airlift	1		0.18	3.20	
1995	Surface		8	0.05	0.58	
S/NIS/C Admin & Program Support				0.15		
FY 1995 TOTAL		**1**	**8**	**0.38**	**3.78**	**4.16**
1996	Airlift	0		0.00	0.00	
1996	Surface		1	0.01	0.07	
S/NIS/C Admin & Program Support				0.00		
FY 1996 TOTAL		**0**	**1**	**0.01**	**0.07**	**0.08**
1997	Airlift	0		0.00	0.00	
1997	Surface		0	0.00	0.00	
S/NIS/C Admin & Program Support				0.00		
FY 1997 TOTAL		**0**	**0**	**0.00**	**0.00**	**0.00**
1998	Airlift	1		0.09	4.16	
1998	Surface		4	0.03	0.79	
CitiHope Grant				0.09		
Counterpart Grant				0.09		
Project Hope				0.09		
S/NIS/C Admin & Program Support				0.07		
FY 1998 TOTAL		**1**	**4**	**0.46**	**4.95**	**5.41**
CUMULATIVE TOTAL		**19**	**16**	**2.80**	**26.73**	**29.53**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO UKRAINE

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	9		0.70	19.30	
1992	Surface		54	0.24	2.20	
Operation Provide Hope II (Food&Med.)				0.10	1.30	
				0.40		
FY 1992 TOTAL		**9**	**54**	**1.44**	**22.80**	**24.24**
1993	Airlift	5		0.39	3.60	
1993	Surface		255	1.83	19.50	
Helping Hand & Open Curtain Grant				0.02		
Counterpart Grant				0.01		
				1.15		
FY 1993 TOTAL		**5**	**255**	**3.40**	**23.10**	**26.50**
1994	Airlift	4		0.53	12.30	
1994	Surface		550	1.20	29.60	
Counterpart Grant				0.35		
				0.50		
FY 1994 TOTAL		**4**	**550**	**2.58**	**41.90**	**44.48**
1995	Airlift	13		1.17	9.86	
1995	Surface		975	4.78	49.17	
DoD Excess Hospital (Dontesk-Apr'96)				0.41	18.09	
Counterpart Grant				0.08		
				4.25		
FY 1995 TOTAL		**13**	**975**	**10.69**	**77.12**	**87.81**
1996	Airlift	15		0.79	19.63	
1996	Surface		730	3.78	66.51	
				0.43		
FY 1996 TOTAL		**15**	**730**	**5.00**	**86.14**	**91.14**
1997	Airlift	6		0.28	8.08	
1997	Surface		372	1.96	41.36	
Counterpart Grant				0.25		
				0.74		
FY 1997 TOTAL		**6**	**372**	**3.23**	**49.44**	**52.67**
1998	Airlift	8		0.35	5.67	
1998	Surface		224	0.93	33.85	
Counterpart Grant				0.06		
S/NIS/C Admin & Program Support				0.26		
FY 1998 TOTAL		**8**	**224**	**1.60**	**39.52**	**41.12**
CUMULATIVE TOTAL		**60**	**3160**	**27.94**	**340.02**	**367.96**

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE TO UZBEKISTAN

The following is a listing of humanitarian assistance funded by the Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C), including air and surface transportation of U.S. Government excess property and privately donated commodities (food, clothing and medical), grants and special projects. (Values are in millions of dollars.)

FISCAL YR.	METHOD	FLIGHTS	CONTAINERS	TRANSPORT/GRANTS	CARGO VALUE	TOTAL
1992	Airlift	12		1.12	9.58	
1992	Surface		0			
Operation Provide Hope II (Food&Med.)				0.10	1.85	
S/NIS/C Admin & Program Support				0.47		
FY 1992 TOTAL		**12**	**0**	**1.69**	**11.43**	**13.12**
1993	Airlift	4		0.31	4.68	
1993	Surface		3	0.03	0.16	
S/NIS/C Admin & Program Support				0.17		
FY 1993 TOTAL		**4**	**3**	**0.51**	**4.84**	**5.35**
1994	Airlift	1		0.14	1.29	
1994	Surface		33	0.21	1.81	
S/NIS/C Admin & Program Support				0.08		
FY 1994 TOTAL		**1**	**33**	**0.43**	**3.10**	**3.53**
1995	Airlift	0				
1995	Surface		49	0.37	2.36	
S/NIS/C Admin & Program Support				0.24		
FY 1995 TOTAL		**0**	**49**	**0.61**	**2.36**	**2.97**
1996	Airlift	2		0.10	5.60	
1996	Surface		45	0.36	3.25	
S/NIS/C Admin & Program Support				0.04		
FY 1996 TOTAL		**2**	**45**	**0.50**	**8.85**	**9.35**
1997	Airlift	5		0.36	7.60	
1997	Surface		234	0.32	2.10	
Counterpart Grant				0.04		
DoD Excess Hospital (Tashkent-Sep'97)				1.05	13.03	
S/NIS/C Admin & Program Support				0.53		
FY 1997 TOTAL		**5**	**234**	**2.30**	**22.73**	**25.03**
1998	Airlift	2		0.05	0.15	
1998	Surface		18	0.13	4.44	
Counterpart Grant				0.09		
S/NIS/C Admin & Program Support				0.06		
FY 1998 TOTAL		**2**	**18**	**0.33**	**4.59**	**4.92**
CUMULATIVE TOTAL		**26**	**382**	**6.38**	**57.90**	**64.28**

OTHER PROGRAMS

EURASIA FOUNDATION

Established in 1993 with a major grant from USAID, the Eurasia Foundation promotes democratic and market economic reform at the grassroots level in the twelve NIS countries. The Foundation is privately managed and field-driven; it has built its reputation on its ability to offer a quick and flexible response to needs identified by NIS organizations and for reaching areas often untouched by other Western donors. Its primary tool is an open-door grants program, but the Foundation also employs grant competitions targeting certain priority areas on a regional basis. In addition, the Foundation manages three projects designed to encourage more professional economic policy research, a more rigorous small business sector, and financially independent media. To date, the Foundation has raised more than $15 million in private-sector funds, $5 million of which was raised in FY 1998.

The Foundation works from its headquarters in Washington and its seven NIS regional offices in Kiev (Ukraine); Moscow, Saratov and Vladivostok (Russia); Tashkent (Uzbekistan); Tbilisi (Georgia); and Yerevan (Armenia). It also has branch offices in seven other cities, as well as local representatives in seven additional NIS cities. In FY 1999, the Foundation will expand its branch office in Almaty (Kazakhstan) into a regional office serving both Kazakhstan and Kyrgyzstan. Since its establishment, the Foundation has awarded more than 3,500 small grants. In FY 1998 alone, the Foundation awarded over 1,000 grants totaling over $19 million, more than 95 percent of them directly to NIS organizations and the remaining balance to U.S.-NIS partnerships. The average grant size in FY 1998 was approximately $18,000.

In FY 1998, the Foundation's grants generally fell within eight program areas:

Business Development: The Foundation supported the growth and development of private business sectors in the NIS, particularly small businesses. Foundation grants supported such initiatives as training and counseling for entrepreneurs, information dissemination on topics of importance to businesses, development of business associations, trade and export promotion, and legal and policy reforms aimed at improving the environment for private business.

Business Education and Management Training: The Foundation supported long- and short-term training in the NIS in business and management. Projects included development of teaching programs in universities and secondary schools, development of curricula and teaching materials, and training for managers in specific industries such as banking, real estate and agribusiness.

Economics Education and Research: The Foundation supported economics education and research programs designed to improve economic policy-making in the NIS. Activities supported by the Foundation included faculty training and development, development of curricula and teaching materials, policy-related economic research and public economics education.

Electronic Communications: The Foundation supported programs that helped ensure a free flow of information to NIS citizens through easy and affordable access to the Internet. The Foundation supported programs which provide access to the Internet for non-profit organizations, develop new on-line resources in NIS languages, provide training for users and administrators of Internet services, and produce resource materials on information available through the Internet.

Independent Media: The Foundation helped increase the financial and editorial independence of NIS media organizations, train journalists and editors, analyze and reform press laws and examine policy issues relating to media freedom.

NGO Development: The Foundation awarded grant in support of a strong and independent "third sector" of non-governmental organizations (NGOs) which help build democracy by providing citizens with a forum for collectively voicing their views. Some of these NGOs help lessen the pain of economic transformation by providing alternative

vehicles for the delivery of critical social services. The Foundation supported programs which advance NGO financial sustainability, philanthropy, and help create an enabling environment for NGO development.

Public Administration and Local Government Reform: The Foundation supported projects aiming to improve management capacity at the national, regional and local levels (with a particular emphasis on local government reform), explore innovative directions in the delivery of public services, promote regional economic development and expand mechanisms which provide feedback from the population to governing bodies.

Rule of Law: The Foundation supported programs which promote the rule of law in the NIS, including the developing of progressive legislation in areas covered by Foundation's mandate, promoting basic civil rights before the law, encouraging public participation in the legislative process, improving access to information on laws, regulations and decrees, and supporting alternative means of dispute resolution.

In addition to its grant-making activities, the Foundation continued to take the lead in mobilizing private and government resources to address critical needs not being met by other assistance programs. The Foundation currently manages three special initiatives that leverage significant amounts of private and government support:

The Small Business Lending Program (SBLP): Working through local banks, the Foundation provides loans of up to $100,000 to small and medium-sized businesses, for terms of up to two years. The SBLP provides much-needed capital to the fledgling private sectors in the participating countries and intensive, hands-on training to participant bank lenders in credit analysis and collection methodology. The program currently has representatives in Armenia, Russia and Ukraine. The SBLP disbursed loans totaling more than $1,900,000 in FY 1998. Since its inception in 1995, the SBLP has helped create more than 1,000 jobs in these three countries.

Economics Education and Research Consortium (EERC): The EERC was created to improve economic policy-making through programs aimed at raising the level of the economics profession in Russia and Ukraine. In Ukraine, the EERC supported the development of a master's-degree economics program at the University of Kyiv-Mohyla Academy. The first class of twenty students graduated in FY 1998, and approximately 90 students are currently enrolled. In Russia, the EERC supported small research grants and a series of complementary activities which are helping to build a professional community of Russian economists. To date, approximately 100 grants have been awarded to support research in more than 60 projects. Consortium members include the Eurasia Foundation, the Soros-funded Open Society Institute, the Ford Foundation, the World Bank, the Starr Foundation, the Royal Ministry of Foreign Affairs of Norway, the Swedish Foreign Ministry, and the Pew Charitable Trusts. In FY 1998, the EERC also received support from the Government of Finland and the Citicorp Foundation.

The Media Viability Fund: The Media Viability Fund (MVF) is a joint effort of the Eurasia Foundation and the Soros-funded Media Development Loan Fund, with critical support from USAID. The MVF aims to strengthen the independent media through two mechanisms: (1) targeted, low-cost loans to newspapers and other media organizations for the acquisition of equipment, and (2) small grants for technical support, improved access to information and management training. Operating in Russia and Ukraine, the MVF is building the financial and institutional capacities of an independent media sector, and is increasing public access to information, thus leading to increased, better-informed citizen participation in political and economic decision-making.

PEACE CORPS

After the collapse of the Soviet Union, the Peace Corps was invited into eight of the NIS countries (Armenia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan) to help facilitate their transition to market-oriented democracies. In responding to these requests, Peace Corps volunteers (PCVs) have helped overcome the historically limited contact between U.S. and NIS communities, and have established and strengthened new bonds of friendship and cross-cultural understanding by addressing issues of mutual concern. PCVs have helped change the perceptions of their NIS host communities and counterparts regarding the United States and the American people, and after returning home from their Peace Corps experience, they have also helped educate Americans about the people of the NIS countries.

Promoting Small Business Development: After the Soviet command economy collapsed, many businesses were unable to adapt to free-market conditions, due to a limited understanding of market principles. While several of the NIS countries have made considerable strides in adapting to a market-based economic system, economic reform efforts throughout the NIS have been frustrated by a lack of understanding at the individual and institutional levels regarding the basic assumptions, structures, and skills required to operate in a free-market economy. To make matters worse, many of the region's economies continue to suffer greatly from unstable monetary systems, industries that rely on antiquated technologies, and inconsistent legal and business practices that discourage local and foreign investment. The need for tangible business skills at the grassroots level—the level at which PCVs focus their activities—is evident in the establishment of numerous local entrepreneurial associations and the widespread demand for free-market business education in NIS secondary schools, universities and institutes. PCVs are working on economic development and business education projects, and are disseminating information about new economic laws to entrepreneurs and local businesses. PCVs work with a variety of institutions, including business advisory centers, local governments, educational institutions, non-governmental organizations, and local community business associations.

Teaching English as a Foreign Language: The demand for English language training remains strong in the NIS, as it becomes increasingly clear that integration into the global economy will require a cadre of English-speaking professionals who can access the wealth of technical and scientific information available in English. With Russian declining as the primary language studied throughout the region, English language instruction has become a high priority. Unfortunately, many students are unable to study the English language due to a shortage of qualified English teachers. Peace Corps host countries are seeking to improve the overall quality of their education systems by changing outdated methods of teaching and introducing modern technology and materials in the classroom.

Environmental Protection: Among the legacies of the Soviet era is a degraded and polluted environment. Large portions of NIS air, water and land resources are contaminated. Clear-cutting of the forests, unlimited use of natural resources, and industrial, chemical and nuclear pollution are causes of local, regional and international concern. The economic hardships that have occurred during the transition to market-based economies have placed tremendous pressure on the NIS governments to pursue development policies that maximize short-term economic gains without regard to environmental conservation. Meanwhile, environmental organizations are hindered in their attempts to address these problems by inadequate access to technical information and limited knowledge of potential funding opportunities. PCVs are working to help reverse these trends by helping raise public awareness of environmental issues and concerns (especially through the school system), protect national and community parks, improve access to environmental resources, and encourage local environmental restoration projects. PCVs have conducted environmental programs, including Earth Day-related activities, throughout the region, with thousands of students and community members participating in public awareness campaigns, clean-up projects, tree-planting efforts and environmental summer camps, which also provide an opportunity to improve English language skills and learn about American culture.

Strengthening Non-Governmental Organizations: The government-provided social safety net that existed under the Soviet system, especially pension and health care programs, has collapsed and has not yet been replaced with fully functioning systems. As a result, the need for well-managed non-profit and non-governmental organizations has become more acute than ever. PCVs are supporting the development of environmental groups, local chambers of commerce, and parent-teacher associations to address needs that governments often cannot meet.

Moldova, Russia, Ukraine

In 1998, the Russian economic crisis hampered the Russian, Ukrainian and Moldovan Governments' ability to provide adequate financial support to areas such as English-language education and environmental protection. To help address these varied needs, Ukraine, Russia and Moldova have asked for Peace Corps' assistance in disseminating practical business information, building new civic institutions such as non-profit organizations, revitalizing education, and protecting the environment.

The Russian banking crisis also impacted PCVs' activities and living allowances, as well as the administrative functions of the Peace Corps' offices in the NIS. In order to insure the safety and security of PCVs, Peace Corps

staff monitored local markets on a daily basis and adjusted PCV living allowances in accordance with market fluctuations. The Peace Corps' staff set up telephoning networks up to maintain almost daily contact with its PCVs and worked with the U.S. Embassy in Moscow to ensure access to cash for its offices in Moscow and Vladivostok.

In Ukraine and Moldova, PCVs have provided recently privatized businesses and new entrepreneurs with technical advice through training seminars and one-on-one counseling. PCVs have also helped introduce local youth to basic business concepts by establishing Junior Achievement programs.

The Caucasus and Central Asia: Armenia, Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan

In Armenia and Central Asia, the transition to free-market economies has been difficult because of slow progress on privatization legislation and a lack of general business expertise among entrepreneurs. These countries are looking to the West to help strengthen their economic structures, provide training in Western management to local professionals, and improve outdated technical resources. The ability to communicate in English is also viewed as vital to the region's development. In addition, a growing public concern in the region is the degradation of the environment and its relationship to public health.

Since the Peace Corps first established programs in Armenia and Central Asia in 1991, approximately 3,000 Americans have served as PCVs in communities throughout the region. As of the end of FY 1998, more than 300 PCVs were supporting the social and economic transitions in these countries. The PCVs were connecting business leaders and community innovators to U.S. and international funding organizations, developing curriculum reforms for English teachers, and linking their counterparts with programs that bring citizens from Armenia and Central Asia to the United States for training.

Strengthening Education: Although education is a high priority for these countries, most schools have inadequate teaching staff, outdated textbooks, and limited resources to teach English. PCVs address these needs by teaching English to students and by enhancing the ability of local instructors to teach English language classes. The education-related activities of PCVs extend beyond traditional classroom teaching. PCVs in Kazakhstan, Uzbekistan, and Kyrgyzstan have introduced new teaching techniques, established libraries and resource centers for students and teachers, and have taken a leading role in local community activities through English-language radio and television programs, summer camps and theater productions.

Promoting Business Development: In Armenia, PCVs are working with Armenian entrepreneurs and other international development organizations to establish business development centers (BDCs) around the country, which will provide a nation-wide network to promote economic opportunities. At Karshi State University in Uzbekistan, PCVs have developed curricula, organized internships for university students, and developed country-specific business education materials.

Women's Health-Care Reform: PCVs are making important contributions to the economic and educational advancement of women in the region. Female PCVs serve as role models for opportunities, ideas and initiatives, and have conducted workshops to motivate young girls and encourage them to continue their education. Maternal and child health care remains a serious problem in the rural parts of Central Asia. To help respond to this need, PCVs in Turkmenistan are working in curriculum development and training to improve the skills of local medical workers.

Opportunities for Growth: The Peace Corps has increased significantly the numbers of PCVs in Armenia and Central Asia in order to strengthen its existing efforts in business development, environmental conservation and education. With a shift in health practices in some Central Asian countries from traditional curative care to prevention and education, the Central Asian countries are the focus of the main increase in PCVs and new health education initiatives for the next two to three years. PCVs will continue to work to strengthen non-governmental organizations and local community business associations and assist in the creation of networks to promote business opportunities. As the Caucasus and Central Asian countries realize that they must rely primarily on their own efforts to implement concepts of sustainable development in environmental education, management and protection, PCVs will continue to work with community groups and school students to raise public awareness and devise creative solutions to critical environmental problems. Additional resources will be used to expand the

number of PCVs to meet the increased demand for English teachers. Also in FY 1999, the Peace Corps will begin laying the groundwork for a Peace Corps program in Georgia.

PEACE CORPS SMALL PROJECT ASSISTANCE (SPA) PROGRAM

The SPA Program awards small grants in support of PCV-implemented projects that help strengthen civic organizations, small businesses, educational institutions and NGOs. In addition to the grants, technical assistance funding has also bolstered host-country skills in the areas of community development and project design and management. Since the NIS Small Project Assistance (SPA) Program began in FY 1996, over $732,000 has been expended to help build capacity at the grassroots level. In FY 1998 alone, over 100 SPA grants totaling over $326,000 were made in the eight participating countries.

SPA Expenditures by Country

	FY 1998 SPA Grant Expenditures	FY 1998 Total SPA Expenditures[1]	FY 1996-98 Cumulative Expenditures
Armenia	$36,212	$36,212	$76,826
Kazakhstan	$40,000	$47,462	$75,978
Kyrgyzstan	$5,656	$7,856	$15,869
Moldova	$35,000	$39,600	$70,193
Russia-Moscow	$57,989	$57,989	$118,526
Russia-Far East	$39,821	$45,403	$82,002
Turkmenistan	$23,425	$25,325	$89,050
Ukraine	$77,190	$77,190	$179,971
Uzbekistan	$11,105	$14,770	$24,190
TOTALS	**$326,398**	**$351,807**	**$732,605**

[1]Total includes SPA grant funds, as well as funding for technical assistance.

Summary of SPA Grants

As in the past, the majority of SPA-funded activities in the NIS region were in the area of education in FY 1998. With SPA support, many schools, NGOs and communities are enhancing their educational resource centers by upgrading libraries and learning laboratories to include computer and audio-visual equipment. SPA-funded computer equipment is providing Internet access, allowing students and teachers to acquire new instructional materials and to network with other learning institutions at both the national and international level. SPA resources also strengthen educational opportunities by supporting construction and renovation of schools and community resource centers. In addition to supporting education, PCVs also used SPA funds to improve health and sanitation, strengthen NGOs, foster environmental education, and contribute to youth development and girls education. Summaries of FY 1998 SPA grants by country are provided below:

Armenia: 16 grants were awarded in the following areas: education (11), agriculture (1), environmental education (1), business development (1), water/sanitation (1), and health care (1).

Kazakhstan: 16 grants were awarded to support the development of educational and entrepreneurial resource centers, environmental education programs, and summer youth camps.

Moldova: 10 grants were awarded in the areas of education and youth development (3), agriculture (1), environment (1), health (1), women in development (1), NGO support (1) and business development (2).

Western Russia: 37 grants were awarded in education (31), environment (1), NGO support (3), and youth development (2).

Russian Far East: 18 grants were awarded in the areas of education and resource center development (10), girls education (1), environment (2), health care (1), and youth development (4).

Turkmenistan: 4 grants were awarded to support the development of educational resource centers and summer camps.

Uzbekistan: 6 grants were awarded in education (5) and business development (1).

U.S. SUPPORT FOR INTERNATIONAL FINANCIAL INSTITUTIONS

In addition to bilateral assistance from the United States and other donors, the NIS countries continued to draw upon the support of international financial institutions (IFIs) in FY 1998. The three international financial institutions most active in the region—the International Monetary Fund (IMF), the World Bank and the European Bank for Reconstruction and Development (EBRD)—have played a key role in the response to the financial crisis which began in Russia in August 1998. Until the crisis, 1998 GDP growth was expected to average six percent in the region, with average inflation rates in the single digits. The crisis is threatening these gains, and support for reform policies throughout the region is at risk.

The International Monetary Fund (IMF)

In the years following the dissolution of the Soviet Union, most NIS countries successfully stabilized their economies with the help of short-term financial assistance and policy advice from the IMF. IMF resources have encouraged NIS countries to undertake needed structural reforms, reduce inflation, avoid balance-of-payments problems, and lay the foundations for economic growth. In order to receive IMF financial support, the NIS countries have agreed to implement economic reform programs. Disbursed in tranches, IMF loans are conditional on the observance of reform-oriented economic criteria. In addition to financial assistance, the IMF administers an extensive technical assistance program in the NIS. The IMF also works closely to coordinate its programs with those of other international financial institutions such as the World Bank and European Bank for Reconstruction and Development (EBRD).

Since its *de facto* default on government-issued securities in August 1998, the Russian Government has been unable to meet of the financial targets in its 1998 IMF-supported economic program. The IMF, World Bank and EBRD continue to work with the Russian Government to help it put together an appropriate economic program to deal with the crisis. Russia's continuing inability to stabilize its financial situation has had a profound impact on other economies in the region. Russia's neighbors have experienced downward pressure on commodity prices, reduced exports to Russia, weakened financial institutions, and other contagion effects including an increase in the cost of capital to both governments and private borrowers. The IFIs have responded with additional program, advice and assistance to other FSU countries affected by the crisis.

European Bank for Reconstruction and Development (EBRD)

The EBRD was formally established in March 1991 to support market-oriented economic reform and democratic pluralism in Central and Eastern Europe, including the NIS. All 12 NIS countries are EBRD members. The EBRD is unique among multilateral development banks in its private-sector focus and inclusion of political conditionality, which requires beneficiaries to be committed to democracy and the rule of law. According to its charter, the EBRD is required to devote 60 percent of its total resources to private-sector projects within five years of Bank start-up. As of December 31, 1997, 76 percent of the EBRD's loans were made to the private sector.

Russia's financial crisis has had a profound impact on the EBRD's bottom line. As of September 30, 1998, the EBRD had made total provisions of ECU 326.4 million* against loans, mainly in Russia. Operating profits before provisions were ECU 183.7 million, yielding a net loss of ECU 142.7 million at the end of September 1998. The EBRD will continue to be guided by its operations priorities, which were reaffirmed by its Governors at the 1998 Annual Meeting: (1) supporting the transition process, and (2) working in all countries of operations. The EBRD's new president, Horst Koehler, has publicly stated that the EBRD will continue to work in Russia, despite the country's continuing economic crisis.

Through the end of December 1997, the EBRD's total cumulative commitments were ECU 10.2 billion. Of these, ECU 4.3 billion were to NIS countries, with Russia as the largest borrower. Russia's total cumulative commitments at the end of 1997 were ECU 2.6 billion. This figure does not include ECU 4.0 billion in regional projects, a number of which benefit the NIS as well.

CUMULATIVE EBRD BOARD APPROVALS TO NIS
THROUGH DECEMBER 31, 1997
(millions of ECU*)

	VALUE	NUMBER
Armenia	86	3
Azerbaijan	111	5
Belarus	155	6
Georgia	68	7
Kazakhstan	212	3
Kyrgyzstan	126	8
Moldova	138	9
Russia	2556	78
Tajikistan	9	2
Turkmenistan	132	4
Ukraine	508	19
Uzbekistan	382	11
Total	**4,483**	**155**

* As of December 31, 1997, one ECU equaled approximately $1.04. Totals for individual countries reflect cancellations of previously approved projects and exchange rate variations. They represent approvals by the Board, not actual signed commitments or disbursements, which are lower.

U.S. CONTRIBUTIONS TO THE EBRD

FY 1991	$70 million
FY 1992	$69 million
FY 1993	$60 million
FY 1994	$0
FY 1995	$69 million
FY 1996	$70 million
FY 1997	$12 million
FY 1998	$36 million
TOTAL	**$386 million**

The United States has a 10-percent share in the EBRD and is its largest single shareholder. U.S. contributions to the EBRD for its initial capital contribution were to be paid in five annual installments of $70 million each. Except for FY 1991, appropriations fell short of the $70 million, leaving the United States with arrears of more than $80 million after the five-year period. These arrears were fully cleared in FY 1997.

In early 1996, the EBRD Board of Governors approved a doubling of the EBRD's total capital (paid-in plus callable) from ECU 10 billion to ECU 20 billion. This increase should put the Bank on a self-sustaining basis, with no future capital increases envisioned. In FY 1998, the United States began payments for the capital increase at a rate of approximately $36 million per year over eight years.

International Bank for Reconstruction and Development (IBRD)
International Development Association (IDA)

The IBRD and IDA, which are part of the World Bank Group, provide project and adjustment lending (balance-of-payments support based on policy reform) to developing countries. Poverty reduction and sustainable development are the central objectives of the IBRD's activities. The IBRD lends at near-commercial rates, while IDA provides credits to the poorest countries at highly concessional rates. Based on relative poverty and creditworthiness criteria, Tajikistan is eligible to borrow only on IDA terms; while Armenia, Azerbaijan, Georgia, Kyrgyzstan and Moldova are eligible for both IDA and IBRD terms. The other NIS countries are eligible only for IBRD terms.

During the World Bank's FY 1998 (July 1, 1997 through June 30, 1998), the IBRD and IDA approved $3 billion in loans to the NIS. Russia's August 1998 default on government-issued securities will have a significant impact on FY 1999 IBRD and IDA lending throughout the NIS. The Bank considers implementation of economic reforms to be more important than ever, and will continue to provide support to countries actively pursuing reform programs.

IBRD AND IDA COMMITMENTS
(in millions of dollars)

Country	Cumulative Total (through 6/98)	FY 1998 IDA	FY 1998 IBRD
Armenia	414.7	134.5	0.0
Azerbaijan	289.7	90.0	0.0
Belarus	170.2	0.0	0.0
Georgia	373.0	110.4	0.0
Kazakhstan	1,503.6	0.0	545.0
Kyrgyzstan	438.5	65.0	0.0
Moldova	163.7	70.9	0.0
Russia	9,791.5	0.0	1,628.6
Tajikistan	86.9	19.9	0.0
Turkmenistan	89.5	0.0	0.0
Ukraine	2,221.8	0.0	216.4
Uzbekistan	379.0	0.0	127.0
TOTAL	**15,922.1**	**490.7**	**2,517.0**

U.S.-ISRAEL COOPERATIVE DEVELOPMENT RESEARCH (CDR) PROGRAM

The USAID-funded U.S.-Israel Cooperative Development Research (CDR) Program was established in 1985 to support joint applied research projects involving Israeli scientists and their counterparts in developing countries, allowing them to work on significant problems facing developing countries. In 1992, a special initiative (CDR/CAR) extended the program to Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan and Georgia. This initiative is focused on research in arid-land agriculture—an area of Israeli strength and particular need in Central Asia—and includes projects in water management and environmental protection, as well as agronomy and livestock management.

The CDR/CAR Program has the following six objectives: 1) to help maintain the scientific communities in Central Asia and Georgia, 2) to provide financial and technical support for research directed towards the basic needs of the region's inhabitants, 3) to expose the NIS scientific community to the Western-style system of competitive institutional grants, 4) to utilize Israeli expertise and practical scientific methods, primarily in the management of science and technology in improving agriculture, 5) to establish multiple independent links between the people of this historically Muslim region and Israel, and 6) to link the formerly isolated scientific community of the region with the world scientific community. Like the rest of the CDR Program, CDR/CAR does not stress the economic development of Israel; rather, it emphasizes areas in which Israeli research interests and expertise are particularly valuable to the participating countries.

Since 1993, the CDR/CAR Program has awarded nearly 60 research grants of up to $150,000 each, not including the considerable matching funds provided by Israeli research institutions. Projects were chosen from proposals jointly authored by Israeli and host-county scientists, and selections were made by USAID on the advice of peer review panels composed of U.S. scientists. American scientists are eligible to participate in CDR/CAR projects as funded third partners.

The CDR/CAR Program reported a number of technical achievements in FY 1998, including the demonstration of sustained tomato production without pesticides by using a biological control agent, diagnosis through PCR of important bacterial fish pathogens to prevent dissemination of diseases in fish farms, the delineation of recharge and pollution sources of groundwater for a safer and better-managed water system, successful use of polyacrylamide in improving water infiltration and controlling rill and furrow erosion to improve yields, development of a method for obtaining virus-free potato plantlets for propagation, identification of a method for the photo-catalytic degradation of key synthetic organic pollutants, the development of a brucellosis control program through animal vaccination, the simulation of groundwater balance in the Chu River Basin for better groundwater management, the development of biological and chemical systems for control of field dodder (a serious plant pest), engineering resistance to Potato Virus Y in tomato and potato plants, improvement of sheep production, and the protection of post-harvest grain against insect pests using B.t. bacterial strains.

In addition to these important technical discoveries, the CDR/CAR Program continued to provide valuable links to the otherwise-isolated scientific communities in Central Asia and Georgia by funding research equipment, international travel, periodicals, and access to electronic mail. The training of students from the region, both in their home countries and in Israel, is a key component of nearly every CDR grant. The program has also provided many participating institutions with their first exposure to competitive, Western-style research grants, and as a side benefit, creating an impetus for banks in the region to establish accounts and transfer procedures more consistent with modern practices.

U.S.-ISRAEL COOPERATIVE DEVELOPMENT PROGRAM (CDP)

The USAID-supported U.S.-Israel Cooperative Development Program (CDP) was established in 1988 to fund the delivery of Israeli technical assistance and training to address a broad range of developing-country assistance requirements for which Israeli expertise is particularly well-suited. In 1992, a special initiative extended CDP program operations to Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, and to Georgia in 1993.

The CDP funds assistance projects jointly programmed by the Government of Israel through MASHAV (the development assistance unit of the Israeli Ministry of Foreign Affairs) and USAID. The program is implemented by MASHAV as part of its own foreign assistance portfolio. Given Israel's expertise and experience, the principal focus of the program is agriculture and related areas, with an emphasis on soil and water management, intensive livestock husbandry and vegetable production, irrigation systems management, and farm management. The program has been implemented primarily through training courses, consulting, and demonstration farms. More recently, the CDP has emphasized agricultural economics and the development of sustainable private sector enterprises. The total FY 1998 budget for CDP activities in Central Asia and Georgia was approximately $2.2 million, with USAID contributing two thirds and MASHAV contributing one third of the total.

In FY 1998, a total of 115 USAID-funded trainees attended seven agricultural production courses in Israel. In addition, five in-country agricultural training courses were held throughout the region. A total of 18 short-term consultants provided advice in the areas of agriculture (veterinary practices, milk production, agricultural economics, fish production), health (Hepatitis B, mother/child care, health surveying), and municipal administration. In addition, eight USAID-supported agricultural experts served long-term assignments on demonstration farms.

The CDP's emphasis on dairy production continued in FY 1998. Accomplishment included the adoption by local farmers of CDP demonstration farm practices, such as improved dairy cow diets using locally available inputs, emphasis on high-value products with local demand such as cheeses and yogurts, and privately owned dairy

processing units serving groups of independent individual farmers, as an alternative to sole reliance upon state-run enterprises.

In keeping with the program's increased emphasis on privatization and the economic feasibility of agricultural practices and technologies, the CDP opened three agribusiness centers in the region in FY 1998 (in Kazakhstan, Kyrgyzstan and Georgia) staffed with local professional coordinators to assist private farmers with their business plans and to provide them with information on markets and technologies.

PROGRAM FOR RESEARCH AND TRAINING ON EASTERN EUROPE AND THE NIS (TITLE VIII)

In 1983, the U.S. Congress passed the Research and Training for Eastern Europe and the Independent States of the Former Soviet Union Act (Title VIII), which was designed to reverse the decline in the number of U.S. experts on these regions by providing stable, long-term financing on a national level for advanced research; graduate area studies and language training (both U.S.-based and in-country); public dissemination of research data, methods and findings; and contact and collaboration among governmental and non-governmental specialists.

The Title VIII Program operates under the guidance of an advisory committee chaired by the Department of State and consisting of representatives of the Secretaries of Defense and Education, the Librarian of Congress, and the presidents of the American Association for the Advancement of Slavic Studies (AAASS) and the Association of American Universities. Under the program's two-stage award process, the Department of State conducts an annual open competition among national organizations with interest and expertise in administering research and training programs in the NIS and Central European fields.

The following is a list of FY 1998 Title VIII grant recipients for NIS-related projects, including the amounts and purposes of their awards:

American Councils on International Education/ American Councils of Teachers of Russian (ACIE/ACTR)

- Grant: $371,830 ($300,000 NIS; $71,830 Eastern Europe)
- Purpose: To support 64 graduate students, post-doctoral fellows and junior faculty members in Russian, Eurasian or Central European studies for advanced on-site language training and research;

Institute of International Education (IIE)

- Grant: $120,000 ($60,000 NIS; $60,000 Eastern Europe)
- Purpose: To support 15 Professional Development Fellowships for young professionals in fields related to public service and civil policy in the NIS and Eastern Europe;

International Research and Exchanges Board (IREX)

- Grant: $925,000 ($600,000 NIS; $325,000 Eastern Europe)
- Purpose: To support individual advanced research opportunities, short-term travel grants, grants for special projects in library and information services, and policy forums;

National Academy of Sciences (NAS)

- Grant: $195,000 ($98,000 NIS; $97,000 Eastern Europe)

- Purpose: To support four Young Investigator programs and 20 grants for a program on governance in post-communist societies, focusing on science and democratization, organized crime, terrorism and weapons of mass destruction;

National Council for Eurasian and East European Research

- Grant: $1,273,800 ($900,000 NIS; $373,800 Eastern Europe)

- Purpose: To support the Research Contract and Fellowship Grant Programs, as well as Policy Research Fellowships for junior postdoctoral scholars;

Social Science Research Council

- Grant: $770,000 ($750,000 NIS; $20,000 Eastern Europe)

- Purpose: To support a national fellowship program for dissertation completion and post-doctoral research, and a competition for grants to U.S. institutions offering intensive training in NIS languages;

University of Illinois at Urbana - Champaign

- Grant: $126,519 ($95,000 NIS; $31,519 Eastern Europe)

- Purpose: To provide support for the University's Summer Research Laboratory and the Slavic Reference Service.

Woodrow Wilson Center for International Scholars

- Grant: $742,851 ($480,000 NIS; $262,851 Eastern Europe)

- Purpose: To support research scholarships, short-term grants, research fellowships and internships, meetings and outreach publications of the Kennan Institute for Advanced Russian Studies and the East European Studies Program.

NATIONAL SCIENCE FOUNDATION (NSF) - EASTERN EUROPE PROGRAM

NSF's Eastern Europe Program supports cooperative research projects and workshops with the NIS through grants awarded to U.S. scientists and engineers in all fields supported by NSF (science, engineering, mathematics and education). The grants include support for travel, lodging and per diem, and modest infrastructure supplements for the NIS partners. Approximately 98 percent of this support is for cooperation with Russia, with the remaining two percent for cooperation with other NIS countries.

The goals of the Eastern Europe Program are as follows: (1) to closely integrate program activities with the research priorities of the NSF's disciplinary divisions; (2) to invest boldly in innovative, unique and sometimes high-risk new projects with a potential for significant benefits to the U.S. research community; (3) to provide access for U.S. researchers to broad geographic and natural resources as well as technical strengths and

facilities in the region; (4) to use diverse funding mechanisms to maximize program effectiveness; and, (5) to promote the establishment in partner countries of merit-based mechanisms and institutions to support basic research and to encourage shared funding of cooperative research projects with NSF.

Priorities and Challenges: In FY 1998, the program's research priorities were the support of research in "cutting-edge" fields (in which cooperative opportunities continue to evolve), advanced materials (a demonstrated areas of expertise in the region), computer science and information technologies, environmental science, studies capitalizing on the current regional transformation (including transitions to democracy and market economies), and education research (to examine reasons for the disparity in U.S. and NIS middle school performance in math and science).

The program faces two special challenges:

- ensuring continued access to unique research sites, collections, data and facilities. Researchers may require transportation to remote sites, waivers of unreasonable fees for access, or special clearances. These were largely obtained, although some U.S. researchers in Russia's Arctic and Far East experienced difficulties; and

- increasing cost-sharing and leveraging funds to support cooperative research projects. Sharp cuts in science funding within the region have affected support for basic research. The program is exploring ways to leverage funds from other sources (within NSF and other U.S. Government agencies) and is encouraging its foreign partners to do so in their own countries. NSF has a particularly successful partnership with the Russian Foundation for Basic Research, which shares costs for joint projects in Arctic research and for the participation of junior researchers and students in cooperative projects.

In FY 1999, NSF will continue to support cooperative research projects and workshops, emphasizing cutting-edge fields, access to geographic sites and databases, and premier research institutions throughout the NIS. Special attention will be focused on cooperation with NIS countries other than Russia that offer special expertise or opportunities to U.S. researchers.

Program Accomplishments: In FY 1998, the NSF's Eastern Europe Program supported approximately 80 new collaborative research projects and workshops with the NIS. To date, it is estimated that approximately 400 researchers have participated in the program's awards, including those administered by the National Academy of Sciences. Of these, approximately 150 were junior researchers and students. Recent examples of cooperative projects include the following: robotics in construction and environmental restoration (Russia), adaptive sonar sensing for robotics (Ukraine), volcanoes and earthquakes on the Kamchatka Peninsula (Russia), design of new magnetic materials (Russia), the role of elections in democratic transformation (Russia), geodynamics of mountain building in the Tian Shan Mountain Range (Kyrgyzstan, Kazakhstan), and digital libraries (Russia).

NSF has funded a series of activities in the NIS through the American Association for the Advancement of Science (AAAS) designed to bolster proposal writing and grant management skills among NIS researchers, and to strengthen links between U.S. and NIS professional societies. In FY 1998-99, AAAS activities include proposal writing workshops in Yerevan and Novosibirsk, a grant management workshop in Yerevan, work by NIS fellows with AAAS professional societies, and travel grants for NIS women scientists.

NSF plays a leading role in the Science and Technology (S&T) Committee of the U.S.-Russian Joint Commission on Economic and Technological Cooperation. The Director of the NSF has served as the vice chair of the S&T Committee. NSF staff work closely with the Office of Science and Technology Policy (OSTP) to set the Committee's agenda. Cooperation has developed with the Russian Ministry of Science and Technologies in high-performance computing, digital libraries and networking. Other NSF programs carried out under the auspices of the Committee include the Baikal Drilling Program and the Observational Seismology Program. Arctic research has also been added to the S&T Committee's agenda.

NSF's Eastern Europe Program also works in tandem with the U.S. Civilian Research and Development Foundation (CRDF). Over the past two years, this partnership has implemented a new program for U.S. and Russian postdoctoral researchers and students which enables them to participate in current CRDF-funded

projects. The program is supported by NSF and the Russian Foundation for Basic Research (RFBR) under the framework of an NSF-RFBR memorandum of understanding signed in 1997.

The Eastern Europe Program's special arrangement with the Office of Central Europe and Eurasia (OCEE) at the National Academy of Sciences (NAS) has been successful in promoting research partnerships with the NIS countries. This is done through short-term project development visits, fellowships and "twinning programs" designed to develop partnerships with countries that are underrepresented in NSF awards. Current twinning programs are focusing on Georgia and Ukraine.

IV. ASSESSMENTS OF PROGRESS IN MEETING THE STANDARDS OF SECTION 498A OF THE FOREIGN ASSISTANCE ACT OF 1961

CRITERIA FOR U.S. ASSISTANCE UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

ARMENIA

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

The Armenian Government's proclaimed aim is to build a parliamentary democracy as the basis of its form of government. However, progress toward democracy and the rule of law remains slow and incremental. The Armenian constitution was adopted by referendum in July 1995, coincident with the election of a transitional 190-member legislature. The Parliamentary elections and Constitutional referendum were called "generally free but not fair" by international observers, who cited polling deficiencies, lack of cooperation by the Electoral Commission and failure to register some opposition parties and candidates. However, observers also noted that several opposition parties and candidates were able to mount credible campaigns and proper polling procedures were generally followed. Current President Robert Kocharian took office in April 1998, after elections that the OSCE characterized as falling short of the OSCE standards to which Armenia has committed itself. Armenia's previous presidential election in 1996 also fell short of the OSCE standards. Among the irregularities noted in 1998 were ballot box stuffing, discrepancies in the vote count, and the presence of unauthorized persons at polling stations. Parliamentary elections tentatively are scheduled for the spring of 1999.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

Privatization in the agriculture and housing sectors has been extensive, with 94 percent of arable land privatized and about 70 percent of the formerly state-owned housing stock privately owned. Privatization of businesses is proceeding at a slower pace, but has received aggressive support from the Kocharian administration. The current government has successfully initiated a program to privatize the largest state enterprises, despite considerable opposition in parliament.

Armenia is working to establish legal and institutional frameworks that will facilitate further economic development and foster an environment attractive to foreign investment. A liberal foreign investment law was approved in 1994. Armenia has concluded a trade agreement (which enables it to receive MFN status and incorporates intellectual property rights provisions), an OPIC agreement, and a bilateral investment treaty with the United States. Armenia is laying the legislative and administrative foundations for an early entry into the WTO. Armenia has also expressed interest in negotiating a tax treaty, and is receiving U.S. technical assistance in revising its tax structure. Armenia has joined the International Monetary Fund and the International Bank for Reconstruction and Development.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The Armenian constitution, adopted in 1995, contains broad human rights protections, but implementation has been inconsistent. The constitution grants national minorities the right to preserve their cultural traditions and languages, and current law specifically provides linguistic minorities the right to publish and study in their native tongues. Armenia has ratified important international human rights treaties and shown a willingness to engage in international and bilateral discussions regarding human rights. Continuing concerns are warranted regarding the independence of the judiciary, the functioning of the legal system, and police treatment of detainees. The beating of pretrial detainees remains a routine part of criminal investigations. New legal and judicial codes, designed to comply with most international human rights norms, were enacted in mid-1998 and are scheduled to take effect in January 1999. The constitution provides for the right to practice the religion of one's choice, but current laws grant special status to the Armenian Apostolic Church. Only the Armenian Apostolic Church may proselytize. All religious denominations and organizations must register with the state Council on Religious Affairs, and funding from sources outside Armenia is prohibited for non-apostolic faiths. The Religious Council does not allow Jehovah's Witnesses to register as a religious denomination, claiming that illegal proselytism is integral to their activities. As of September 1998, seven Jehovah's Witnesses were in jail for refusal to serve in the military,

and another 20 were in hiding. The constitution provides for freedom of the press, but the government exercises some restrictions on the media. Official censorship is not practiced, but journalists commonly engage in self-censorship to avoid problems with authorities. The climate of media freedom is improving. There were no restrictions on the media during the 1998 presidential election. Non-governmental media often criticize the country's leaders and government policies. Independent local newspapers and radio and television stations are increasing in number. Public demonstrations usually take place without government interference. To redress human rights abuses, President Kocharian created a Human Rights Commission in April 1998 and appointed Soviet era dissident Pyrair Hairikian to head it. Shortly after assuming office, Kocharian also lifted a 1994 ban on the Armenian Revolutionary Federation (Dashnak) party and effected the release from prison of several Dashnak leaders. The government does not restrict internal or international travel, although men of military age face bureaucratic obstacles to foreign travel or emigration.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Armenia has failed to observe international law and obligations, as well as OSCE commitments, in this respect as a result of the continuing conflict over Nagorno-Karabakh. Because of the conflict, Armenian military forces occupy some areas of the territory of Azerbaijan. The Government of Armenia continues to observe the cease-fire that has been in effect since May 1994, and participates actively as a party within the OSCE Minsk Process, an initiative aimed at resolving the conflict over Nagorno-Karabakh.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The OSCE created the Minsk Group in spring 1992 as the forum for a peaceful, negotiated resolution to the conflict over Nagorno-Karabakh. The Government of Armenia continues its participation in the OSCE peace process. Direct dialogue between the Armenian and Azerbaijani Governments was suspended in late 1996 and has not yet been reestablished. The Minsk Group process, however, continues to hold the promise of achieving an agreed resolution.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

The CFE Treaty was ratified by the Armenian Parliament in July 1992. Armenia has provided data on armaments as required by the CFE Treaty, and has hosted on-site inspection teams to verify its reports. Nevertheless, to date, Armenia's fulfillment of its CFE obligations has been uneven. Based upon its declared receipt of Treaty-limited equipment (TLE) from the Soviet Union, Armenia has improperly notified a reduction liability of zero, when the proper liability should be 159 armored combat vehicles (ACVs). Although it has notified an improper reduction liability, Armenia did conduct one notified reduction event for 18 ACVs. In addition, Armenia has claimed combat losses on its border with Azerbaijan of 76 ACVs and notified the transfer of another 67 ACVs from its conventional armed forces to internal security forces. However, neither battle losses nor transfers to internal security forces are recognized in the Treaty as a legitimate means to meet a reduction liability. In addition to the reduction concerns, the Armenian data submissions as of 17 November 1995 and 1 January 1996 show Armenian holdings in armored infantry combat vehicles to exceed its declared limits by 33. At the CFE Review Conference in May 1996, Armenia signed the CFE Flank Agreement and committed to be in compliance with all limitations not later than May 31, 1999. We are also concerned by reports of Armenian support for the transfer of former Soviet TLE to separatist forces in Nagorno-Karabakh. At the December 1996 Lisbon summit, Armenia agreed to a three-step process to address this issue.

Armenia acceded to the Nuclear Non-Proliferation Treaty (NPT) as a non-nuclear-weapons state on July 15, 1993. The United States and other Western governments have discussed efforts to establish effective export control systems with Armenia. Armenia is a state party to the Chemical Weapons Convention (CWC) and the Biological Weapons Convention (BWC), which seek to eliminate chemical and biological weapons, respectively.

We have received occasional reports of transfers potentially related to proliferation of weapons of mass destruction involving Armenia, which we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of these reports has resulted in a sanctions determination during the reporting period. Armenia is in the process of establishing a WMD-related export control system derived from international standards and has cooperated with the U.S. and others toward this goal.

Armenia is not a significant exporter of conventional weapons, but it has provided substantial support, including materiel, to separatists in the Nagorno-Karabakh region of Azerbaijan.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Armenia faces serious environmental problems. Water pollution caused by industrial wastes discharged into rivers has contributed to a serious decline in public health. Armenia's major freshwater source, Lake Sevan, has a declining water level due to hydroelectric generation. Overuse of the country's forests and poor irrigation and water management practices have led to increased soil erosion and loss of arable land. The Government of Armenia, however, has taken some steps to establish public policy mechanisms to address environmental issues, including the establishment of a Ministry of Environment. Environment action plans are being developed with the assistance of the World Bank. National environmental NGOs are gaining access to the policy-making process on environmental issues. Armenia has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information-sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Armenia does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Armenia is a party to the 1973 Convention on the Prevention and Punishment of Crimes Against Internationally Protected Persons and the 1979 Convention on the Physical Protection of Nuclear Materials.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In September 1993, Armenia signed an agreement with Russia transferring Armenia's share of the former Soviet Union's debt to Russia in exchange for its share of FSU assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S. - Russia Joint Commission on POWs/MIAs that was established in March 1992. The U.S. side of the Commission visited Armenia in August 1993 to expand contacts with Armenian officials and to visit the crash site of a C-130 that was shot down over Armenia in 1958. The delegation received much support from the people and officials of Armenia, who cooperated during the investigation.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Armenia is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

ARMENIA

Section 498A(b)(1): Has the President determined that the Government of Armenia has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. While there have been some serious shortcomings in human rights observance (as discussed above), we do not believe that the Government of Armenia is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Armenia "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Armenia has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Armenia "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We periodically receive reports potentially related to Armenian transfers of material, equipment or technology that could contribute to the ability of countries to manufacture weapons of mass destruction. We carefully review these reports in light of our legal obligations under the various proliferation sanctions laws. None of these reports has resulted in a sanctions determination during the reporting period.

Section 498A(b)(4): Is the Government of Armenia "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. We do not have information from which to conclude that the Government of Armenia is prohibited from receiving assistance under these sections.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Armenia "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Armenia under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

Armenia is not providing assistance for, or engaging in non-market-based trade with, the Cuban Government.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

AZERBAIJAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Azerbaijan made some progress in 1998 toward creation of a democratic system of government but significant problems remain. The president's party continues to dominate the government and the multi-party, 125-member parliament. Judges do not function independently of the executive branch. In regard to the October 1998 presidential election, there were improvements over the 1993 and 1995 elections in Azerbaijan, including changes to the presidential election law. Domestic as well as international monitors observed the election process. Nonetheless, international observers found that the overall process, including irregularities in the ballot count fell short of international standards. An active and independent media exists and press censorship was officially abolished in 1998, but periodic government harassment continues. An active political opposition also exists, and there are over 30 political parties registered, although the government declined to register several other parties.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The conflict in Nagorno-Karabakh has had a negative impact on the economy and complicated economic policy decision-making. However, the government has taken some positive steps on structural economic reform, including strict monetary and budgetary policies enacted in 1995, the restrictive budget passed by the parliament in 1996, and the elimination of consumer subsidies on gasoline and bread. The government has also taken steps toward privatization. In 1996, the parliament passed a land law allowing private ownership of land. In 1997 it began the long-awaited mass privatization program.

Azerbaijan has joined the IMF, EBRD, and IBRD, and it concluded an OPIC agreement, an Eximbank Project Incentive Agreement, a bilateral trade agreement and bilateral investment treaty with the United States (the bilateral investment treaty is not yet in force). Azerbaijan has MFN status.

The IMF approved a $46 million Systemic Transformation Facility loan in April 1995 and followed with a $92 million one-year Standby Agreement (SBA) in November 1995 to consolidate stabilization and accelerate structural reforms. The IMF approved a three-year $211 million program to strengthen structural reforms necessary for sustained economic growth. Macroeconomic performance is meeting program targets. Progress on structural reforms, while initially slower than expected, has begun to accelerate.

Section 498A(a)(3): "respect for internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

While believers of other traditional faiths practice their religions without restrictions or sanctions, Armenian churches in Azerbaijan remain closed. In 1996, the parliament passed a law that prohibits religious proselytizing by foreigners. The government also denied registration to a foreign Christian group, but has allowed it to continue to function. Non-Orthodox Christian groups have complained of harassment.

The government respects the right of freedom of emigration. The remaining Armenian population in Azerbaijan is approximately 10-20,000, mostly people of mixed descent or involved in mixed marriages. There is no government policy of discrimination against Armenians, who are free to travel. There are strong anti-Armenian feelings among the general population. In addition, low-level officials seeking bribes often harass members of minorities wishing to emigrate.

Police often detain and arrest persons without charges, and often beat suspects. There are approximately 100 people under arrest for politically motivated charges. The government suspended the death penalty in 1998.

Opposition political parties staged a number of demonstrations during and after the elections. Most were peaceful, but several resulted in violence. In November, the government banned three demonstrations, and the parliament passed a new law regulating public assemblies.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Azerbaijan has reiterated its commitment to the observance of international legal obligations and OSCE commitments in the area of human rights. It has also reiterated its commitment to seek a peaceful resolution of the Nagorno-Karabakh conflict. At the same time, the Nagorno-Karabakh conflict continues, and both sides have committed violations of international humanitarian laws. The parties to the conflict continue to observe a cease-fire that has been in effect since May 1994. In 1998, the OSCE Minsk Group co-chairs' renewed efforts to obtain the parties' agreement on a set of principles to serve as the basis for further negotiations toward a resolution of the conflict.

In 1998, the parties also continued to release persons being held in connection with the Nagorno-Karabakh conflict; others remained in detention. The ICRC continues its efforts to visit and obtain the release of those held in connection with the conflict.

In 1998, with the agreement of the Azerbaijani and Armenian Governments, the U.S. Government funded a humanitarian needs assessment of Azerbaijan, including Nagorno-Karabakh.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The OSCE created the Minsk Group in spring 1992 as the forum for a peaceful, negotiated resolution to the conflict over Nagorno-Karabakh. The Government of Azerbaijan participates fully in the OSCE peace process. In 1998, the OSCE Minsk Group co-chairs renewed efforts to obtain the parties' agreement on a set of principles to serve as the basis for further negotiations toward a resolution of the conflict.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

Azerbaijan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Azerbaijani actions to support this commitment include ratification of the Nuclear Non-Proliferation Treaty. Azerbaijan was one of the original signatories of the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction, but has not yet ratified the Convention. Azerbaijan has not signed the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxic Weapons and on Their Destruction.

The Azerbaijani Government ratified the Conventional Forces in Europe (CFE) Treaty in July 1992, but its fulfillment of Treaty obligations has been uneven. Although generally implementing the Treaty's notification and inspection provisions, Azerbaijan failed to follow Treaty procedures in declaring a proper reduction liability or reducing its Treaty-limited equipment (TLE) down to its maximum permitted levels.

Azerbaijan has submitted Confidence and Security Building Measures (CSBM) annual data declaration for 1997 and has willingly undergone CSBM inspections in accordance with the Vienna Document 1994.

We do not believe that Azerbaijan has engaged in the proliferation of nuclear, chemical, or biological weapons, their delivery systems, or related technology. Azerbaijan has made progress in establishing a system of nonproliferation export controls and has taken steps to thwart transit of controlled items to countries of concern. Azerbaijan is not a significant exporter of conventional weapons.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Oil development, air and water pollution, and urban/industrial pressure on the land have created serious challenges. Deterioration and erosion of soil and salination of agricultural lands contribute to extensive soil loss, as does the heavy use of fertilizers and pesticides.

Poor air and water quality contributes to increasing public health risks. The rising level of the Caspian Sea and the prospective development of the Caspian for oil and other resources will bring new, serious environmental challenges.

New laws passed to address environmental problems and use of natural resources are based on laws in effect in the West. Funding is problematical and inadequate to meet the breadth of problems that exist. The National Environment Committee

seeks to use the schools, information organizations, and the media to educate the populace. Green organizations and a Green party push environmental issues. Efforts to overcome the environmental obstacles in Azerbaijan will benefit from resolution of the Nagorno-Karabakh conflict and the resultant redirection of resources to the task.

The United States, the European Union and four host nations (Russia, Ukraine, Moldova and Georgia) are participating in the establishment of independent, non-profit, and non-political Regional Environmental Centers (RECs.) The mission of each REC will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Azerbaijan does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. It has taken an active role in the fight against terrorism. Azerbaijan is not a party to any of the eleven international counter-terrorism conventions.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. All of the non-Russian NIS have signed protocols with Russia under which Russia either will pay the debt in return for the assets or will take on management responsibility.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs, which was established in March 1992. The Commission met with Azerbaijani officials in June 1996, and the Azerbaijani Government pledged its cooperation with the Commission's efforts.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Azerbaijan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

AZERBAIJAN

Section 498A(b)(1): Has the President determined that the Government of Azerbaijan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. While there have been serious shortcomings in human rights observance, we do not believe that the Government of Azerbaijan is engaged in a pattern of gross violations of human rights or of international law.

Section 498A(b)(2): Has the President determined that the Government of Azerbaijan "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Azerbaijan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Azerbaijan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No such determinations were made with respect to Azerbaijan in 1998.

Section 498A(b)(4): Is the Government of Azerbaijan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Azerbaijan "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Azerbaijan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

Azerbaijan is not providing assistance for, or engaging in non-market-based trade with, the Cuban Government.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

BELARUS

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Belarus failed in 1998 to make progress toward developing a democratic, rule-of-law based system. Since his election as President in 1994, Aleksandr Lukashenko has steadily concentrated power in his hands. In November 1996, Lukashenko engineered a “referendum” to amend the constitution. The Belarusian Constitutional Court ruled the referendum unconstitutional. The flawed and undemocratic political process surrounding it was publicly condemned by the United States, the European Union, the Troika of the Organization on Security and Cooperation in Europe (OSCE), and the Parliamentary Assembly of the Council of Europe. After the referendum, President Lukashenko replaced the sitting parliament with a handpicked bicameral legislature, which is based on the revised constitution and is not recognized by the United States, the European Union, OSCE or the Council of Europe. In addition, the President augmented his powers at the expense of the legislature and judiciary and extended his constitutional five-year term by an additional two years. The amended constitution gives the President wide latitude to rule by decree.

Conditions for open political dialogue and for free and fair elections ceased to exist in Belarus in 1996. Opposition political parties and independent business interests that support them are routinely harassed by law enforcement authorities and subjected to arbitrary and excessive fines or penalties by administrative authorities. The right of peaceful public assembly is severely restricted or often denied outright; public demonstrators are frequently detained, fined and intimidated. The government heavily controls the national media and restricts and harasses the independent media. The number of apparently politically motivated arrests increased in 1998, and security forces were implicated in the beating of political opponents, including minors, independent journalists, detainees, and prisoners. There were fewer public displays of force in 1998 than in the past, but the government increasingly relied on more subtle forms of pressure, including imposition of arbitrary taxes or fines, arbitrary arrest, cancellation of leases and/or eviction from leased premises, administrative restrictions, and manipulation of the judicial process to intimidate and harass opposition and independent groups.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

With the exception of small-scale privatization, the Government of Belarus made no meaningful progress toward introducing market economic reforms during 1998. It again failed to implement the reforms agreed to with the International Monetary Fund in September 1995. Privatization has been limited to small enterprises. Massive state credits at negative interest rates to targeted sectors of the economy, coupled with price and currency controls, led to a collapse of the Belarusian ruble in the spring and steady devaluation, despite artificial exchange rates, during the rest of the year. The IMF and the World Bank have issued no new credits for Belarus this year. The World Bank has approved no new lending to Belarus since 1995 and has closed it office in Belarus. The European Bank for Reconstruction and Development is not pursuing any public sector projects in Belarus. In 1997, the Overseas Private Insurance Corporation paid its first claim in the NIS in Belarus, the result of “creeping expropriation.” It has ceased insuring businesses in Belarus demanding that the Government of Belarus adequately address the issue of compensation.

A 1993 trade agreement between Belarus and the United States, in which Belarus succeeded to the terms of the earlier Soviet agreement, extends reciprocal most-favored-nation status and contains intellectual property rights provisions. A Bilateral Investment Treaty (BIT) was ratified by the Belarusian Parliament in October 1995 and received the advice and consent of the U.S. Senate in June 1996. But as the political situation deteriorated in late 1996, the United States decided to delay indefinitely its entry into force. EXIM and TDA activity in Belarus remain suspended due to the poor investment climate.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The Belarusian Government's human rights record deteriorated further during 1998, particularly regarding respect for civil liberties. Restrictions on freedoms of speech, press and peaceful assembly continued, and the government did not respect freedom of association. Prolonged detention and delays in trials were common. The security services infringed the privacy rights of citizens and closely monitored the activities of opposition politicians and other segments of the population. Government security agents frequently harassed human rights advocates. Worker rights continued to be restricted by government authorities. Under threatened loss of privileges under the U.S. Generalized System of Preferences, the government allowed an independent trade union and an independent trade union congress to register.

According to official data, the state did not deny any citizens permission to emigrate in 1998. Ethnic tensions have not troubled Belarus.

The constitution provides for freedom of religion, however, the government restricts this right in practice. Citizens are not prohibited from proselytizing, but foreign missionaries may not engage in religious activities outside of the institutions that invited them. Only religious organizations already registered by the state may invite foreign clergy. Cases of apparent discrimination have been called to the attention of religious constituents in the U.S. and human rights groups. The government accords preferential treatment to the Orthodox Church and prohibits foreigners from conducting religious services and distributing religious material.

The rights of minorities, generally, appear to be respected in Belarus. Societal anti-Semitism exists but is not usually manifested openly, although senior government officials and the state media have occasionally used coded anti-Semitism in attacking political opponents. Despite these difficulties, several local Jewish communities have successfully reclaimed synagogues and other properties.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

As a result of the Belarusian Government's failure to adhere to its human rights commitments under the Helsinki Final Act, the OSCE undertook to establish an Advisory and Monitoring Group (AMG) in Minsk to assist the Government of Belarus in fulfilling its human rights obligations. After much resistance, the Government of Belarus permitted the AMG to open in February 1998 with a mandate to monitor the human rights situation and advise the government. Although government authorities have participated in a dialogue with the AMG on these issues, the government has not adopted any of the legislative or administrative measures suggested by the AMG nor improved its human rights record. Its relationship with the political opposition, despite AMG efforts, remains half-hearted and non-constructive.

In June 1998, the Government of Belarus violated the principle of inviolability of diplomatic missions under the Vienna Convention on Diplomatic Relations (VCDR) by evicting the U.S. and other countries' ambassadors from their diplomatic residences. The pretext for their eviction was that utility repairs were necessary. The government subsequently terminated all access to the properties and declared the area a "presidential territory." The United States, the European Union and other countries recalled their ambassadors, sent their Belarusian counterparts home and took other measures in protest. As of November 1998, the dispute remains unresolved.

The Belarusian Government's military doctrine is in accord with the OSCE principles on the inviolability of borders and non-interference in the internal affairs of other states. Belarus rejects war as a means of settling disputes. Its constitution declares Belarus a non-nuclear and neutral state. Steps toward integration with Russia, including increasing coordination of foreign and defense policies, did not diminish Belarus' national sovereignty or threaten the sovereignty of neighboring states. The CFE States Parties have agreed to allow Belarus until April 1999 to complete its required conversions of armored combat vehicles. Belarus continued negotiations with Baltic countries toward definition of common borders and repatriation.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Belarus is not involved in ethnic or regional conflicts and has supported the Commonwealth of Independent States and OSCE as conflict-resolving mechanisms. Belarus is only a conditional member of the CIS Collective Security Agreement; its constitution prohibits the stationing of foreign troops in Belarus and the deployment of Belarusian troops abroad.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

Belarus has formally declared its acceptance of all relevant arms control obligations of the former Soviet Union. It has ratified the START I Treaty. In October 1995, Belarus resumed destruction of weapons mandated by the CFE Treaty. By August 1996, it brought its Treaty-Limited Equipment (TLE) holdings into compliance with established limits. Belarus has indicated its intentions to conclude a full-scope safeguards agreement with the IAEA. Belarus participates in discussions on implementing the INF and START treaties as a successor state to the Soviet Union. All former Soviet tactical nuclear weapons were removed from Belarus by May 1992, two months ahead of the announced deadline. Also in May 1992, Belarus signed a letter accompanying the Lisbon Protocol to START I promising to eliminate all strategic offensive arms located in Belarus. On November 27, 1996, the last nuclear missiles and warheads were transferred from Belarus to Russia, well ahead of the seven year START deadline. Belarus has been a participant in the Standing Consultative Commission in discussion and formally acceded to the ABM Treaty on September 26, 1997. On September 24, 1996, Belarus signed the Comprehensive Nuclear Test-Ban Treaty at the UN General Assembly.

However, in late 1997, after Belarus failed to utilize Nunn-Lugar assistance for destruction of its SS-25 launch pads, that assistance project was terminated. The launch sites will remain START-accountable until they are destroyed. Other CTR assistance was suspended in 1997 because of human rights concerns. In 1998 President Lukashenko publicly expressed regret over the removal of nuclear weapons from Belarus.

Belarus has reduced the size of its armed forces and related expenditures to legitimate levels. Belarus has stated its intention to convert its defense industry to civilian production but lacks the funds to do so quickly.

Belarus is a party to the 1993 Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction, and to the 1972 Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction.

We do not believe that Belarus has engaged in the proliferation of nuclear, biological, or chemical weapons or related technology. However, Belarusian entities in 1998 have reportedly continued selling to foreign countries MAZ truck chassis (items not on any international control list) that can be modified to make mobile missile launchers.

In 1998, Belarus continued to be a leading conventional arms exporter as it sold off excess Soviet-era equipment. It reported certain of the transfers in the United Nations Register of Conventional Arms Transfers, including 1996 transfers of attack helicopters and tanks to Sudan. Moreover, an increasing number of reports of Belarusian transfers or potential transfers of conventional weapons to state-sponsors of terrorism have been received. These reports are being carefully reviewed in light of our legal obligations under the various proliferation sanctions laws. No lethal military equipment transfer sanctions were imposed on Belarus during the reporting period.

By a presidential decree on December 4, 1997, Belarus formalized its Moratorium on the Export of Anti-Personnel Landmines, which it had observed in practice since August, 1995.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Belarus has taken positive steps to address international environmental concerns by establishing ministries of energy, forestry and water resources, and land reclamation. It has also established state committees on the consequences of the Chornobyl accident, the ecology, and the supervision of safety procedures in industry and the nuclear power industry. Belarus suffered considerably the brunt of the effects of the Chornobyl disaster and has actively sought U.S. assistance in cleaning up areas contaminated by radiation.

Air and water pollution problems of varying degrees of seriousness plague Belarus. Rivers are considered "moderately polluted" from industrial and agricultural sources. Some land reclamation efforts, undertaken in the name of economic development, have contributed to severe ecological problems in the Polesye region. Belarus has set up a Committee of the Council of Ministers on Emergency Situations, on the Consequences of the Chornobyl Disaster, and the Environment to oversee and coordinate environmental protection efforts undertaken by individual ministries.

Several non-governmental organizations (NGOs) and foundations continue to deal with the Chornobyl aftermath. The authorities have closed some of these organizations or their programs maintaining that they have violated financial regulations. Belarus possesses the human and natural resources to gradually address the environmental challenges facing the country. Sufficient political will and a willingness to take the steps necessary to facilitate international funding would help to sustain progress in environmental restoration and protection.

Section 498A(a)(8): "deny support for acts of international terrorism."

Belarus does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Belarus is a party to seven of the eleven international counter-terrorism conventions.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring that they were jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics, including Belarus, signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. The December 1991 agreement provided that Belarus' share of the debt of the former Soviet Union would be 4.13 percent. In 1992, Russia sought to replace the "joint and several liability" principle by seeking full liability for the debt in return for all the external assets. In July 1992, Belarus signed a "zero option" agreement with Russia under which Russia will pay Belarus' share of the debt in return for its share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in Belarus is conducted through the U.S.-Russian Joint Commission on POWs/MIAs established in March 1992. Beginning in 1997, however, U.S. officials held several meetings directly with Belarusian officials toward establishing a bilateral agreement. A projected June 1998 visit was cancelled due to diplomatic fallout from the Belarusian Government's eviction of ambassadors from their residences. The Government of Belarus has expressed a desire to cooperate with in this matter, but deteriorating relations has delayed conclusion of an agreement for cooperation and access to archival materials.

Section 498A(a)(11): 'terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance.

The Government of Belarus is not providing military, economic, nuclear, or other assistance to the Government of Cuba. Given all information at hand, all trade is believed to occur on market terms.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

BELARUS

Section 498A(b)(1): Has the President determined that the Government of Belarus has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law?"

No. The President has not made such a determination at this time. However, as discussed above, we continue to have serious concerns about the Belarusian Government's human rights record.

Section 498A(b)(2): Has the President determined that the Government of Belarus "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union?"

No. We do not believe that the Government of Belarus has failed to take such actions. However, the Belarusian Government's decision not to destroy the SS-25 launch pads, despite provision of USG assistance, may in the future require us to conduct inspections of the sites under START terms. We are concerned about the implications of President Lukashenko's statements regarding the removal of nuclear weapons from Belarus.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Belarus knowingly transferred to another country:

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determined that the material, equipment, or technology was to be used by such country in the manufacture of such weapon?"

No such determinations were made with respect to Belarus in 1998.

Section 498A(b)(4): Is the Government of Belarus "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991?"

No.

Section 498A(b)(5): Has the President determined and certified within 30 days to the appropriate congressional committees that the Government of Belarus "is providing assistance for, or engaging in, non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government?" If so, has the President taken action to withhold assistance from the Government of Belarus under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

No. We have no information that the Government of Belarus has provided such assistance.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

GEORGIA

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to":

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Georgia has made progress toward, and is committed to the comprehensive implementation of a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections. The Georgian parliament adopted a new constitution in August 1995. Presidential and parliamentary elections were held on November 5, 1995 in all areas except those under the control of Abkhazian and South Ossetian separatist forces that refused to support the process. The central government has stated that representatives from these districts will be elected immediately following resolution of these regional conflicts. International observers stated that, except for problems in the autonomous region of Ajaria, the elections were conducted in a manner consistent with democratic norms.

The government held local elections in November 1998, though the central government will continue to appoint some local officials, including the mayors of Georgia's major cities.

The parliament elected in November 1995 has passed significant legislation instituting legal, institutional and procedural reforms supportive of rule of law, individual freedoms and representative government.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

Following several years of disastrous performance resulting from civil war, trade disruptions and weak monetary and fiscal policies, Georgia's economic policies and performance have improved significantly during the past two years. Accomplishments include a significant reduction in the inflation rate, transition to a stable national currency, elimination of most price and enterprise subsidies, liberalization of domestic and external trade, reduction in public employment, new banking, bankruptcy, and investment laws, and accelerated privatization. Real GDP growth for Georgia in 1997 was 11.3 percent, but is expected to be a little less than 10 percent in 1998. The economic crisis in Russia has adversely affected Georgia's economy and is a precipitating factor in its inability thus far to meet IMF conditions for continued financial support. Georgia's macroeconomic performance is deteriorating; the government has not adequately addressed its budget deficit and government debt has ballooned. The Georgian Government and IMF continue discussions on economic reform requirements, which Georgia has been lagging in implementing.

In spring 1997, the government announced a second round of structural, legal and organizational reforms, which are needed in order to attract foreign and domestic investment. Parliament adopted a new tax code and a new customs code in 1997. Remaining state monopolies, particularly in the energy and communications sectors, are expected to be privatized. In 1998, Georgia began to privatize its energy distribution system and expects to privatize its energy generation system by 2000. Small-scale privatization is virtually complete and 76 percent of medium- and large-scale enterprises has been privatized. About 55 percent of cultivated land has been distributed to private farmers, but further progress on land reform and privatization will help Georgia to realize its growth potential.

Georgia is a member of the IMF, World Bank and EBRD. An agreement on bilateral trade relations with the United States, which provides mutual MFN treatment and contains intellectual property rights provisions, came into force in August 1993, and a bilateral investment treaty entered into force in August 1997. An Overseas Private Investment Corporation agreement has been in force since 1992, and Georgia has submitted a letter to the United States Trade Representative requesting status under the Generalized System of Preferences (GSP). Negotiations to join the World Trade Organization are underway and proceeding apace.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The government's human rights record improved over the past year. Guided by the constitution, which includes significant commitments to human rights principles, in 1995 the parliament restructured the state human rights protection body to strengthen ombudsman functions and appointed a human rights ombudsman in fall 1997. In 1996, parliament passed legislation designed to strengthen the court system and increase judicial independence. There has been some progress in the area of allowing international monitors access to prisons and detainees, but some officials continue to impose restrictions on a case by case basis. Freedom of religion is unrestricted, as is the freedom of foreign and internal travel and emigration. While there has been improvement, some limitations on the press remain.

Despite government commitments to address these problems, abuse of detainees and prisoners by security and prison officials, deaths in custody, extremely harsh prison conditions, judicial corruption, denial of fair and expeditious trial, and arbitrary interference with privacy continue.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

While progress has been made toward the observance of international legal obligations and OSCE commitments in the area of human rights, the status of Abkhazia and South Ossetia, two separatist regions within Georgian territory, remains unresolved. The United States continues to work bilaterally and with the UN, the OSCE and other nations organized as the Friends of the Secretary General to encourage all parties to pursue a peaceful resolution of the Abkhazia conflict in a manner that safeguards both the territorial integrity of Georgia and the rights of individuals belonging to ethnic minorities. Unfortunately, sporadic violence continues, particularly in the separatist region of Abkhazia. Both Abkhaz separatists and ethnic Georgian partisans supportive of the central government are credibly reported to be involved in these incidents.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

President Shevardnadze has consistently stressed Georgia's commitment to negotiate a peaceful settlement to the conflict in Abkhazia. He has pledged to continue this approach despite Abkhazia's unilateral declaration of independence in November 1994 and subsequent demand that any settlement grant the region equal status with the government in Tbilisi. Negotiations under the auspices of the UN and facilitated by Russia continue. Direct bilateral talks intensified in 1998. Since 1992, an OSCE mission has been working in Georgia to facilitate a political settlement of the South Ossetia dispute. The Georgian Government has fully supported the mandate of the OSCE mission, which includes developing democratic institutions and encouraging respect for human rights throughout Georgia.

The Georgian Government and representatives of the Abkhaz separatist regime have cooperated with the UN and OSCE, which established a human rights office in Sukhumi, the capital of Abkhazia. The office monitors the human rights situation in the region and encourages practices consistent with international human rights standards.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

Georgia has consistently made clear its commitment to achieving full implementation of the CFE Treaty, of which President Shevardnadze (as Soviet Foreign Minister) was a major architect. Georgia is in full compliance under CFE and has accepted CFE inspections of forces on its territory.

A twenty-five-year bilateral basing agreement that would allow Russia to maintain bases and military equipment on Georgian territory was initialed by the two parties in 1995, but has not yet been ratified by either the Russian or the Georgian parliament; the defense ministries of Russia and Georgia plan to review the issue. While Russia has provided some military assistance, the Georgian military remains ill equipped. Russian border forces currently control Georgia's border with Turkey, but turned over to the Georgians in mid-1998 the maritime border patrol responsibilities for the border facilities at the Black Sea ports of Batumi and Poti. The Government of Georgia has established as a priority the development of the indigenous ability to control its borders.

Georgia has not engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Georgia acceded to the Nuclear Non-Proliferation Treaty as a non-nuclear-weapons state on March 7, 1994. Georgia has ratified the multilateral Chemical Weapons Convention, which calls for the eventual elimination of chemical weapons. We do not believe that Georgia has engaged in significant transfers of conventional weapons. In addition to

contacts with other Western governments, Georgia has closely engaged with the U.S. on cooperative efforts to establish an effective export control system. In 1998 Georgia adopted a new law on export controls, an important first step.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Georgia faces an array of environmental problems ranging from air and water pollution to deterioration of soils as a result of agricultural methods used under the Soviet regime. Deforestation is also a serious problem due to a continuing shortage of energy from conventional sources.

The Government of Georgia has taken some steps to put in place public policy mechanisms to address environmental issues, including establishment of a ministry of environment. A National Environmental Action Plan and a biodiversity strategy are under preparation. National environmental NGOs are gaining access to the policy-making process on environmental issues, and key parliamentary leaders, including the Chairman, are former leaders of the Green Party. Georgia has shown an interest in regional cooperation on environmental issues and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues. The United States, the European Union and four host nations (Russia, Ukraine, Moldova and Georgia) are participating in the establishment of independent, non-profit, and non-political Regional Environmental Centers (RECs.) The mission of each REC will be to strengthen civil society and support sustainable development by promoting public awareness and participation in environmental decision-making.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Georgia does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. President Shevardnadze continues to state publicly his support for stronger international measures to combat international and domestic terrorism, including that by separatist forces. Georgia is a party to three of the eleven international counter-terrorism conventions and intends to become a party to the other conventions as soon as possible.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement that assigned to each of the newly independent states a share of all the assets and foreign debt of the former Soviet Union (FSU). Georgia signed both the October and December 1991 agreements. The December 1991 agreement provided that Georgia's share of the FSU debt would be 1.62 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. Although Georgia has signed an agreement with Russia transferring Georgia's share of the FSU debt to Russia in exchange for its share of FSU assets (the so-called "zero option"), the Parliament has not ratified it and Georgia has proposed opening a new round of negotiations.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs that was established in March 1992. The Commission visited Georgia in May 1996 and met with President Shevardnadze and other high level officials who promised cooperation.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Georgia is not providing military and intelligence, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

GEORGIA

Section 498A(b)(1): Has the President determined that the Government of Georgia has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No such pattern exists. Respect for human rights is declared policy and, in practice, most human rights are generally respected. There are continuing serious shortcomings, however, in regard to treatment of detainees and prisoners by police and prison officials. The government has prosecuted some officials responsible for such abuses, and the parliament is addressing the need for law enforcement reform.

Section 498A(b)(2): Has the President determined that the Government of Georgia "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. While there were minor flaws in its implementation record in the first years after independence, Georgia has been a constructive and responsible participant in arms control undertakings.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Georgia "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No such determinations were made with respect to Georgia in 1998.

Section 498A(b)(4): Is the Government of Georgia "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Georgia "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Georgia under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

The Government of Georgia does not provide assistance for or engage in non-market-based trade with the Cuban Government.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

KAZAKHSTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to":

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Kazakhstan is politically stable. Political power is concentrated heavily in the presidency. President Nursultan Nazarbayev, who was the head of the Communist Party in Kazakhstan prior to independence, has been his nation's only leader since the break-up of the Soviet Union. He strengthened his political grip in 1995 when he dissolved the parliament and stage-managed two Soviet-style referenda, both marred by serious irregularities. The first approved a new constitution that increased the power of the presidency at the expense of the legislature. The second extended his term in office until the year 2000. On October 8, Nazarbayev accepted Parliament's request to hold an early election on January 10, 1999, almost two years ahead of schedule. On November 30, only three candidates other than Nazarbayev were officially registered to run: a senator, the head of the State Customs Committee, and the head of the Communist party.

In accordance with amendments made in April to the election decree that prevent those with administrative convictions from the previous twelve months to run for election, two opposition candidates were determined to be ineligible to run for president in the January election because they had been convicted of attending an unsanctioned meeting and illegally organizing a demonstration. These restrictions call into question Kazakhstan's respect not only for political rights, but also for freedom of association. A third opposition figure withdrew after alleging the election was being rigged. A businessman dropped out because he could not pay the $30,000 registration fee. In addition to restrictions on candidates' ability to qualify to run and meet with voters, access to the media has been restricted.

Other political institutions in Kazakhstan are weak. Parliament is dominated by the executive branch. Currently, it cannot initiate changes to the constitution or exercise oversight over the executive branch. Although it was less active in its September 1997 to June 1998 session, originating only four bills, compared to the previous session's 19, it did assert itself on budget, social and environmental issues. The parliament recently has begun to take its role as a potentially co-equal branch of government more seriously and has reached out for contact and advice to other national assemblies, including Congress. President Nazarbayev has explicitly encouraged these contacts. He declared on September 30 that Parliament would be given more authority as part of his program to enhance democracy in Kazakhstan. The judiciary is not independent. Judges are appointed by the executive branch, beholden to it, underpaid, and susceptible to corruption. There is no tradition of judicial independence.

A nascent Almaty-based political opposition is disorganized, undermined by rivalries and, when its leaders are not co-opted by the government, subject to harassment. The largest organized movement is the Communist Party, but its support is limited almost exclusively to pensioners. The opposition has a number of significant pocketbook issues on which to score the government, but has provided only limited alternatives. Economic dislocations are real, aggravated by budget deficits resulting from falling export prices. But demonstrations the opposition has been able to muster have been relatively small. Leaders of democratic opposition groups are widely seen as members of the "intelligentsia" not truly cognizant of working class travails.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The Government of Kazakhstan has tried to create an attractive business climate for foreign investors, passing laws that in principle guarantee fair treatment and foster a more Western-style business environment and concluding a bilateral investment treaty with the United States. (The treaty entered into force in January 1994.) As a result, Kazakhstan attracted more than $1.1 billion in direct foreign investment in 1996 and $1.3 billion in 1997 -- mostly in the oil and gas sector. U.S. companies have invested more than $1.7 billion, primarily in the oil, gas, and power generation sectors making the U.S. the largest foreign investor in Kazakhstan. Nevertheless, inadequate legal infrastructure, frequent tax changes, and cumbersome, often corrupt bureaucracy pose serious obstacles to foreign investors.

Over 80 percent of small enterprises in Kazakhstan have been privatized. In November, the government sold its shares in the East-Kazakhstan copper chemical combine, by far the largest trade on the stock exchange since it opened in September 1997. The government is prepared to sell its holdings in thirty-six second-tier small companies by the end of the

year. However, Ministry of Finance officials announced in November that the privatization of large "blue chip" companies would be delayed until 1999 or 2000. This lag has inhibited growth of an equities market where pension savings were to be channeled.

Kazakhstan is seeking to join the World Trade Organization (WTO). The U.S. Government has been providing technical assistance in Kazakhstan's accession process. The government assured the U.S. in November of its intention to submit to the WTO secretariat by March 1, 1999 necessary draft legislation on intellectual property rights, trade remedy laws, the Law on Customs, as well as all other draft legislation pertaining to WTO accession. Kazakhstan acceded to the Berne Convention on Intellectual Property in October.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Kazakhstan's human rights record is uneven. Democratic institutions are weak, and the legal structure does not fully safeguard human rights. Citizens enjoy in theory -- and more often than not in practice -- basic rights of freedom of religion, speech and assembly. Kazakhstan is in the process of reforming its legal system. A new criminal code was implemented in 1998. Human rights observers nevertheless assert that the legal system remains riddled by corruption. Law enforcement officials routinely exploit minor infractions of the law to arrest and detain government opponents and have also used such technicalities to harass foreign businessmen. Members of the security forces often beat or otherwise abuse detainees. Arrests can be arbitrary, and prolonged detention without charge is a problem.

The government sporadically infringes on citizens' rights to privacy. Kazakhstani authorities are believed to tap phones and monitor the correspondence of some members of the political opposition. The government or its allies have bought a number of previously independent newspapers, radio and television stations, and publishing and broadcast facilities. Journalists report that the government is exerting increasing direct pressure not to cover certain subjects, including Nazarbayev, his family, criticism of Nazarbayev initiatives, and political opponents. Freedom of association, while generally respected, is hindered by complicated registration requirements for organizations and political parties. Freedom of assembly is sometimes restricted; organizations must apply for official permits prior to staging a demonstration (most are granted), and some organizers of unsanctioned demonstrations have been arrested and fined or imprisoned.

The constitution includes substantial protections for individuals, including members of non-Kazakh ethnic groups. President Nazarbayev has publicly emphasized that all nationalities are welcome and entitled to equal treatment under the law. However, the government discriminates in favor of ethnic Kazakhs in the area of employment. Women, the disabled and ethnic minorities face considerable societal discrimination. The government has tried to limit the influence of independent trade unions, both directly and through its support for state-sponsored unions. Members of independent trade unions have been harassed. The Committee for National Security (KNB) has legal authority to deny permission to travel in and out of the country, but emigration is not hindered.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Kazakhstan has made a strong commitment to respect its international legal obligations and OSCE commitments. Kazakhstan is at peace with its neighbors and has defensive military forces that do not pose an offensive threat to the region. Kazakhstan is also a strong proponent of dialogue and cooperation among the states of the former Soviet Union. Kazakhstan is a member of the Partnership for Peace.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Kazakhstan supports regional and international efforts to resolve peacefully the conflicts in Tajikistan and Afghanistan. Kazakhstan is committed to establishing a multi-ethnic national identity and is sensitive to the concerns of the large ethnic Russian community in Kazakhstan.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

Kazakhstan was one of the four NIS with nuclear weapons on its soil at the time of independence and the second NIS to accede to the NPT as a non-nuclear weapons state, doing so in February 1994. All nuclear weapons were removed from its territory by the end of April 1995. It has also ratified the CFE and START I treaties. Kazakhstan is a successor in START, INF, and ABM treaties and has been an active participant in their implementation by virtue of its representation on the respective implementation commissions, the JCIC, SVC and SCC. The government is also committed to maintaining a military force consistent with legitimate defense requirements. We do not believe that it has engaged in transfers of, or in the proliferation of, nuclear, biological, or chemical weapons, their delivery systems, or related technology. We have received occasional reports of transfers of conventional weapons to state sponsors of terrorism which we have brought to the attention of appropriate Kazakhstani Government authorities who have been generally cooperative; we review such reports carefully in light of U.S. sanctions laws. The government denounced India's and Pakistan's nuclear tests. The United States and Kazakhstan have established a regular consultative mechanism to address nonproliferation issues. Kazakhstan has passed an export control law and is developing implementing legislation. In November 1998, the government demonstrated the importance it places on non-proliferation by hosting a Regional Forum on Export Controls.

Kazakhstan is an original signatory to the Chemical Weapons Convention (CWC), but has not yet ratified it. Kazakhstan attended the Fifth Biological Weapons Convention review conference as an observer and is actively reviewing whether to accede to the treaty. Kazakhstan signed a full-scope IAEA safeguards agreement in July 1994, which entered into force in August 1995. Although Kazakhstan is not a member of the Nuclear Suppliers Group, it has expressed an interest in joining. We continue to work closely with the Kazakhstani Government in the dismantlement of weapons facilities at Semipalatinsk, the closing of test tunnels at Degelen, and the destruction of delivery systems, such as Soviet-era bombers. The U.S. and Kazakhstani Governments entered into an Agreement for the Peaceful Uses of Nuclear Energy on November 18, 1997, after Kazakhstan provided the requisite assurances of non-cooperation with proliferator states. The U.S. and the Government of Kazakhstan also signed a November 1997 agreement to work cooperatively to secure and store plutonium-bearing spent fuel from the Kazakhstani breeder reactor at Aktau. Our November 1998 bilateral Joint Commission session recognized the progress our countries have made in both projects.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Kazakhstan suffered severe environmental degradation under Soviet rule, and there is broad-based support for domestic protection of the environment. The government has shown an interest in regional cooperation on environmental issues and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues. It has taken some steps to establish public policy mechanisms to address environmental issues, including the establishment of a Ministry of Environment and the introduction, at least on an experimental basis, of a pollution fee system by which taxes are levied on air and water emissions and solid waste disposal, with the resulting revenues channeled to environmental protection activities. National environmental NGOs are gaining access to the policy-making process on environmental issues.

Kazakhstan has been an active and constructive player in regional and international efforts to alleviate the deteriorating environmental conditions and foster regional cooperation in the Aral Sea basin. In line with the Nukus Declaration of September 1995, President Nazarbayev is also president of the International Fund for Saving the Aral Sea. Kazakhstan has worked with the World Bank and international donors on a 15-20 year plan to stabilize the Aral Sea. These marine environmental protection talks will include discussion of development of the mineral resources of the Caspian seabed and use of the sturgeon population in a way that protects the Caspian ecosystem. The Government of Kazakhstan has also expressed support for the CITES treaty on protection of Caspian Sea sturgeon and discusses Caspian Sea environmental protection issues regularly with the other Caspian littoral states.

The United States Government and the European Union have agreed to work together to establish an independent, non-profit and non-political Regional Environmental Center (REC) to serve the countries of Central Asia. The mission of the REC will be to strengthen civil society and support sustainable development by promoting public awareness and participation in environmental decision-making. Almaty, Tashkent and Bishkek all have been proposed as REC locations.

Section 498A(a)(8): "deny support for acts of international terrorism."

Kazakhstan does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Kazakhstan took action in March to avert potential security threats to the U.S. Embassy in Almaty. At our bilateral Joint Commission session in November, our two governments pledged to collaborate in the fight against international terrorism and signed a joint statement on terrorism. Kazakhstan is a party to nine of the eleven international counter-terrorism conventions.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement that assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Kazakhstan signed both the October and December 1991 agreements. The December 1991 agreement provided that Kazakhstan's share of the FSU debt would be 3.86 percent. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In September 1993, Kazakhstan signed a "zero option" agreement with Russia under which Russia will pay Kazakhstan's share of the debt in return for its share of the assets. The April 1996 Paris Club arrangement states that Russia had informed the participating creditor countries that "zero option" agreements had been signed by Russia and each other NIS; the creditors "took note" that copies of these agreements had been provided.

Please see section 498(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs that was established in March 1992. The U.S. side of the Commission visited Kazakhstan in August 1994 and the Kazakhstani Government promised cooperation on the POW/MIA effort. The government has been cooperative with all related interviews conducted in Kazakhstan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

Kazakhstan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

KAZAKHSTAN

Section 498A(b)(1): Has the President determined that the Government of Kazakhstan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. Although the human rights record in Kazakhstan is imperfect (as discussed above), we do not believe that the Government of Kazakhstan is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Kazakhstan "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. The Government of Kazakhstan has taken a significant number of such constructive actions (as discussed above), including ratification of START I. Kazakhstan deposited its instrument of accession to the NPT in 1994.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Kazakhstan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of Kazakhstan has made such transfers.

Section 498A(b)(4): Is the Government of Kazakhstan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. We do not have information from which to conclude that the Government of Kazakhstan is prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Kazakhstan "is providing assistance for, or engaging in, non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Kazakhstan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30 day period?"

The U.S. Government is unaware of any Kazakhstani assistance to or non-market-based trade with Cuba.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

KYRGYZSTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

President Akayev and his ministers have expressed strong commitments to human rights, democracy and the rule of law. Since gaining independence, Kyrgyzstan has made progress, with occasional setbacks, in these areas. In September 1995, Kyrgyzstan rejected a referendum to extend President Akayev's term of office, choosing instead an open presidential election on December 24 of that year. Although there were numerous complaints about opposition candidates' difficulty in the registration process, and three candidates were de-registered by the Constitutional Court, international observers characterized the election as free and generally representing the will of the people of Kyrgyzstan. Multi- party parliamentary elections held in early 1995 featured widespread irregularities, but international observers also concluded that the results generally represented the will of the people of Kyrgyzstan. A February 1996 referendum of dubious constitutionality significantly increased the power of the executive branch, primarily at the expense of the legislature. The referendum was marred by serious irregularities, including ballot stuffing. The judiciary is very weak and dominated by the executive branch. On October 17, 1998, the Government of Kyrgyzstan held a national Referendum which legalized the privatization of land, reformed the structure and privileges of parliament, strengthened freedom of speech and limited parliamentary immunity.

Convictions in 1995 and 1996 of several journalists and opposition campaign workers for defaming President Akayev raised concerns about the government's commitment to free speech, although all those convicted were subsequently released. In the fall of 1996, the Constitutional Court ruled that the election procedure of the speaker of the lower house of parliament was unconstitutional, an event which may represent a strengthening of the judiciary's role in government. There are numerous independent newspapers and magazines that are often critical of the government. In 1997, several journalists were prosecuted for libel of public officials and the government closed an opposition newspaper. While convicted of some charges, the journalists were released. In December the Kyrgyz parliament overrode a presidential veto of a new media law that restricted journalistic freedom. Attempts to make libel a civil, rather than a criminal charge were defeated in Parliament by a overwhelming majority. The October 1998 referendum resulted in language added to the Constitution that precludes Parliament from passing laws that infringe on free speech, but implementing legislation has not yet been developed.

The Kyrgyz Republic's constitution gives substantial guarantees of rights for its citizens, including members of non-Kyrgyz ethnic groups. Nevertheless, discrimination by ethnic Kyrgyz officials against non-Kyrgyz citizens, and promotion ceilings for non-Kyrgyz in government employment have remained complaints of the ethnic Russian and Uzbek populations despite efforts by President Akayev to mitigate the effects of Kyrgyz nationalism. The Government of the Kyrgyz Republic supports efforts to cultivate political activity by its citizens, and opposition groups are with rare exceptions free to organize and conduct political activities.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The Kyrgyz Republic has made significant progress in restructuring its economic system and implementing legislation that will be the basis for a market economy. The Kyrgyz Republic introduced its own national currency, the som, in May 1993, which has given the Government greater control over its monetary policy. The parliament adopted favorable laws on privatization, joint ventures, foreign trade and investment and free economic zones. Most small and medium enterprises have been privatized. A trade agreement with the United States provides reciprocal most favored nation (MFN) status and contains IPR (intellectual property right) provisions. An Overseas Private Investment Corporation (OPIC) agreement is also in force. A bilateral investment treaty with the United States entered into force in January 1994. A bilateral tax treaty has been discussed, though negotiations have not begun. The Kyrgyz Republic is a member of the EBRD, IBRD, ADB and IMF. In August 1996 the Government of Kyrgyzstan submitted its Foreign Trade Memorandum in support of its application for accession to the WTO and will become the first NIS member of the WTO on December 20, thirty days after the November 20 deposit of the instrument of ratification of the protocol by the Kyrgyz parliament.

As the first of the Central Asian republics to embark on IMF-backed reform programs, the Government of Kyrgyzstan's commitment to reform started early and has deepened. The IMF provided approximately $44 million in 1997 in support of the government's economic and structural reform program as the Government of Kyrgyzstan begins the third year of its

three-year enhanced structural adjustment facility (ESAF). The World Bank funded two projects worth $65 million in 1998, and cumulatively has funded 15 projects worth $438.5 million. The economic reform efforts of Government of Kyrgyzstan were singled out for praise at the October 1996 Consultative Donors' Group in Tokyo, where donors pledged over $450 million in financial support for 1997. In 1995 Kyrgyzstan became the first NIS to commit itself to avoid imposing any restrictions on payments for current international transactions and avoid engaging in multiple currency practices or discriminatory currency arrangements.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

Internationally recognized human rights are generally respected in Kyrgyzstan. President Akayev has sought to reassure ethnic minorities while simultaneously trying to satisfy Kyrgyz aspirations for greater national identity. The new constitution includes substantial protection for individuals, including members of non-Kyrgyz ethnic groups. Concerns remain about ethnic discrimination, but in general the situation for minorities has improved, and emigration has decreased.

While press freedom and freedom of speech generally respected, 1997 witnessed the arrest of a number of journalists on criminal libel charges. Several of these journalists served some jail time, but most were either immediately freed, or if convicted, released with credit for time served. In October 1998, three newspapers were suspended for pornographic content. As other pornographic publications were not suspended, and the three newspaper publishers also issue opposition publications, a political motivation is suspected.

The Kyrgyz Constitution provides for freedom of religion. The government does not support any specific religion and expressly forbids religious instruction in government schools. The government does not, however, fully protect religious rights. A 1996 law requires that religious groups register with the State Commission on Religious Affairs. Some domestic religious groups have experienced governmental interference, especially in rural areas. For example, Baptists in one rural area reported local police had disrupted their services, and Muslims have complained of some government intrusion. There is no law on emigration, though administrative procedures permit the movement of people.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Kyrgyz Republic has made a strong commitment to the observance of international legal obligations and OSCE commitments. An OSCE office will open in Kyrgyzstan in January 1999. The Kyrgyz Republic is at peace with its neighbors, and is also a strong proponent of dialogue and cooperation among the states of the former Soviet Union. Kyrgyzstan participates in Partnership for Peace exercises. It also participates with neighboring Uzbekistan and Kazakhstan in a Central Asian Peacekeeping Battalion. Kyrgyzstan hosted the 1998 Central Asian Peacekeeping Battalion exercises, which included U.S. observers.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The Kyrgyz Republic supports regional and international efforts to resolve peacefully the conflict in neighboring Tajikistan as well as in Afghanistan. A unit of the Kyrgyz military serves in the CIS peacekeeping force in Tajikistan, stationed along the Tajik-Afghan border. The Government of the Kyrgyz Republic is committed to establishing a multi-ethnic national identity and is particularly sensitive to the concerns of the non-Kyrgyz ethnic groups in the Kyrgyz Republic, although there are credible allegations of discrimination on the part of individual government officials.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

The Government of the Kyrgyz Republic has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. The Kyrgyz Republic acceded to the NPT on July 5, 1994. The Kyrgyz Republic is also committed to maintaining a small, defensive military force or national guard. The Kyrgyz Republic has said that it is strongly opposed to the proliferation of weapons of mass destruction, their delivery systems or related technologies. The Government of Kyrgyzstan has taken steps to establish a functioning system of export controls. In 1998, the government submitted a draft export control law to Parliament that passed a first reading. We have received occasional reports of transfers or potential transfers of conventional weapons to state sponsors of terrorism from the Kyrgyz Republic, which we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of these reports resulted in a sanctions determination during the reporting period. We do not believe that the Kyrgyz Republic has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. The Kyrgyz Republic is a signatory to the 1993 Chemical Weapons Convention.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Kyrgyzstan suffered severe environmental degradation under Soviet rule, and there is broad-based support for domestic protection of the environment. Kyrgyzstan has shown an interest in regional cooperation on environmental issues, and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on transborder and international environmental issues. The Government of Kyrgyzstan has taken some steps to establish public policy mechanisms to address environmental issues, including the establishment of a State Committee on Nature Protection. National environmental NGOs are gaining access to the policy-making process on environmental issues.

Kyrgyzstan has been an active and constructive player in regional and international efforts to alleviate the deteriorating environmental conditions and foster regional cooperation in the Aral Sea basin. The Government of Kyrgyzstan has worked with the World Bank and international donors on a 15- to 20- year plan to stabilize the Aral Sea.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of the Kyrgyz Republic does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Kyrgyzstan is not a party to any of the eleven international counter-terrorism conventions.

Section498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union (FSU). The Kyrgyz Republic signed both the October and December 1991 agreements. The December 1991 agreement provided that the Kyrgyz Republic's share of the FSU debt would be 0.95 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In August 1992, the Kyrgyz Republic signed a "zero option" agreement with Russia under which Russia will pay the Kyrgyz Republic's share of the debt in return for its share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs that was established in March 1992. In November 1995, the U.S. side of this Commission made a successful visit to Kyrgyzstan. The Commission met with senior government officials, including President Akayev. All officials cooperated fully and pledged to do their utmost to locate information on American POWs/MIAs. There is no evidence of any American POWs/MIAs in Kyrgyzstan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of the Kyrgyz Republic is not providing military, intelligence, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

KYRGYZSTAN

Section 498A(b)(1): Has the President determined that the Government of the Kyrgyz Republic has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. We do not believe that the Government of the Kyrgyz Republic is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of the Kyrgyz Republic "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of the Kyrgyz Republic has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of the Kyrgyz Republic "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of the Kyrgyz Republic has made such transfers.

Section 498A(b)(4): Is the Government of Kyrgyzstan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. We do not have information from which to conclude that the Government of the Kyrgyz Republic is prohibited from receiving assistance by these sections.

Section 498A(b)(5): Has the President determined and certified within 30 days to the appropriate congressional committees that the Government of the Kyrgyz Republic "is providing assistance for, or engaging in, non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from the Kyrgyz Republic under the Foreign Assistance Act with 30 days of such a determination, or has Congress enacted legislation disapproving the determination with that 30-day period?"

No. We do not have information from which to conclude that the Government of the Kyrgyz Republic is providing such assistance or engaging in such non-market-based trade.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

MOLDOVA

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Moldova continued its efforts to make the transition to democracy and a market economy during 1998. On March 22, Moldova held parliamentary elections that international observers judged to be free and fair. On April 23, a three party coalition, called the Alliance for Democratic Reform (ADR), formed a new government that is both pro-West and pro-reform. Prime Minister Ion Ciubuc remained in his position as has the Minister of Foreign Affairs and the Minister of Defense. Separately, a non-governmental law center has been established and is operating with U.S. help to promote development of the legal profession and the judiciary.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

Moldova continues to make progress in implementing market-based economic reforms, private ownership and integration into the world economy. Moldova agreed to a three year $185 million Extended Fund Facility (EFF) program with the International Monetary Fund (IMF) in 1996, but fell off-track in the fall of 1996 due to election pressures. Moldova has remained out of compliance over the past year although the IMF recently reached provisional agreement in mid-November with the Government of Moldova (GOM) on a memorandum of economic policies. As part of the agreement, the GOM has agreed to enact a package of expenditure cuts for the last quarter of 1998 that will reduce the country's budget deficit to 2 percent of GDP with no increase in arrears. If the measures are successfully implemented, the IMF may recommence disbursements on the EFF with a $35 million tranche in late December 1998 or early January 1999.

The World Bank also has worked actively with the Moldovan Government to promote reform, including the provision of $382.7 million for project ($222.7 million) and policy based ($160 million) programs. While project lending to Moldova has continued without disruption, implementation of the Bank's second Structural Adjustment Loan (SAL II) remains suspended. If the IMF recommences disbursements on its EFF for Moldova, part of the second tranche - $35 million - of the SAL II will also be released.

Moldova has adopted the basic reforms necessary for a market economy: prices have been largely freed, foreign trade has been almost fully liberalized, and the Moldovan leu is fully convertible for current account transactions. On November 2, the Moldovan Central Bank stopped its intervention on behalf of the leu, leading to a 36 -percent decline in the value of the currency against the dollar. IMF and World Bank representatives and National Bank of Moldova officials all stressed that the move was necessary, if not overdue. The devalued currency may have a positive impact on the country's terms of trade.

The government's commitment to price stability has been particularly impressive; inflation has fallen steadily from 24 percent in 1995 to around 12 percent in 1997. A largely completed mass privatization program has privatized 2,132 enterprises from most economic sectors; about 80 percent of all housing units are now in private hands; and 72 former collective farms have been broken up and privatized. In an ambitious program, the GOM plans to privatize a remaining 550 farms in FY99. Export quotas have been eliminated, and import tariffs have been substantially reduced. In October 1994, Moldova began the process of accession to the World Trade Organization (WTO) and has made substantial progress towards a WTO-compatible trade regime.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The Government generally respects the human rights of its citizens, however, there were problems in some areas. The Government generally recognizes freedom of religion. Proselytizing is prohibited by law, though the authorities have taken no legal action against individuals for proselytizing. In addition, the press law includes an article that allows public figures to sue for defamation without distinguishing between their private and public persons, and leads journalists to practice self-censorship. The 1994 constitution provides the legal framework to ensure protection of minority rights, and has

received positive assessments from international experts. Moldova has abolished exit visas for travel abroad. While some restrictions on emigration remain, there were no known cases denying permission to emigrate in 1998.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

Moldova takes seriously its participation in the OSCE and its commitments under the Helsinki Final Act. A 1992 Russian-brokered cease-fire in the separatist Transnistria region has held firmly since July 1992. The cease-fire established a tripartite peacekeeping force (comprised of Moldovan, Russian, and Transnistrian units) that has prevented a return to the use of force in the region. Negotiations aimed at resolving underlying issues in this conflict continue, as does the work of an OSCE mission there. Nevertheless, a permanent solution to the conflict remains elusive.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Since the inception of the military conflict in the Transnistria region, the Moldovan Government has sought to cooperate with its neighbors -- Romania, Ukraine, and Russia -- in seeking a peaceful resolution of this conflict. The Moldovan Government succeeded in negotiating with Russian and Transnistrian officials an effective cease-fire in 1992. Moldova has cooperated with both OSCE and UN fact-finding/observer missions sent to the area and has consistently called for international mediation assistance. An OSCE mediation mission has been working in Moldova since 1993.

Section 498A(a)(6): implement responsible security policies, including --
(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

Moldova has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Moldova has fulfilled all obligations of the Treaty on Conventional Armed Forces in Europe (CFE). Moldova's own armed forces are still in the formative stage, with a manpower objective at about one percent of total population. Moldova acceded to the Nuclear Non-Proliferation Treaty (NPT) in October 1994 in Washington. We do not believe that Moldova has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. The Moldovan Government has acted responsibly on non-proliferation issues. Moldova is a party to the 1993 Chemical Weapons Convention (CWC) and in September 1996 became a member of the International Atomic Energy Agency (IAEA).

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

While information on specific "constructive actions" undertaken by the Moldovan Government to reduce cross-border pollution is limited, Moldova is taking steps to reduce overall levels of pollution. With U.S. help, Moldova has begun to increase environmental awareness by establishing environmental risk analysis courses at six major universities, and by increasing awareness of the benefits of low-till farming methods via demonstration projects. Energy sector improvements will also help reduce pollution through increased efficiency.

The U.S., EU and four host nations (Russia, Ukraine, Moldova and Georgia) are cooperating to establish Regional Environmental Centers (RECs), in addition to the REC established in Szentendre, Hungary in 1990. The mission of the REC is to strengthen civil society and support sustainable development by promoting public awareness and participation in environmental decision-making and provide modest grants to NGOs for projects. U.S. officials will serve on each REC's Advisory Forum and on the International Coordinating Committee (ICC) which meet annually to facilitate cooperation among the RECs and to assist the new RECs in obtaining important technical, scientific and financial support.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Moldova does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Moldova is a party to three of the eleven international counter-terrorism conventions.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union (FSU). Moldova signed the October, but not the December 1991, agreement. The December 1991 agreement provided that Moldova's share of the FSU debt would be 1.29 percent. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In October 1993, Moldova signed a "zero option" agreement with Russia under which Russia will pay Moldova's share of the debt, in return for its share of the assets as defined by the December 1991 agreement.

(Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.)

Section 498A (a) (10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs that was established in March 1992. Moldovan officials warmly welcomed the U.S. side of the Commission in August 1995. With the full support of the Moldovan Government, the U.S. Chairman also made an appeal to the people of Moldova, asking them to come forward with information. Moldova has also fully supported subsequent Commission inquiries in Moldova.

Section 498A (a) (11): "terminate support for the communist regime in Cuba, including removal of troops, closing military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Moldova is not providing military, economic, nuclear, or other assistance encompassed by that statute to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

MOLDOVA

Section 498A(b)(1): Has the President determined that the Government of Moldova has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. We do not believe that the Government of Moldova is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Moldova "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Moldova has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Moldova "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No such determinations were made with respect to Moldova in 1998.

Section 498A(b)(4): Is the Government of Moldova "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991?"

No. We do not have information from which to conclude that the Government of Moldova is prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Moldova "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Moldova under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

No. The Government of Moldova is not providing assistance to, or engaging in non-market-based trade with Cuba.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

RUSSIA

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to":

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Russia's progress towards building a society governed by law-based, democratic institutions has been uneven, but remarkable progress has been made. In December 1993, the Russian people approved a constitution that provides for a democratic government comprised of three branches. The executive branch is led by an elected president who appoints the Prime Minister with the consent of the parliament. Presidential elections were conducted in 1996 with broad participation in a contest that was judged free and fair by international observers.

The legislative branch consists of a bicameral parliament, the State Duma and the Federation Council. Duma deputies are elected by party lists and single-mandate districts; membership in the Federation Council is granted to regional governors and the chairmen of regional legislatures. Duma elections, which were also judged free and fair, took place in 1993 and in 1995. Members of the Federation Council are elected according to timetables established by the regions they represent.

Though still in its early stages, the development of the rule of law is supported by all of Russia's mainstream political forces. That the political turmoil surrounding the 1998 financial crisis remained within the bounds of Russia's constitution is a testament that democratic traditions are taking root in some institutions. The constitution provides for an independent judiciary, including a supreme court that hears appeals from the courts of general jurisdiction and a constitutional court. In practice, the judiciary remains subject to political influence, particularly in high-profile cases. The government's inability to provide sufficient resources to the courts has also compromised the judiciary's freedom of action and the judiciary – including the constitutional court – has not yet established effective mechanisms to enforce its rulings. The penal system is also woefully short of resources, and conditions for those in custody remain abysmal.

Russia's constitution guarantees respect for internationally recognized human rights. Although the Russian parliament has been slow to pass implementing legislation in many areas, the guarantees of freedoms of speech, press, religion, assembly and movement have dramatically recast the individual's relationship with the state in Russia compared with the Soviet period.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The Russian Government has undergone tremendous stress as it has moved from a centrally planned economy toward a free market system. Difficulties in implementing fiscal reforms aimed at raising government revenues and a dependence on short term borrowing to finance budget deficits led to a serious financial crisis in 1998. Lower prices for Russia's major export earners (oil and minerals) and a loss of investor confidence due to the Asian financial crisis exacerbated financial problems. The result was a rapid decline in the value of the ruble, flight of foreign investment, delayed payments on sovereign and private debts, a breakdown of commercial transactions through the banking system and the threat of runaway inflation. In addition, Russia has an external debt burden of $21 billion dollars coming due within the next year.

The pace of market-oriented reform has slowed and may continue to do so. Two governmental crises, in March 1998 and August 1998, led to the appointment of a government in September that distanced itself from the prior governments' efforts to rapidly introduce market-oriented reforms. The new government has announced an economic plan that contemplates an increased role of the state in managing the economy. We are concerned about statements from leading Russian officials that Russian industry needs protection and state financial support. To the extent that Russia is unable to obtain assistance from international financial institutions, we are concerned that financing the government's budget deficit through monetary emissions may lead to significant increases in inflation.

Russia's GDP, estimated at $457 billion in 1997, is believed to have declined by as much as 9.9 percent from September 1997 to September 1998. Inflation during the first ten months of the year was 56.4 percent, compared with 9.3 percent for the same period in 1997. Although the inflation rate declined in October and November, plans for government spending without full consideration as to how revenue will be increased make renewed inflation a real danger. Real incomes have declined over forty percent since June, with the nominal average wage at $70 per month.

In October 1998, Russia's industrial output was 11 per cent below the previous October. Over the first ten months of the year, overall industrial output was down 4.6 percent and farm output was off 8.8 percent on an annualized basis. Foreign investment in Russia has fallen by approximately fifty percent since 1997. The Russian stock market lost more than 90 percent of its value between January and October 1998. Officially, unemployment rose 4.7 percent from October 1997 to October 1998, leaving the current rate of unemployment at 11.5 percent. Actual unemployment, as well as underemployment may be higher than official figures suggest.

Officially, the Russian Government estimates that 75 percent of output is now generated by the private sector and that only 41-42 percent of Russian enterprises are state-owned or partially state-owned. Control of many firms has been transferred to workers and managers who have made little progress toward profitability, as demonstrated by the persistence of large arrears in taxes, wages, and other areas. Enterprises may be considered "private" in official data even if the government retains 49 percent ownership. In fact, federal or regional governments do hold influential minority stakes in many firms. Sale and transfer of shares in firms having government ownership are limited, and some private shareholders have experienced difficulty in exercising their voting rights (a problem throughout the economy). According to Presidential Decree 254, the government can require firms with substantial tax arrears to issue a controlling block of shares or bonds for the amount of the arrears to the government. These shares and bonds are to be held in trust pending payment of the arrears. In case of non-payment, the government may exercise an option to sell the shares or bonds on the open market.

Russian leaders continue to affirm Russia's commitment to accession to the World Trade Organization (WTO). Slow progress toward that goal has continued at the working level despite Russia's economic problems in 1998. There has been some useful activity in technical areas and information exchange at various working party meetings. However, Russia's market access offer on goods, which sets tariffs higher than current rates and envisages a lengthy transition period after accession, is deemed inadequate by the U.S. and most other WTO members. Russia has yet to table an offer on services and provide data on agricultural subsidies.

Russia's intellectual property rights (IPR) legislation provides protection for patents, copyrights, trade and service marks, and semiconductor chip designs. However, it has excessive evidentiary requirements for civil suits and deficiencies in retroactive copyright protection. Pervasive problems remain in enforcement, and Russia is on the U.S. Special 301 Priority Watch List. In 1998 Russia established a Patent Chamber, a specialized court for appellate review of patent disputes. The United States and Russia have begun the first phase of a comprehensive technical cooperation program on IPR enforcement.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The Russian Federation's record in protecting internationally recognized human rights has been uneven. In February 1995, Russia was admitted to the Council of Europe and as a result will be subject to the jurisdiction of the European Court on Human Rights.

Freedom of expression and of the media is now well established in Russia, with the print and broadcast media reflecting a wider diversity of political views than under the Soviet period. Nevertheless, there are reports of government pressure on the media. Some journalists have been killed and kidnapped and the government has been lax in investigating these crimes. There is also some concern that ownership of the major television stations is being concentrated in the hands of a small circle of competing businessmen.

Restrictions on freedom of movement, imposed through modifications of the *propiska* (residence permit) system, remain a human rights concern. The mayor of Moscow has condoned the removal of hundreds of people who lack residence permits to live in the city. The rules are selectively enforced, with people from the Caucasus and Central Asia forming a disproportionate number of the deportees. There are also credible reports of people of Caucasus origin who possess valid residence permits being forced to leave Moscow and other large cities by local officials.

Religious freedom has flourished in Russia since independence, with a variety of faiths experiencing tremendous growth. However, over the past few years about one-quarter of Russia's regions have adopted restrictions designed to limit the activities of religious minorities and foreign missionaries. In September 1997, President Yeltsin signed a law "On Freedom of Conscience and Religious Associations," which could limit the legal status of some religious organizations in Russia, as well as impose significant restrictions on minority religions and representatives of foreign religious communities. Russian officials have pledged that implementation of the law will be consistent with Russia's international commitments to religious freedom and have taken some significant steps to ameliorate some of the law's negative aspects. In some regions, however, local officials have imposed restrictions on religious liberty; the U.S. Government and NGO community are monitoring this closely. However the Russian federal government needs to do more to reverse discriminatory actions taken at the local level.

Lack of respect for due process remains a serious shortcoming. Suspects are routinely detained for 12-18 months in pre-trial detention centers; conditions there and in regular prisons are deplorable. In one case with numerous due-process violations that appears to be politically motivated, environmental activist Aleksandr Nikitin was held without charge for nine

months in 1996. Although released in late 1996, as of November 1998 he is unable to travel beyond his home district and remains accused of treason and revealing state secrets while the government prepares its case against him. The charges against Nikitin were based in part on secret Ministry of Defense decrees, which were given to the defense on the day his trial began. In October, the presiding judge ruled that the evidence presented by the prosecution was not sufficient to convict and returned the case to the investigators. While not an acquittal, this represents a qualified victory for Nikitin's defense.

The Russian Government has made and continues to make steady progress in developing policies and practices that provide its citizens with rights to foreign travel and emigration that conform with internationally recognized human rights norms. The right to travel, which is enshrined in Russia's 1993 Constitution, was codified in 1996 with the passage of the law on "Procedures for Departing and Entering the Russian Federation," which was signed into law by President Yeltsin on August 15, 1996. This law reaffirms Russia's commitment to allow its citizens the right to travel abroad, to emigrate, and to return to Russia. However, the law also describes circumstances under which the Russian Government can deny the right to travel to Russian nationals who, during the course of their work, had access to "secret," "top secret," and "highly sensitive" material. Such individuals can be refused permission to travel abroad for up to ten years following the last date of access to such material.

According to the U.S. Embassy in Moscow, the time for processing applications for Russian nationals with passports who wish to travel to a foreign country or who wish permanent residence abroad is 2-6 months. The time for processing applications for Russian nationals who wish to emigrate and who do not already have a passport averages from four to five months.

Tens of thousands of Russian citizens emigrate annually. In FY 1997, approximately 7,600 Russian citizens emigrated to the United States. The number of state secrecy and other cases on the listings of "refuseniks" maintained by American Jewish organizations has decreased from over 1000 in the late 1980's to around 20 in 1998. In light of this record, the president has determined that the Russian Federation is in “full compliance” with the terms of the Jackson-Vanik amendment.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Russia has repeatedly professed its commitment to uphold all OSCE principles, including those governing territorial integrity, national sovereignty, non-use of force and the peaceful settlement of disputes.

The Russian Government permitted the establishment of the OSCE Assistance Group (AG) in Chechnya in April 1995, four months after the start of the war there. Since then, the AG has actively promoted efforts at reconciliation and its efforts have been praised by both sides and the international community generally. In August 1996, Russia and Chechnya agreed to a peaceful settlement that deferred the question of Chechnya's political status but provided for a cease-fire, exchange of prisoners, and steps for the reconstruction of the region's economy. With some lapses, both sides have honored the agreement and consistently reaffirmed their commitment to avoid violence in the future. Russian troops withdrew entirely from Chechnya at the end 1996 and the Chechen authorities conducted presidential and parliamentary elections in January-February 1997. In May, another agreement was reached which commits both sides to refrain from the use of force and to conduct relations according to principles of international law.

Despite the absence of open conflict, the North Caucasus remains a dangerous region, as evidenced by the November 1998 kidnapping of an American citizen in Dagestan. In December 1996, six medical workers from the International Committee of the Red Cross (ICRC) were brutally murdered in territory under the control of the Chechen authorities. This savage act was the worst-ever tragedy in the history of the ICRC. Kidnappings and assassinations, some politically motivated, have also occurred regularly in Chechnya since the beginning of the conflict in 1994.

Russian leaders have called for enhanced efforts by the UN and the OSCE in peacekeeping, including in the NIS. Russia has, to varying degrees, been supportive of OSCE missions and UN peace efforts in Azerbaijan (Nagorno-Karabakh), Estonia, Georgia, Latvia, Moldova, Tajikistan, and Ukraine.

In some cases, Russian forces left stationed on the territory of neighboring states have complicated ethnic conflicts in these states, particularly in Moldova where Russian troops previously intervened on behalf of separatist forces in Transdniester.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Russia's role in resolving regional conflicts in adjacent countries has been generally positive, though Russia's foreign policy remains committed to strengthening the CIS, preserving Russia's influence in the region of the former Soviet Union and defending the interests of ethnic Russians in neighboring states. In 1998:

Russia continued to cooperate with a Georgia-based OSCE mission charged with bringing Ossetians and Georgians to the negotiating table. In 1992, Russia helped broker the cease-fire agreement in South Ossetia. This truce accord still holds.

Georgian leaders stated that, in their view, the Yeltsin Administration does not have a policy of interfering in the Abkhaz conflict to the detriment of Georgia. At the same time, Russian facilitators in the negotiating process have not been able to convince the Abkhaz representatives to give up their demands for separate, equal status with the Georgian state. Moscow has been supportive of Georgian claims and is willing to press the Abkhaz to negotiate seriously toward a settlement.

Russia, the United States, and France co-chaired the Minsk Group peace process, which is the OSCE's negotiating forum for a peaceful settlement of the Nagorno-Karabakh conflict. Cooperation among the co-chairs has been excellent. The Minsk Group has been actively negotiating with the parties to reach a durable settlement. In May 1997 the co-chairs presented a new proposed peace plan and have been working since then to negotiate its acceptance by the parties. A Russian-brokered cease-fire has been in effect in Nagorno-Karabakh since May 1994 and has held, despite sporadic violations. At the Budapest Summit in December 1994, Russia agreed that an OSCE peacekeeping force would be used in Nagorno-Karabakh. The OSCE is working toward establishing this multinational peacekeeping force to help implement an accord on Nagorno-Karabakh.

President Yeltsin visited Kiev in May 1997 and signed a Friendship and Cooperation Treaty with Ukraine, and although neither country has ratified the document, both are implementing the Treaty provisionally. The two sides also concluded agreements to resolve the issue of the Ukraine-based Black Sea fleet, which had been a source of disagreement since 1992. The two sides have still not formally demarcated their interstate border, although border issues have not been a source of contention in recent years.

Russia played a significant role in facilitating the peace process in Tajikistan that led to the conclusion of a comprehensive settlement in June 1997. Russia's 201st Motorized Rifle Division is part of the Commonwealth of Independent States (CIS) Collective Peacekeeping Force established in 1993, although its presence in Tajikistan dates from Soviet times. Its activities support both the current regime and Russia's interests in the region. Cooperation exists between Russian and Tajik Government forces. Russian Border forces also dominate the multi-national CIS forces guarding the Tajik-Afghan border and which include personnel from Tajikistan, Kyrgyzstan, Uzbekistan, and Kazakhstan.

The Russian parliament has not yet ratified the 1994 agreement with Moldova under which Russia committed to withdraw its troops and equipment within three years after its ratification by both parliaments. Although President Yeltsin has publicly reaffirmed Russia's commitment to the withdrawal agreement, it is apparent that the Russian Government has not pressed the Duma to ratify it. The Moldovan parliament ratified the agreement in late 1994. Forces belonging to the Russian 14th Army have been stationed in Moldova since before its independence. About 2,300 Russian troops are currently present in the Transnistria area of Moldova. Moldova opposes the presence of Russian troops and has sought their removal. Thus far, the Moldovan Government is disappointed with the current slow rate of the Russian troop withdrawal. The Russian and Moldovan Governments are conducting ongoing discussions on the withdrawal process, with the direct support and involvement of the OSCE.

Russia has been generally constructive in mediating international conflicts through its participation as a cosponsor of the Middle East peace process, a member of the Bosnia contact group, and its support of UN and other multinational initiatives in the Persian Gulf, Haiti, and Angola.

Moscow continues to negotiate with the Chechen authorities over Chechnya’s political status. In May 1997, President Yeltsin and Chechen President Maskhadov signed an agreement that pledges both sides to refrain from the use of force and to conduct their relations in accordance with recognized principles of international law.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

Arms Control

The Government of Russia continues to make progress resolving arms control issues inherited as a result of the disintegration of the Soviet Union, including the fulfillment of obligations undertaken in connection with the ABM, INF, START I, and CFE Treaties.

The Russian parliament ratified the START I Treaty on November 4, 1992, which entered into force December 5, 1994. The detailed work of implementing the Treaty is well underway, including inspections and eliminations of strategic offensive arms. Russia has eliminated substantial numbers of strategic offensive arms in its efforts to achieve required START I levels. The START Treaty's Joint Compliance and Inspection Commission (JCIC) --in which both Russia and the United States participate -- is the mechanism for resolving questions concerning implementation of the Treaty. The JCIC meets regularly in Geneva and a number of implementation questions have been resolved through this mechanism. Some issues remain unresolved and will continue to be discussed in the JCIC.

The United States and Russia signed the START II Treaty on January 3, 1993. President Yeltsin and other senior Russian officials have stated publicly their intention to ratify the treaty. However, the Duma has not yet approved ratification of START II.

Russia has reaffirmed its commitment to the ABM Treaty at the foreign minister and presidential levels. Russia has been a leading participant in the Standing Consultative Commission. Negotiations on Treaty succession and the demarcation between treaty-limited ABM systems and theater ballistic missile defense systems not limited by the Treaty were concluded following the Helsinki Summit and the documents were signed in September 1997.

The United States and Russia have both signed the CTBT and continue to cooperate with the international community in finding ways to persuade India to allow that Treaty to enter into force.

Russia has generally fulfilled its CFE obligations to date, including completion of its declared equipment reduction liabilities. The CFE flank agreement, which entered into force on May 15, 1997, resolves Russia’s problem of complying with the Treaty’s flank limits. Russia has until May 31, 1999, to comply with the limits of the new flank zone.

There have been a number of compliance issues concerning Russia that are still under discussion. These include: designating the armored personnel carriers (APC) of some combat maneuver units as ambulances (which do not count against Treaty limits) while still using them as APCs. If these vehicles had been properly reported and counted as APCs, Russia would be in violation of the interim limits currently in effect for the original flank zone. In scattered instances, Russia denied full access during on-site inspections. In addition, Russia shares with Ukraine a joint reduction obligation related to naval infantry and coastal defense forces (NI/CD). This obligation, which derives from a CFE Treaty-related document, has not been fully met.

In September 1989, the United States and the Soviet Union signed the Wyoming Memorandum of Understanding (MOU), which called for an exchange of data on chemical weapons (CW), and for visits and inspections to relevant military and civilian facilities. Phase I of the MOU was completed in February 1991. Russian implementation of Phase II has been mixed. U.S. inspections of Russian facilities were carried out in accordance with the MOU. On the other hand, the United States believes that several key questions and concerns have not yet been resolved in Russia's data declaration. Several rounds of bilateral consultations have been held to discuss U.S. concerns and have revealed a lack of agreement on certain issues related to MOU implementation. President Yeltsin and other senior Russian officials have expressed support for the MOU. However, Russia still must take concrete steps to fulfill its commitment and resolve existing problems.

In November 1997, Russia ratified the 1993 Chemical Weapons Convention (CWC), which calls for the eventual elimination of chemical weapons. In April 1997, the Duma passed a law on destruction of chemical weapons. A legislative framework is now in place for the implementation of the CWC, however, lack of adequate funds will likely hamper timely compliance with timely compliance with CWC timelines for the destruction of chemical weapons and production facilities.

The United States and other nations are providing some assistance to help Russia meet its CWC commitments. The United States and Russia signed a Plan of Work on January 7, 1994, which paved the way for up to $55 million in Nunn-Lugar assistance to help Russia develop a comprehensive CW destruction program and to assist Russia in equipping a central CW destruction analytical laboratory. The United States and Russia are also cooperating to construct a pilot destruction facility that utilizes Russian technology to neutralize chemical agents through chemical processes.

With respect to the 1972 Convention on the Prohibition on the Development, Production, and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction (the BWC), the United States has determined that the offensive biological weapons (BW) program that Russia inherited from the Soviet Union violated the BWC at least through March 1992. In early 1992, President Yeltsin confirmed that the former Soviet Union had an offensive BW program and issued a decree in April 1992 prohibiting all activities that contravene the BWC. President Yeltsin has made these commitments to comply with the BWC, but there is some evidence that suggests that his commitment may not be universally shared and may not have been effectively implemented. We will continue to follow developments in this area very closely.

Since September 1992, U.S. and U.K. officials have met on several occasions with their Russian counterparts to discuss the BW issue. To date, some, but not all, of the confidence-building activities adopted as part of the September Trilateral Statement have been carried out satisfactorily. The U.S. Government firmly believes that the best course to ensure Russian compliance with the BWC is to pursue transparency and openness of BW-related activities and to seek continued implementation of the Trilateral Statement.

We continue to have significant concerns about Russia's current arms control compliance in some areas, notably biological and chemical weapons. However, we believe that senior Russian officials are committed to fulfilling Russia's arms control obligations and, indeed, many concrete steps have been taken since the end of the Soviet Union on December 25, 1991 to comply with relevant arms control agreements. However, the status of Russian compliance performance remains under our constant, careful review.

Reducing Forces and Expenditures

Due to extreme budgetary constraints and a changing view of the kind of military Russia needs, military spending on equipment and manpower has been drastically reduced in recent years. Russian troop strength has been cut by 70 percent, from 4.3 million to 1.27 million. Tanks and APCs have been cut by two-thirds, and the numbers of artillery mounts, aircraft, and combat ships are also down. The Government of Russia has begun to reduce and restructure its forces in accordance with a yet to be published plan of military reform. However, this will continue to be a long and costly process. The requirements of the CFE Treaty and the CFE IA agreement on personnel limits will also result in significant reductions of Russian forces in the Treaty's area of application.

Non-Proliferation

The United States and Russia have continued their active and productive dialogue concerning non-proliferation of nuclear, biological, and chemical weapons, their delivery systems, and related technologies. As a primary goal of our common non-proliferation agenda, our two countries worked successfully with many other nations to achieve the indefinite extension of the NPT in May 1995 and to sign the CTBT in 1996. Moreover, with the broadening of our non-proliferation agenda to include such items as regional issues, we agreed to create a formal Bilateral Working Group on Non-proliferation. The agenda and structure for this group have been finalized, and the first full session took place in 1996.

Russia and the United States continue to implement the bilateral agreement for U.S. purchase of low-enriched uranium (LEU) blended down from highly enriched uranium (HEU) extracted from nuclear weapons. The LEU will, in turn, be used in nuclear power reactors so that it can never again be used for nuclear weapons. The United States and Russia are cooperating on a variety of other initiatives and programs related to fissile materials. Among these is the bilateral initiative for disposition of excess weapon-grade plutonium. The U.S. and Russia have each declared 50 tons of plutonium excess to defense needs and in 1998 agreed to convert this material so that it can never be used for nuclear weapons. A bilateral agreement implementing this commitment is being negotiated.

Russia's nuclear cooperation with Iran remains a serious concern and intensive discussions with Russia continue in order to find a satisfactory resolution of this issue.

In 1998 a Russian decree was issued providing broad government authority over export controls. Implementing regulations have also been issued which are designed to restrict the export of sensitive technologies.

Russia joined the Missile Technology Control Regime (MTCR) in August 1995, and shared with us a commitment to missile nonproliferation, regional stability, and strict adherence to the tenets of the MTCR. In this context, we have continued our high-level engagement of Russia regarding our concerns about reports of Russian entities transferring missile-related technology to Iran. In 1998 Russia issued a preliminary report of an investigation against these entities and Russia has taken action against several of them. Russia has assured us of its commitment to the highest nonproliferation standards and has told us repeatedly that it does not support Iran’s long-range missile development efforts. We continue to press the Russian Government to take additional steps against entities involved in missile-related technology transfer to Iran.

We periodically receive reports of weapons-of-mass-destruction proliferation related transfers involving Russian entities, which we carefully review and engage the Russians on when the situation warrants.

Conventional Arms

The United States and Russia maintain active contacts on a wide range of conventional arms transfer issues. The Government of Russia has generally complied with its obligations to observe UN arms sanctions against Iraq, Libya, Haiti, and the former Yugoslavia, and has worked with the UN Sanctions Committee as questions have arisen. Russia has moved away from past policies of arms transfers for ideological or strategic purposes. The Russian Government has assured us that Russia is competing in the international weapons market as a responsible supplier that adheres to international agreements, cognizant of the importance of maintaining stability.

During the September 1994 Summit, President Yeltsin publicly pledged that Russia would not enter into new arms contracts with Iran. In June 1995, Vice President Gore and Prime Minister Chernomyrdin reached agreement on the details of the Russian pledge. This understanding makes clear that Russia's commitment is comprehensive, covering arms and arms-related technologies. It also provides for Russia's old contracts to be ended within a few years, while ensuring that transfers pursuant to the pre-existing contracts will not alter the military balance in the region or compromise the ability of the United States and our allies to protect our mutual interests.

Resolving this issue allowed us to support Russia's participation in September 1995 negotiations to establish the successor regime to COCOM, the Wassenaar Arrangement. In July 1996, Russia joined the United States and 31 other countries in giving final approval to the establishment of the new regime and assuming the same responsibilities as other members in ensuring transparency, responsibility, and restraint in the transfer of arms and sensitive dual-use goods and technologies.

We have received occasional reports of transfers or potential transfers of conventional weapons to state sponsors of terrorism from Russia that we carefully review in light of our legal obligations under the various proliferation sanctions laws. None of these reports resulted in a sanctions determination during the reporting period.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

During meetings the U.S.-Russian Joint Commission on Economic and Technological Cooperation (commonly called the Gore-Chernomyrdin Commission), Vice President Gore and Prime Minister Chernomyrdin affirmed their commitment to intensify cooperation to implement the concepts of sustainable development, responsible stewardship of natural resources and restoration of the environment. This commitment has remained in effect in 1998. Despite revenue shortfalls, Russia continues to make progress, albeit unevenly. A system of pollution charges levied on enterprises and utilities enables many regions and cities to meet some of their most pressing environment needs. Prosecutors have been appointed in many regions to enforce existing regulations. A new Russian federal law on waste management was passed in 1998 and the Duma is considering a draft law to provide for sustainable management of the Lake Baikal Basin. The tenth meeting of the Commission, held in March 1998, noted the beginning of two Russian federal investment programs, called "Energy Conservation for Russia" and "Energy Conservation for the Northern Territories" which promise a significant contribution to sustainable use of natural resources, as well as commercial and economic benefits.

The Environmental Working Group, in its report to the Commission, noted new steps taken to accelerate cooperation on environmental issues by sharing information derived from national security systems. Some recent examples included studies of boreal forests, coastal pollution in the Florida Bay and development of risk assessment methodologies for study of U.S. and Russian oil and gas activities. Vice President Gore noted that such reports continue to demonstrate how unclassified information from national security systems can be combined with civilian data to improve scientific understanding of the environment. Of particular note was the plan to study the carbon balance and processes in boreal forests, the results of which are expected to answer critical questions about the global carbon balance.

Regional Environmental Centers

The United States, the European Union and four host nations (Russia, Ukraine, Moldova and Georgia) are participating in the establishment of independent, non-profit, and non-political Regional Environmental Centers (RECs.) The mission of each REC will be to strengthen civil society and support sustainable development by promoting public awareness and participation in regional environmental decision-making.

Climate Change and CFCs

Russia is a member of the “Umbrella Group” of key partner nations supporting the US in favoring the use of the Kyoto Protocol's market-based mechanisms including emissions trading, the Clean Development Mechanism and joint implementation to meet national emissions reduction targets. Russia has also supported US efforts to secure the meaningful participation of key developing countries in the Protocol. During the Fourth Conference of Parties (COP) in Buenos Aires, Russia strongly supported Argentina’s announcement that it will adopt a greenhouse gas emissions target.

Under the Kyoto Protocol, which set emissions allowances for the period 2008-2012, Russia agreed to stabilize its emissions at 1990 levels. As Russian greenhouse gas levels are expected to be significantly below 1990 levels due to the collapse of their economy, the nation expects to benefit from both capital flows generated from the sale of emissions credits and Western investment in its energy sector. Russia's participation in international emissions trading system depends upon the establishment of a reliable domestic monitoring and verification regime. Workshops on emissions trading and joint implementation were held in Moscow in June 1998 to address the creation of monitoring capability and the ability to track reductions.

The Environment Committee in its report to the Gore-Chernomyrdin Commission called attention to anticipated efforts to eliminate the production of chlorofluorocarbons in Russia by the year 2000. A major step toward Russian compliance with the Montreal Protocol (on substances that Deplete the Ozone Layer) was taken in 1998 with the conclusion of a $27 million international assistance package that will eliminate Russian capacity to produce ozone-depleting substances the end of the year 2000. This effort, to which the USG has contributed $6 million, involves substantial commitments from the Russian Government and the seven enterprises involved. Post-phaseout oversight will extend for a period of five years. Disbursements to any enterprise are conditioned on satisfactory performance by all seven. We would also note that consumption in Russia of ozone-depleting substances has declined markedly from a peak of around 70,000 tons annually to approximately 9,000 metric tons in 1998, to an estimate of some 6,000 tons in 1999. Remaining demand after 2000 is estimated at 3000 to 4000 tons per year and will be met by a combination of recycling, controlled sale of reserve stocks and conversion to technologies that do not use these substances.

Radioactive Waste

At the Commission meeting this year, Vice President Gore welcomed the expansion of multilateral cooperation in addressing the problem of radioactive waste management in northwest Russia, where such materials pose an international threat. Several projects and initiatives contribute to this effort. The first established was the so-called Murmansk Initiative. The only operational low-level liquid radioactive waste (LLRW) processing facility in Russia is located in Murmansk on the Kola Peninsula and is run by RTP-Atomflot. It has historically processed a small amount of LLRW from the Russian North Fleet. In 1994, the plant was operating near capacity, while storage capacity was virtually exhausted. Russia had no other LLRW processing capacity and, until 1993, disposed of LLRW in the Barents and Kara Seas. In 1993, an amendment to the London Dumping Convention of 1972 was introduced, which was aimed at the prevention of marine pollution by the dumping of wastes, including LLRW. All parties to the London Convention, except Russia, subsequently adopted a mandatory moratorium on all types of radioactive dumping. Russia promised to adhere to the protocol to the London Convention at the Moscow Nuclear Summit of 1996. In June 1994, to assist in realizing this the U.S., Norway, and Russia began exploring the possibility of expanding and upgrading this facility. The proposed expansion of this facility would increase capacity from 1200 cubic meters to 5000 cubic meters per year and would thus upgrade Russia’s capability of processing LLRW from nuclear submarine decommissioning. Work on this plant is now 90 -percent complete, and the expanded facility is planned to be operational by the spring of 1999.

A second aspect of Russian cooperation with others on elimination of transborder pollution is Arctic Military Environmental Cooperation (AMEC), a trilateral initiative among Norway, Russia and the U.S. established in 1996. Six initial projects exist under AMEC, four of them deal with radioactive waste and two of them deal with non-radioactive waste (such as petroleum and chemical management resulting from the closure of military bases). The first AMEC radioactive waste project provides for the design and construction of a prototype 40-ton cask in support of the Cooperative Threat Reduction (CTR) program. The cask will provide interim storage and transportation of spent nuclear fuel from nuclear powered submarines (capable of launching nuclear missiles). The project will also construct a pad for the temporary storage of the 40-ton casks. The completion of this project will assist Russia in meeting its obligations under START, and will eliminate bottlenecks, facilitating the CTR schedule for submarine dismantlement. The cask portion of this project will be completed by October 30, 1999 and the pad will be completed on the July 31, 2000.

The most recent initiative on radioactive waste was the Murmansk 80-tonne Cask Initiative (also known as the Talbott Initiative). This project was launched by U.S. Deputy Secretary of State Strobe Talbott with a pledge of $500 thousand at the January 1998 ministerial meeting of the Barents Euro-Arctic Council. Its aim is to design and construct a prototype 80-tonne cask that could be used for the dual purposes of temporary storage and transportation of undamaged spent fuel for nuclear submarines. This material is currently stored on the Lotta (a World War II barge that stores both damaged and undamaged SNF) and the Lepse (a service ship that has been used to replace SNF, but has more recently served as a de facto storage vessel because of bottlenecks in the waste stream). This project will also design and construct an outside concrete storage pad to accommodate 50 of the 80-tonne casks. The site of this pad is to be in the Murmansk region of the Kola Peninsula. The cost of this project is estimated to be between $2.1M and $2.5M. Funding for the 80-tonne cask

project has been pledged by the U.S., Sweden, Norway, Finland, and the EU. The UK is contributing separately to work with the Russian regulatory authority (GAN) on cask certification. Completion of the project is expected in December 1999.

Endangered Species

Trade in caviar from Caspian Sea sturgeon has recently been restricted under the Convention on International Trade in Endangered Species (CITES). In August 1998 former prime minister Kiriyenko signed a decree establishing a system of import/export controls on sturgeon and its byproducts, including caviar, to implement the recommendations of the Tenth Conference of the Parties of the CITES. In November, the Russian Government announced plans to limit the Russian sturgeon harvest to 700 tons, down from 1200 tons in 1998. Russia expects that other NIS Caspian littoral states will limit their catches by similar ratios, and that final quota values will be set early in the year. This, as well as conservation of the Siberian tiger and other Russian biodiversity, is an important area of U.S.-Russia cooperation.

As noted in past reports, while inconsistencies and partial retrenchments mark Russian environmental policies, the overall thrust in recent years has been positive. U.S. Government assistance, together with that of other international sources such as the World Bank, has helped reinforce the commitment to environmental progress.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Russia does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. The Georgian Government has requested the extradition of Igor Giorgadze, the former head of the Georgian security ministry, whom Georgia alleges is in Russia and was involved in the assassination attempt on President Shevardnadze. Russia has not responded to this request.

The United States began conducting regular counter-terrorism consultations with Russia in June 1994, and in November of 1994, initiated dialogues on cooperation to counter nuclear terrorism, the latest round of which took place in Washington in April 1997. In 1995, Russia joined the existing G-7 counter-terrorism expert consultative structure, and participates in P-8 discussions annually. In September 1998, Russian Foreign Minister Ivanov issued a joint statement with Secretary of State Albright on terrorism. Consultations on terrorism are scheduled for 1999.

Russia is a party to seven of the eleven international counter-terrorism conventions and initiated UN consideration of a proposed twelfth convention to combat nuclear terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. All of the non-Russian NIS have signed protocols with Russia under which Russia either will pay the debt in return for the assets or will take on management responsibility.

In April 1993, Russia and the official creditors of the former Soviet Union reached an understanding on rescheduling of outstanding arrears and 1993 maturities arising from credits extended to the former Soviet Union. The April agreement included a declaration signed by the Russian Government that acknowledged and confirmed Russia's liability for the debt to foreign creditors of the former Soviet Union. A bilateral agreement with the United States implementing the April accord was signed in Washington on September 30, 1993.

In light of continuing payment difficulties faced by Russia, Russia and its official creditors have reached a series of understandings related to the rescheduling of Russia's debt. On June 4, 1994, Russia and the "Paris Club" official creditors of the former Soviet Union reached agreement on rescheduling 1994 maturities arising from credits extended to the former Soviet Union. A bilateral agreement with the United States implementing the June accord with respect to debt owed to the United States was signed October 25, 1994. On June 3, 1995, the official creditors agreed to reschedule some seven billion dollars of Russian debt payments falling due during the year. A bilateral agreement with the United States implementing the June 1995 accord was signed October 9, 1995. In April 1996, Russia and its Paris Club creditors agreed to an exit agreement rescheduling $40 billion of payments falling due in 1996-99, and some payments coming due after 1999. (An "exit agreement" is a Paris Club term of art used when the Paris Club creditor countries, the IMF, and the debtor country all agree to a rescheduling whereby the debtor country should be able to service its debts over time, without recourse to further rescheduling.) The 1996 rescheduling included a reprofiling of a portion of the stock of debt rescheduled in 1993. The U.S. share of this official debt was slightly less than $2.3 billion. Repayment was scheduled over a 25-year period, including a grace period of approximately four years. When Russia joined the Paris Club in September 1997 as a creditor, it committed itself to extending the same concessional terms in rescheduling the debts of the least developed

countries as do the United States and other participating creditors. Russia failed to make payments of $726 million to Paris Club creditors in August 1998. A total of $5.506 billion is due to Paris Club creditors in 1999, $1.791 billion of which comes due in the first quarter. Russia has made all payments to the USG under the Lend-Lease Agreement. Following the intensified financial crisis that began in August 1998, the Russian Government has announced that it will seek restructuring of the debt of the former Soviet Union.

In April 1996, Russia also reached agreement in principle with the "London Club" of commercial creditors for the rescheduling of about $30 billion in commercial debt. Finalization of the agreement was achieved in the Third Quarter of 1997. Principal of approximately $25 billion and the majority of past due interest will be spread over payback periods of 25 and 20 years respectively. Repayment of each category of debt was scheduled to begin after completion of a seven-year grace period. In these negotiations, Russia sought to restructure amounts owed banks not insured by official guarantees, arising from their loans to or other claims on the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs who may have been taken to the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POW/MIAs, which was established by the presidents of Russia and the United States in March 1992. President Yeltsin and the late General Dmitriy Volkogonov, former head of the Russian side of the Commission, pledged their full cooperation. President Yeltsin has directed all relevant Russian ministries to cooperate fully with the Commission. Until his death in December 1995, General Volkogonov oversaw a thorough and professional research effort conducted by Russian archivists in search of information on missing American servicemen. He also arranged for the U.S. side of the Commission to travel across Russia in order to interview Russian citizens and conduct research in regional archives. This level of U.S.-Russian cooperation on POWs/MIAs is unprecedented.

At the same time, lower-level Russian security officials have not always cooperated fully with Commission requests.

The Commission held its fifteenth plenary session in Moscow in November. On December 1, General Roland Lajoie became the new U.S. Chairman of the Commission replacing Ambassador Malcolm Toon, who served as U.S. Chairman since the Commission's inception. As of September 1996, the U.S. side has traveled to all twelve capitals of the New Independent States in search of information on missing American servicemen. The Russian side is headed by General-Major Vladimir Zolotaryev, who was appointed in March 1996.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

Russian-Cuban ties have changed dramatically since the end of the Cold War. In 1991, Moscow ended its $4 billion a year subsidy of the Cuban economy. In 1992, Russia halted construction of the Juragua nuclear power plant near Cienfuegos, Cuba. Russia does maintain a credit line for mothballing parts of the facility completed before suspension. We continue to monitor the status of the Juragua facility.

In 1993, Russia withdrew its last remaining combat troops from Cuba. Russian officials continue to assure us that Russia is not providing assistance to Cuba, and that all trade is conduced on a commercial, non-preferential basis. Russia continues to operate a signal intelligence facility at Lourdes.

The two remaining significant aspects of Russian-Cuban economic interaction are the oil-for-sugar barter arrangement and possible Russian provision of assistance and credits to Cuba in support of the Lourdes signal intelligence facility. The oil-for-sugar barter is an agreement to exchange Cuban sugar for Russian oil, with the quantities pegged to market values for each commodity. Reports of oil shipments totaling 3 million metric tons authorized by the Russian Government to Cuba as compensation for the use of Lourdes intelligence facility remain under review to determine whether the U.S. Government is required to reduce certain assistance to Russia pursuant to the provisions of Section 498A(d)(1) of the Foreign Assistance Act of 1961, as amended.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

RUSSIA

Section 498A(b)(1): Has the President determined that the Government of Russia has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. Although the protection of human rights remains uneven in some areas, and the newly adopted law on religion is grounds for concern, we do not believe that the Government of Russia is engaged in such a pattern.

Section 498A(b)(2): Has the President determined that the Government of Russia "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. The Government of Russia has taken many constructive steps in this area (as discussed above).

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Russia "knowingly transferred to another country":

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

Russia joined the partnership of the MTCR in August 1995. Russia is a Party to the NPT, CWC and BWC, and the Russian Government has demonstrated a commitment to the non-proliferation of weapons of mass destruction. There was no termination of assistance to Russia during the reporting year under section 498A(b)(3). Additional information related to implementation of this section, however, has previously been provided to Congress on a classified basis.

Section 498A(b)(4): Is the Government of Russia "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. The Government of Russia is not prohibited from receiving assistance under these sections.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Russia "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30 day period?"

No. The Government of Russia is not prohibited from receiving assistance under these sections.

Section 498A(b)(6): Has the Government of Russia "failed to make significant progress on the removal of Russian or Commonwealth of Independent States troops from Estonia, Latvia, and Lithuania" or "failed to undertake good faith efforts, such as negotiations, to end other military practices that violate the sovereignty of the Baltic states"?

No. The process of Russian troop withdrawal from Lithuania was completed in 1993, and from Latvia and Estonia in 1994. Russia ceased operating its radar facility at Skrunda, Latvia on August 31 as called for in a bilateral agreement. Dismantlement of the Skrunda facility is underway and is expected to be completed on schedule.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

TAJIKISTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

With the signing of comprehensive peace accords on June 27, 1997, the stage has been set for the establishment of a more democratic government. Though the government remains dominated by President Rahmonov and other Tajiks from his native Kulyab region who were victorious in the 1992 civil war, the government pledged under the accords to form a coalition with 30 percent of the seats going to the opposition. By the end of 1998, the promised ministerial-level seats had been allocated, and some elements of the government-opposition coalition appeared to be cooperating effectively. In addition to opposition figures appointed, President Rahmonov has also somewhat expanded regional representation by appointing several non-Kulyabis to key government posts. Though the 1995 parliamentary elections, Tajikistan's first-ever on a multi-party basis, were marked by fraud and intimidation, the peace accords have also provided for a transition period leading up to the conduct of new parliamentary elections. Under the peace accords these elections were to take place before the end of 1998, but peace process implementation deadlines have been slipping, and it now appears that elections will take place sometime in 1999, at the earliest. As part of this process, the government agreed to lift the ban on four political parties suspended since 1993 as soon as Phase II of the military accord is completed. Progress was made in the adoption of a new law on political parties by the November 1998 parliamentary session. With the signing of peace accords, the completion of the repatriation process brought the last of the refugees in exile in Northern Afghanistan back into the country, including many opposition supporters. The cease-fire has effectively held, putting an end to the low-intensity insurgency against the current government carried out by the armed opposition. However, other armed elements clashed, and at times this past year the government was involved in violence to subdue these forces -- in several operations government and opposition forces cooperated in military operations against renegades opposed to the peace process. Due to the absence of widespread military conflict and the reduced level of violence, the government's human rights record improved somewhat, although serious problems remain. Freedom of the press continues to be severely restricted, as the government controls both press and broadcast facilities. The violence against journalists, which flared during the civil war, has largely abated. Freedom of assembly is limited. Following several large protest demonstrations that took place unimpeded in 1996, some of the key organizers were arrested and later killed during a 1997 prison uprising. The rule of law is applied unevenly at best, and the government has used the legal system to raise criminal charges against individuals that oppose it.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The civil war severely damaged Tajikistan's already-weak economic infrastructure, causing both industrial and agricultural production to fall sharply. Government revenue remains highly dependent on the cotton and aluminum industries. Preoccupied with the civil conflict, until recently the Tajik Government devoted little attention to economic reform. However, more recently the government has implemented several notable economic reform measures. In May 1995, the government introduced its own national currency, the Tajik ruble. On the advice of the International Monetary Fund (IMF), it subsequently liberalized the price of bread and flour and began to phase-out the state order system for cotton, one of Tajikistan's two major exports. In 1996 the government introduced measures designed to increase private agricultural production. Privatization of small-scale enterprises moved forward in 1997 and 1998. The government has made significant progress during the past year in achieving macroeconomic stabilization. In response to the restoration of macroeconomic stability, GDP grew in 1997 and 1998, the first real growth since independence in 1991.

Much needs to be done to advance Tajikistan's transition to a market economy. Privatization has begun in small retail facilities, but has yet to begin in earnest in the larger trade and distribution facilities. Accordingly, most property and almost all major economic concerns remain under the control of the state. The high inflation of 1995 that followed the introduction of the new currency slowed dramatically in 1996, thanks to adherence to IMF recommendations. After an increase in inflation in 1997, the government maintained fiscal and budgetary discipline in 1998 and succeeded in achieving macroeconomic stabilization. Though the government has been chronically behind in paying salaries and pensions, most were paid in 1997 and 1998. In May 1996, the IMF approved a first $22 million credit tranche standby program to support Tajikistan's economic reform program through the end of 1996. The IMF loan is intended to support government efforts to reduce monthly inflation, build up international reserves, and slow the decline in output and real income. The World Bank

has concluded several agreements with Tajikistan, including a $50 million loan agreement in September 1996, and two $10 million tranches of post-conflict transition support in 1997, and a $50 million Structural Adjustment Credit in July 1998.

Tajikistan is a member of the IMF, IBRD and EBRD, and this year became a member in the Asian Development Bank. An OPIC agreement entered into force in 1992. Negotiation of a bilateral trade agreement began in 1992, but was suspended due to the civil war, and has not yet been signed. A bilateral trade agreement was signed and ratified in 1993. MFN status was granted in November 1993. Tajikistan has not applied to join the World Trade Organization.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The serious human rights violations by both the government and the armed opposition that were rampant during the most intense period of civil conflict have largely come to an end with the effective observation of a general cease-fire between the two sides. Though these armed confrontations between government and opposition forces have ended, a significant number of extra-judicial killings took place, though assignment of blame is still not possible. Some killings were probably committed by government forces, some by the opposition, and some by independent warlords with loyalty to neither. Several prominent figures were killed in such unresolved killings. Several Russian army officers and members of their families were killed during the year, though these individuals were likely targeted not so much for their ethnicity as their role in the armed forces. The government rarely prosecutes security officials believed responsible for human rights abuses, though in some cases such officials have been reprimanded and/or transferred to other areas.

The government cooperated with the United Nations High Commissioner for Refugees (UNHCR) in the repatriation of Tajik refugees from Afghanistan, and by 1998 the final tranche of refugees finished returning to their homes. It has now turned its attention to the question of working with the UNHCR, the International Organization for Migration, and the International Committee of the Red Cross to facilitate the return of remaining internally-displaced persons from eastern Gorno-Badakhshan *oblast* (region), and those who sought refuge in other neighboring states. Some of this latter group may have settled in their new homes as economic migrants, and have no intention of returning to Tajikistan at this time.

Retribution against returnees by local militias did not take place as originally feared, and the government has made positive efforts to resolve the cases of returnees whose homes had been occupied during their absence. Persons from Kulyab continue to be favored over those from other regional clan groups and some harassment of those from the opposition-stronghold areas of Gharm and Pamir continues. Fear about the future as well as linguistic and employment discrimination against the Russian minority led to significant out-migration of this group in recent years. This trend has slowed significantly after the situation has stabilized, and as most of those with family in Russia have already left. Emigration will likely be further slowed by a 1996 agreement with Russia permitting dual citizenship.

According to the Constitution, Tajikistan is a secular state, and church and state are separate. Religious freedom is guaranteed by law. While Islam is the majority religion, minority religions enjoy both government and individual tolerance. There are no reports of official discrimination against religious minorities. The Russian Orthodox Church and a Jewish synagogue function in Dushanbe. One issue of contention is that there are elements in the opposition that would seek to amend the constitution to make Tajikistan an Islamic State.

Tajikistan has no law on emigration. Nationals who wish to travel abroad must obtain an exit visa, but there is no evidence that these are being withheld for political reasons. Those wishing to emigrate must notify the appropriate authorities and obtain required documentation. Those who fled Tajikistan for political reasons after the civil war have largely returned safely, including most of the prominent opposition leaders who for some years had remained fearful about doing so.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Tajikistan has made a public commitment to respect international legal obligations and OSCE commitments. It has cooperated with the OSCE mission in Dushanbe on matters related to electoral law, human rights monitoring, and efforts toward a political settlement to the conflict. The OSCE mission in Tajikistan was expanded in 1995 to take on human rights monitoring functions previously carried out by the UNHCR, and continued its work in this field throughout 1998. The government has not yet established a human rights ombudsman as recommended by the OSCE, despite its statement in 1996 that it would do so. The government has, however, permitted human rights organizations such as Human Rights Watch to establish offices and operate in Tajikistan.

Tajikistan has outstanding border disputes with Kyrgyzstan and China, but neither has erupted into armed conflict, nor are they likely to. Given the current uncertainties about implementation of the peace process and the extent to which Tajikistan's nascent military is needed for internal security, Tajikistan has neither the capacity nor the intention to pursue aggressive actions against any of its neighbors. Tajikistan has been an active participant in regional dialogues and cooperative peacemaking efforts. However, most of its efforts at conflict resolution have been domestic – participating in the inter-Tajik peace negotiations, seeking reconciliation following its own civil war.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The Government of Tajikistan has welcomed international efforts to seek a peaceful resolution of the ongoing Tajik civil conflict. A three year UN-mediated negotiating process of peace talks with the Tajik opposition led to the June 27, 1997 signing of comprehensive peace accords and the creation of a Commission on National Reconciliation chaired by opposition leader Nuri. In 1998, the two sides made definite progress on implementation of these accords, though almost all of the deadlines slipped. The government cooperates with the United Nation Mission of Observers in Tajikistan (UNMOT) which monitors the implementation of these accords.

The Tajik conflict is primarily a regional and clan-based struggle. Although the population is 25 -percent ethnic Uzbek, and Uzbeks were involved in the civil war and fought in support of the government side against the opposition, the ethnic question was not an aspect of the war. Instead it allowed sub-ethnic regional identities among Tajiks to take on an almost ethnic quality, as discrimination against Tajiks from other regions such as Garm and the Pamir region took place.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

Tajikistan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Tajikistan is a party to the Treaty on the Non-Proliferation of Nuclear Weapons as a non-nuclear-weapons state and supported indefinite extension of the Treaty at the NPT Review Conference in 1995. Tajikistan's fledgling military forces do not represent an offensive threat to neighboring states. There is no evidence suggesting Tajikistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Tajikistan is a party to the 1993 Chemical Weapons Convention. Tajikistan has taken steps to establish a basic framework for export controls including adoption in 1997 of an export control law. The border with Afghanistan is porous and cross-border arms transfers have occurred, with Russia and Iran currently using an airfield in southern Tajikistan as a staging area for supplying weapons to the anti-Taliban alliance in Northern Afghanistan.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Tajikistan's efforts to protect its environment remain overshadowed by its political problems. The U.S. Geological Survey has cooperated with Tajikistan in the past on a program of earthquake monitoring. The government has committed to regional cooperation on Aral Sea problems and is a member of the Interstate Council for the Aral Sea. Tajikistan has introduced a limited program of water pricing which has decreased consumption and is working to modify legislation to promote environmentally sound policies. The United States and the European Union have agreed to work together to establish an independent, non-profit, and non-political Regional Environmental Center (REC) to serve the countries of Central Asia. The mission of the REC will be to strengthen civil society and support sustainable development by promoting public awareness and participation in environmental decision-making. Almaty, Tashkent and Bishkek all have been proposed as REC locations.
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Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Tajikistan does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Tajikistan is a party to five of the eleven international counter-terrorism conventions. Tajikistan has been critical of the Taliban in Afghanistan for harboring Usama bin Ladin, and openly opposes his brand of Islamic terrorism.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Tajikistan signed both the October and December 1991 agreements. The December 1991 agreement provided that Tajikistan's share of the FSU debt would be 0.82 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In October 1993, Tajikistan signed a "zero option" agreement with Russia under which Russia will pay Tajikistan's share of the debt, in return for its share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs that was established in March 1992. The U.S. side of the Commission visited Tajikistan in September 1996. The visit was positive and indicated American interest. Requests for information were broadcast on local television, but there is no indication that any American POWs are in Tajikistan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Tajikistan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

TAJIKISTAN

Section 498A(b)(1): Has the President determined that the Government of Tajikistan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. While there have been serious shortcomings in human rights observances in Tajikistan owing to ongoing civil strife, the government has taken efforts to address some aspects of the situation. In some areas, especially political violence, abuses have decreased. Many of the shortcomings result from the government's lack of control over armed warlords, and not from government policy.

Section 498A(b)(2): Has the President determined that the Government of Tajikistan "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. The Government of Tajikistan has not failed to take action to facilitate effective implementation of arms control obligations.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Tajikistan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No such determinations were made with respect to Tajikistan in 1998.

Section 498A(b)(4): Is the Government of Tajikistan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991?"

No.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Tajikistan "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Tajikistan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

The U.S. Government is not aware of the Government of Tajikistan providing assistance for, or engaging in any non-market-based trade with, the Cuban Government.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

TURKMENISTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

The Government of Turkmenistan made limited progress in 1998 in moving toward a democratic system of government. The country remains a one-party state dominated by President Saparmurad Niyazov and his closest advisors. The President has continually emphasized stability over political reform. In 1994, a referendum of questionable constitutionality extended President Niyazov's term of office until 2002. The government registered no parties in 1998 and continued to repress opposition political activities. During his April 1998 visit to the U.S., President Niyazov committed to taking concrete steps to strengthen the rule of law and political pluralism, including free and fair multi- candidate elections for parliament in 1999 and for president in 2002, and followed up with public statements in Turkmenistan to this effect. The April 5, 1998 elections for local legislative bodies and the Council of Elders were, in most instances, multi-candidate races.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

The Government of Turkmenistan has taken a slow approach to economic reform. On December 27, 1995, President Niyazov announced a series of macroeconomic reforms, which covered, among others, the three key reforms recommended by the IMF: control of the expansion of credit, limited national budget deficits and liberalized foreign exchange. President Niyazov plans a ten-year state-managed transition and hopes to utilize hard currency earnings from Turkmenistan's natural resources to finance expenditures and soften the impact of the economic transition. The economy, however, remained predominantly under state control. In 1997, the World Bank approved $64 million in projects for Turkmenistan in the areas of urban transport and water supplies. The Government of Turkmenistan has promised to enact significant economic reforms over the next two years under these programs. Cumulatively the World Bank has funded three projects worth $89.6 million.

Turkmenistan has laws on foreign investment, banking, property ownership and intellectual property rights , but respect of contracts remains an issue. The government introduced its currency, the manat, in November 1993, which has helped it establish an independent monetary policy. A bilateral trade agreement providing for reciprocal most favored nation (MFN) and containing IPR (intellectual property rights) provisions entered into force October 1993. The OPIC agreement entered into force in June 1992. Further discussions are needed on the bilateral investment treaty to avoid double taxation before finalization. Turkmenistan is a member of the IMF, World Bank, ADB and IBRD. Turkmenistan has not applied to join the World Trade Organization.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The government's record on recognition of internationally recognized human rights is poor. It has largely avoided extra-judicial killings, but the authorities routinely beat criminal suspects, prisoners, and witnesses before and after trial. It restricts civil and political rights, and security agents have used force to suppress political opposition. In April 1998 the Turkmen Government released five political prisoners held in connection with this demonstration, released an additional dissident held on hooliganism charges and released dissident Durdymurad Khodzha-Muhammed from a psychiatric hospital. Others who have protested government policies and economic conditions reportedly remain in psychiatric hospitals. The government tolerates virtually no political opposition and completely controls the media, censoring all newspapers and rarely permitting criticism of government policy or officials. The government has attempted to extradite Turkmen dissidents from Uzbekistan and Russia on charges that appear politically motivated. As part of its efforts to foster a sense of nationhood among the Turkmen, the government has reversed decades of favoritism toward Russians. Ethnic Turkmen now receive favored treatment, leading ethnic minorities to complain of discrimination, especially in employment practices.

The constitution guarantees freedom of religion and does not establish a state religion. State harassment of religious groups has ended, and religious freedom is generally respected. Recent legal amendments provide greater religious freedom, but tighten government control over religious groups. Religious congregations are technically required to register

with the government. The requirement that religious organizations have at least 500 members has prevented some minority religions from legally establishing themselves.

The government does not generally restrict movement within Turkmenistan, although travel to border zones is tightly controlled. The government uses its power to issue passports and exit visas as a general means of restricting international travel by its critics. While most citizens of Turkmenistan are permitted to emigrate without undue restriction, some government opponents have been denied the opportunity to emigrate.

The National Institute for Democracy and Human rights was founded in 1996 with a mandate to support democratization and monitor the protection of human rights. While its investigation of poor prison conditions led to a general amnesty, the Institute is not independent of the government.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Turkmenistan has a proclaimed policy of neutrality and has done noting inconsistent with its OSCE obligations to refrain from the threat of the use of force and to settle disputes peacefully. Turkmenistan is at peace with its neighbors. The Turkmen military does not currently present an offensive threat to the region. It has been complying with CSBM (Confidence and Security Building Measures) provisions by submitting CSBM declarations and undergoing an inspection in February 1998.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Turkmenistan supports regional and international efforts to resolve peacefully the conflicts in Tajikistan and Afghanistan. It played a role in bringing the warring parties in Tajikistan together by hosting inter-Tajik peace talks

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

The Government of Turkmenistan has formally declared its willingness and intent to accept all of the relevant arms control obligations of the former Soviet Union. Turkmenistan acceded to the Non-Proliferation Treaty in 1994. Turkmen armed forces are guided by a defensive military doctrine. We do not believe that Turkmenistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technologies. Turkmenistan is a party to the 1993 Chemical Weapons Convention and a party to the Biological Weapons Convention. To our knowledge, Turkmenistan has not engaged in any significant level of conventional arms transfers.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Although Turkmenistan has one of the best developed systems of nature preserves in Central Asia, its Karakum Canal contributes to the region's most serious environmental problems, notably in the Aral Sea, by exacerbating existing water pollution, pesticide run-off, and water-table problems. The Interstate Fund on the Aral Sea, made up of the five Central Asian states and several international organizations secretariat, has a rotating presidency, which will be held by President Niyazov in 1999 and the executive committee will move to Ashgabat in the spring of 1999.

Turkmenistan is currently engaged in talks with Russia, Azerbaijan, Kazakhstan and Iran on environmental protection of the Caspian Sea. These marine environmental protection talks will include discussion of development of the mineral resources of the Caspian seabed and use of the sturgeon population in a way that protects the Caspian ecosystem.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Turkmenistan does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Turkmenistan is not a party to any of the eleven international counter-terrorism conventions.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December

1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union (FSU). The Government of Turkmenistan signed the October but not the December 1991 agreement. The December 1991 agreement provided that Turkmenistan's share of the FSU debt would be 0.70 percent. In July 1992, the Government of Turkmenistan signed a "zero option" agreement with Russia under which Russia will pay Turkmenistan's share of the debt in return for its share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs that was established in March 1992. In November 1995 the Commission visited Turkmenistan, where it was warmly received by, and received full cooperation from, the Government of Turkmenistan.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

We have no evidence to indicate that the Government of Turkmenistan is providing military, economic, nuclear, or other assistance to Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

TURKMENISTAN

Section 498A(b)(1): Has the President determined that the Government of Turkmenistan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. Nonetheless, the U.S. Government is deeply concerned about the serious violations of human rights discussed above and will continue to make human rights issues a central element of our dialogue with the Government of Turkmenistan.

Section 498A(b)(2): Has the President determined that the Government of Turkmenistan "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not believe that the Government of Turkmenistan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Turkmenistan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of Turkmenistan has made such transfers.

Section 498A(b)(4): Is the Government of Turkmenistan " prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No. We do not have information from which to conclude that the Government of Turkmenistan is prohibited from receiving assistance by these statutes.

Section 498A(b)(5): Has the President determined and certified within 30 days to the appropriate congressional committees that the Government of Turkmenistan "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Turkmenistan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

The U.S. Government is not aware of any information that the Government of Turkmenistan is providing assistance for, or engaging in any non-market-based trade with the Cuban Government.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

UKRAINE

Section 201 of the FREEDOM Support ACT amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to":

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Ukraine has made progress in building a democratic society. The 1995 election of former Prime Minister Leonid Kuchma to the Presidency in a run-off election against incumbent Leonid Kravchuk constituted the first peaceful, democratic, contested transfer of executive power in independent Ukraine and, indeed, in the former Soviet Union. Ukraine's second parliamentary elections were held in March 1998. Domestic and international observers concluded that the elections were free and fair. Nonetheless, there were reports that the government interfered with the electoral process, increased pressure on the media, and may have manipulated the judiciary in connection with the overall electoral process.
The Ukrainian constitution provides a good legal framework for protecting civil and political rights. However, many constitutional provisions still await the passage of enabling legislation. Because of this, actual human rights practices often do not conform to constitutional requirements. The constitution mandates an independent judiciary, headed by a Constitutional Court that determines the constitutionality of laws and acts by all branches of government. However, the courts remain subject to considerable political interference.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

Ukraine has made important progress in creating an economy based on market principles, private ownership and integration into the world economy, but much work remains to complete the transition. The International Monetary Fund (IMF) supported the government with $760 million under a Structural Transformation Facility agreement and subsequently with a series of Stand-by Arrangements in 1995, 1996, and 1997. Stalled reforms and the effects of the Asian financial crisis forced a suspension of the 1997 Standby and most World Bank lending in February 1998 and pushed the country close to financial crisis. After difficult negotiations, the government concluded an ambitious, three-year Extended Fund Facility (EFF) with the IMF in September. However, slow progress on structural reform, the lack of foreign investment, and the economic turmoil in Russia continue to place Ukraine's economy in a precarious position. The climate for foreign investment remains problematic, with several prominent problem investment cases severely discouraging potential international investors.

Ukraine has succeeded in arresting hyperinflation, unifying and stabilizing the foreign exchange market, substantially liberalizing prices, ending most government subsidies and eliminating export quotas. Because of a decline in the value of the currency, inflation, which had fallen to about 10 percent in 1997, is expected to exceed 20 percent in 1998.

Ukraine introduced a new currency, the hryvnia, in September 1996. The transition was smooth, and the hryvnia was relatively stable until its decline following the Russian financial crisis in August 1998. With a few significant exceptions, imports and exports are unrestricted. Ukraine seeks to join the World Trade Organization, but has made little progress in the past two years on trade policy issues and appears unlikely to join in 2000.

The Kuchma administration's chief challenge in economic policy is to put Ukraine firmly on the path to economic growth. GDP declined about 3 percent in 1997, with an expected decline of about 1.5 percent in 1998. Creating a modern tax system continues to be difficult for the Ukrainian Government. In 1998, the legislature approved important reductions in the payroll tax, introduced simplified taxes for small business and farmers, and took other important steps to broaden the tax base. However, frequent, often arbitrary, changes in tax rates and procedures encourage widespread tax evasion. The government has introduced a program to reduce intrusive government regulation, reduce burdensome licensing procedures and limit the frequency of government inspections, although the results are uncertain. It has completed the privatization of 8,000 medium-and-large scale enterprises, but privatization and restructuring of large state enterprises has been stalled. Reform and privatization have also been stalled in the crucial energy and agriculture sectors, due primarily to disagreement between the parliament and the administration on how to proceed. Serious problems persist in the investment climate, with widespread corruption, arbitrary government actions, lack of respect for contracts, and lack of enforcement of property laws and court decisions. Although, the constitution guarantees the legal equality of all forms of ownership and the inviolability of private property, the Rada has not passed legislation to implement these constitutional guarantees. Ukraine was placed on the USTR IPR Watch List in 1998. USTR and Ukraine have established an intellectual property working group and the

latter agreed to establish an inter-ministerial commission headed by a deputy prime minister to address Ukraine's IPR shortcomings.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The rights to freedom from extrajudicial or political killings and disappearance, freedom of speech, freedom of assembly, and political rights are generally upheld. With the assistance of the OSCE, the Governments of Ukraine and Uzbekistan agreed in 1998 to simplify procedures for more than 65,000 Crimean Tatars to relinquish their Uzbek citizenship and to abolish the fee formerly charged by Uzbekistan. Ukrainians who wish to travel abroad are able to do so freely. Exit visas are not required. The government can deny passports to individuals with access to state secrets, but this is rarely done and can be appealed.

Still, the State continues to intrude in citizens' lives. The government interferes on occasion with freedom of the press. Abuses continue in the unreformed legal and penal systems and the military. Police and prison officials regularly beat detainees and prisoners; beating of conscripts in the military is common. Lengthy pretrial detention is endemic. Societal anti-Semitism and violence and discrimination against women and racial minorities persist. Harassment of racial minorities, including by the police, is a problem. Minorities claim that police officials routinely ignore, and sometimes abet, violence against them.

Ukraine is an important source country for girls and women trafficked for sexual exploitation. The government has taken steps to address this problem. An April 1998 amendment to the criminal code imposes harsh penalties for trafficking in human beings, but the effectiveness of these steps has not yet been established.

The government generally does not interfere with the registration of religions and has allowed the opening of seminaries and Jewish religious schools. It has a very good record on interethnic and intercommunal matters –- particularly with Ukraine's 500,000-strong Jewish community – although some American and Ukrainian Jewish groups continue to encourage the Ukrainian Government to speak out more forcefully against anti-Semitic manifestations in the nationalist press.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

Ukraine adheres to obligations under the Helsinki Final Act and the Charter of Paris and respects international law. Ukraine has no territorial claims on other states. In 1997, it signed a treaty with Romania to assist in resolving border disputes. Ukraine also reached a border agreement with Belarus. In addition, Ukraine has sought the advice and counsel of the OSCE in resolving peacefully outstanding political differences regarding Crimea. The OSCE mission in Ukraine, which focuses primarily on Crimean issues, has received a final extension until April 1999. Negotiations for an OSCE role in Ukraine subsequent to the termination of the mission are ongoing.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

Ukraine has played a constructive role in the search for a peaceful resolution of the separatist dispute in neighboring Moldova by participating in multilateral talks, including hosting a November 1998 conference of participating countries, and by attempting to interdict arms shipments into and out of the disputed zone of Transnistria. The treaty with Romania resolved most questions involving a highly politicized border question established a procedure to resolve the remaining issues. A battalion of Ukrainian peacekeeping forces serves with the UNPROFOR mission in Bosnia and has suffered many casualties. Ukraine has also contributed to the UN peacekeeping mission in Eastern Slavonia and the OSCE Kosovo Verification Mission. In May 1997, Ukraine and Poland signed a Declaration of Historical Reconciliation to improve Polish-Ukrainian ties. Also in 1997, the Governments of Russia and Ukraine signed several agreements towards resolving issues concerning Sevastopol and the former Soviet Black Sea Fleet and also signed a Treaty of Friendship and Cooperation. Neither has been ratified by both parliaments.

Within its own borders, Ukraine has fostered peaceful resolution of political differences with Crimea by inviting and encouraging the active participation of the OSCE in evaluating the situation and making recommendations. The constitution grants a certain degree of autonomy to Crimea. Ukraine also has made clear efforts to guarantee rights of persons belonging to minorities and has been free of widespread ethnic conflict.

Section 498A(a)(6): "implement responsible security policies, including--

(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

Ukraine is not engaged in the proliferation of nuclear, biological, or chemical weapons, or related technology. Ukraine has acceded to the Nuclear Nonproliferation Treaty (NPT) as a non-nuclear-weapons state. It is a party to START I and it has been a participant in the Standing Consultative Commission, and in discussion and negotiation on Anti-Ballistic Missile (ABM) Treaty succession. Ukraine signed the Comprehensive Nuclear Test Ban Treaty in September 1996. Ukraine continues to be a nuclear weapons-free state.

Ukraine's compliance with the CFE Treaty has generally been good. Ukraine completed its Treaty-required reduction obligations and is now within all Treaty limits – although there are concerns that Ukraine met some Treaty limits by the questionable means of declaring quantities of equipment as temporarily in the area of application while awaiting export. In addition, Ukraine shares with Russia a joint reduction obligation related to equipment in naval infantry and coastal defense forces (NI/CD). This obligation, which derives from a CFE Treaty-related document, has not been fully met. Ukrainian officials expressed their intention to comply fully with this NI/CD obligation once the Black Sea Fleet negotiations were completed. Although agreement was reached on former Black Sea Fleet equipment in 1997, neither Russia nor Ukraine has issued the necessary CFE Treaty notifications required to resolve the NI/CD issues (the Black Sea Fleet treaty remains unratified by either nation).

Ukraine has cooperated with efforts to limit proliferation of weapons and technologies of mass destruction. An original signatory to the 1993 Convention on the Prohibition of the Development, Production, Stockpiling, and Use of Chemical Weapons and their Destruction, Ukraine ratified the agreement in October 1998. Ukraine is a party to the 1972 Convention on the Prohibition of the Development, Production, and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction. Ukraine is a member of the Nuclear Suppliers Group and as such has adopted current international export standards. Ukraine has cooperated constructively on individual cases of concern raised by the United States and has stated that it will not provide assistance to unsafeguarded nuclear programs. In March 1998, Ukraine took the positive, politically difficult step to withdraw its participation in a project to provide key components for an Iranian nuclear power plant.

Ukraine acceded to Missile Technology Control Regime (MTCR) membership in July 1998. As an MTCR member, Ukraine has committed to abide by the MTCR Guidelines and Annex and to exercise restraint in consideration of all transfers of Annex items.

The U.S. Government works closely with Ukraine on the improvement of its export control system and to stop the proliferation of conventional arms and weapons of mass destruction. While Ukraine has the potential to be a major arms supplier, it is complying with the Wassenaar Arrangement and has been responsive to U.S. inquiries about alleged arms dealings with pariah states.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

Significant environmental problems remain in Ukraine, particularly from the after-effects of Chornobyl and widespread industrial pollution. The Ukrainian Government's capacity to manage regulatory programs is insufficient to the task, as many environmental functions have been decentralized. Nevertheless, environmental consciousness is growing, led by an active green movement.

In 1995, Ukraine signed a Memorandum of Understanding (MOU) with the G-7 on a comprehensive program to close the Chornobyl nuclear power plant by the year 2000. The United States has worked closely with Ukraine and our G-7 partners to implement the MOU. The program seeks to help Ukraine close Chornobyl safely while undertaking energy sector reforms and power sector investments needed to ensure that Ukraine's power needs will continue to be met. However, financial difficulties, problems with traditional gas suppliers Russia and Turkmenistan, and the slow pace of reform in the energy sector have led to insufficient development on new sources of power, leading to the possibility that Ukraine make seek to prolong the use of Chornobyl beyond the year 2000. The World Bank and EBRD remain active in financial support of energy market reform.

The Government of Ukraine has taken steps to address environmental issues, mainly through the Ministry of Environment and Nuclear Protection. Given the poor economic situation in Ukraine, however, full implementation of a pollution fee system taxing air and water emissions and solid waste disposal has lagged. National environmental NGOs are slowly gaining access to the policy-making process on environmental issues. Ukraine has shown an interest in regional cooperation on environmental issues and has agreed to the establishment of a coordination and information sharing mechanism as a first step toward fuller cooperation on international environmental issues. The US, EU and Ukraine are cooperating to establish a Regional Environmental Center (REC) to strengthen civil society and support sustainable development by promoting public awareness and participation in environmental decision-making and provide modest grants to NGOs for projects. Ukraine is also working with the U.S., EU and others to address pollution problems in the Black Sea.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Ukraine does not grant sanctuary from prosecution to individuals or groups that have committed acts of international terrorism or otherwise support international terrorism. Ukraine is a party to eight of the eleven international counter-terrorism conventions.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the foreign debts of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Beginning in 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In December 1994, Ukraine signed a "zero option" agreement with Russia under which Russia agreed to pay Ukraine's share of the debt in return for its share of the assets. However, Ukraine's Rada has not ratified the agreement and Kiev is still negotiating its details with Moscow. Disputes over ownership of former USSR diplomatic property continue.

Please see section 498(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs, established in March 1992. The U.S. side of the Commission visited Ukraine in December 1992 and August 1993. Ukraine continues to cooperate in the search for evidence on American POWs/MIAs.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing of military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

The Government of Ukraine is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY
UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

UKRAINE

Section 498A(b)(1): Has the President determined that the Government of Ukraine has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. While problems remain in the observance of certain freedoms, we do not believe that the Government of Ukraine is engaged in a pattern of gross violation of human rights or international law.

Section 498A(b)(2): Has the President determined that the Government of Ukraine "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. Ukraine has taken numerous actions to facilitate the implementation of arms control agreements signed by the USSR.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Ukraine "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No. We do not believe that the Government of Ukraine has made such transfers.

Section 498A(b)(4): Is the Government of Ukraine "prohibited from receiving such assistance by section 101 or 102 of Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991"?

No.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Ukraine "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Ukraine under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

Ukraine is not providing assistance to Cuba. Ukraine and Cuba carry out a small level of trade. Some transactions could be construed as barter, but do not involve terms more favorable than those generally available in applicable markets or for comparable commodities.

CRITERIA FOR U.S. ASSISTANCE
UNDER SECTION 498A(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

UZBEKISTAN

Section 201 of the FREEDOM Support Act amended Section 498A of the Foreign Assistance Act of 1961 to require that the President "take into account not only relative need but also the extent to which that independent state is acting to:"

Section 498A(a)(1): "make significant progress toward, and is committed to the comprehensive implementation of, a democratic system based on principles of the rule of law, individual freedoms, and representative government determined by free and fair elections."

Although President Karimov and the highly centralized, authoritarian executive branch continued to dominate political life, the Uzbekistani Government took a few steps toward democratic reform in fiscal year 1998. The government continued to deny registration of independent political parties and other groups potentially critical of the government, but permitted meetings of independent party activists to take place without interference. A meeting of activists to discuss formation of a new "unified" opposition party took place in early October 1998 near Tashkent. The government committed itself to "free and fair elections (in 1999 and 2000) with international observers" in the Final Report of the U.S.-Uzbekistan Joint Commission, signed in February 1998, and participated in an October 1998 OSCE seminar for training of election officials.

The government also continued to deny registration of independent human rights NGOs; to hold a number of political prisoners; and to fail to account for the disappearance since 1992 of four Muslim religious leaders for which the Government of Uzbekistan is believed to be responsible. Police and the National Security Service abused both dissidents and other citizens, although reported abuses against dissidents were few. Despite a 1997 law providing for prison reforms and assuring basic rights for prisoners, prison conditions remained poor. Similarly, although the constitution expressly prohibits it, press censorship continued. At the same time, the government permitted the formation in May of the Uzbek National Media Association, a grouping of independent TV and radio broadcasters, and allowed it to elect one of its own as president.

After some initial hesitation, the government permitted the opening of four privately-owned radio stations. There are between 30 and 40 privately-owned local television stations. Generally, broadcasters practice self-censorship and enjoy some leeway in reporting critically on local government. Samarkand Independent Television, which operates four channels, is known for such reporting and denies being formally censored. The BBC broadcasts for one-half hour daily on the official radio station in Tashkent in English. Radio Free Europe/ Radio Liberty, the Voice of America, and BBC Radio, along with the less widely available cable TV channels, are among the few sources of uncontrolled news. The government does not interfere with their operation.

The government does not allow general distribution of foreign newspapers (with the exception of certain Russian papers) and other publications. However, limited numbers of foreign periodicals began to appear in Tashkent's two major hotels, and authorized groups can obtain foreign periodicals through subscription. There are no private publishing houses, and government approval is required for all publications.

A new mass media law, which came into effect in January 1998, guarantees freedom of expression, protects the rights of journalists and reiterates the ban on censorship. Nonetheless, several articles are worded in such a way that they could be used to punish government critics. One provision makes journalists responsible for the truth of the information contained in their news stories, potentially subjecting journalists to prosecution if a government official disagrees with a news report. Another permits authorities to close media outlets without a court judgment. Finally, the law prohibits registration of organizations whose purposes include subverting or overthrowing the constitutional order.

Some of the radio and television stations may not be able to meet the new mass media law's requirements for registration, particularly the new annual broadcasting fees and required technical standards. Several entrepreneurs intending to open radio stations have been discouraged from doing so by high fees. Through September 1998, three television stations had been denied registration under the new laws because of deficient applications. The denials do not appear to have been politically motivated.

Section 498A(a)(2): "make significant progress in, and is committed to the comprehensive implementation of, economic reform based on market principles, private ownership, and integration into the world economy, including implementation of the legal and policy frameworks necessary for such reform (including protection of intellectual property and respect for contracts)."

Despite improvement in Uzbekistan's legislative framework and a continued rhetorical commitment to gradual transition to a market economy and support for foreign investment, progress toward market reform has been limited. However, major economic indicators for 1997 (the most recent year available) moved in the right direction: real GDP growth improved (from

1.6 percent in 1996 to 2.4 percent), inflation declined (from 64 percent to 50 percent per year CPI, end period), the current account deficit shrank (from 7.2 percent to 4.1 percent of GDP), and the budget deficit fell from (7.3 percent to 2.3 percent of GDP).

Access to foreign exchange remained restricted and the system of multiple exchange rates remained in place. In fact, the government created a new administratively set rate, supposedly to benefit foreign investors. Parallel exchange rates remained close to double the official rate. Bureaucratic delays in securing foreign exchange licenses hampered growth of foreign investment. Privatization remained slow and formal and informal barriers continued to hamper growth of the fledgling private sector. President Karimov decreed that current account convertibility would be restored, but not until 2000.

Uzbekistan is a member of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD). In September 1998, it submitted its Memorandum of Foreign Trade regime to the World Trade Organization (WTO) Secretariat, its first concrete step toward WTO membership. Major trade deals, including some with Eximbank financing, were concluded for purchases of U.S. commercial aircraft and agricultural equipment.

An OPIC agreement entered into force in October 1992, and a trade agreement that includes intellectual property right provisions entered into force in January 1994. The bilateral investment treaty signed in December 1994 continued to await approval by the U.S. Senate. Preliminary discussions on a treaty to avoid double taxation began in 1993, but major tax reform in Uzbekistan will be necessary before negotiations can move forward. Implementation of the April 1997 tax law in January 1998 resulted in enactment of some of these reforms.

Section 498A(a)(3): "respect internationally recognized human rights, including the rights of minorities and the rights to freedom of religion and emigration."

The 1992 law on citizenship and the constitution prohibit discrimination on the basis of sex, religion, language, or social status, and officially sanctioned discrimination does not occur. The government continues to voice rhetorical support for human rights. The election, religion and media laws all contain statements of principle that, if adhered to in practice, would substantially improve the government's human rights record. The Office of the Human Rights Ombudsman formed in 1997 reports it is assisting hundreds of citizens in redressing human rights abuses, most of which appear minor. In September the Ombudsman formed a consultative committee on human rights and invited a variety of Uzbekistani and foreign observers to join it. In October, the Ombudsman held a well-attended seminar for officers on observing human rights in the military.

The government continued to severely limit freedom of speech and the press, and it remained virtually impossible for citizens to criticize the government publicly without repercussions. The Secretary General of the (unregistered) Human Rights Society of Uzbekistan was allowed to attend an OSCE implementation meeting in early November 1998, but was severely beaten outside his hotel after giving a speech highly critical of Uzbekistan's government. The government has granted academic institutions more autonomy than they had in the Soviet period. Nonetheless, freedom of expression is still limited.

Freedom of religion and its public expression are largely observed. However, in late 1997 and early 1998, Uzbekistani authorities arrested hundreds, perhaps over a thousand, individuals in the Ferghana Valley and Tashkent suspected of supporting political Islam. In May, the government institutionalized its effort to control independent Islamic groups by passing a religion law that imposed new, onerous registration requirements and broadened restrictions on religious practices. The government again closed some activist mosques and continued to prohibit religious parties. The government justified this repression by invoking the specter of Islamic fundamentalism ("Wahhabism") and the threat of theocratic ideology emanating from Iran and the Taliban in Afghanistan.

The constitution provides for free movement within the country and across its borders. As a result of a reform of regulations in 1995, exit visas are in principle easy to obtain, are valid for a period of two years, and do not require an invitation from abroad.

Local authorities sometimes withhold or delay issuance of passports or visas for political and administrative reasons to prevent persons from making short-term trips abroad, including some individuals selected to participate in official exchange programs. Some persons allegedly received their passports or exit visas only after paying bribes. Those who leave without an exit visa may be subject to severe penalties upon return.

Most barriers to emigration were lifted before the breakup of the Soviet Union. Although in some instances emigrants are delayed by long waits for passports and exit visas, potential emigrants who can find a host country willing to accept them are able to leave the country. Since independence, a significant number of ethnic Russians, Jews, ethnic Ukrainians, and others have emigrated from the country, although no exact figures are available. Ethnic Russians have been dismissed from almost all the high government positions they held and from the military. However, by most accounts, emigration occurred not because of any systematic human rights abuses, but rather because of concern that economic and social conditions would decline in Uzbekistan. More recently, there has been a return of some emigrants, especially from Russia.

Section 498A(a)(4): "respect international law and obligations and adhere to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and to settle disputes peacefully."

The Government of Uzbekistan has respected international law and obligations, including those arising from non-proliferation and weapons control treaties it has signed. It joined the OSCE in January 1992. An OSCE regional office opened in Tashkent in September 1995, and the OSCE has held several national or regional seminars in Uzbekistan on human rights and other subjects. Most recent have been a September 1998 seminar on environment and security and an October 1998 seminar to train election officials. Nevertheless, the government's censorship policies and restrictions on free speech are continuing violations of obligations under the Helsinki Final Act and the Charter of Paris made by the Government of Uzbekistan upon joining the OSCE, and its May 1998 religion law, if fully implemented, would also violate OSCE obligations. Uzbekistan also does not recognize or provide freedom of assembly.

Uzbekistan continued throughout the reporting period to refrain from the threat or use of force. It continued to work actively with Kazakhstan and Kyrgyzstan to train and make operative a Central Asian Peacekeeping Battalion suitable for UN missions.

Section 498A(a)(5): "cooperate in seeking peaceful resolution of ethnic and regional conflicts."

The Government of Uzbekistan supports regional and international efforts to resolve the conflicts in neighboring Tajikistan and Afghanistan. The government successfully promoted formation of a new, eight-nation contact group on Afghanistan under UN auspices, which has met several times since October 1997, and advocated use of the contact group to bring together the warring parties and undertake confidence-building measures. It continued to advocate an international arms embargo on Afghanistan.

In addition to participating with a reduced battalion in the Commonwealth of Independent States peacekeeping force in Tajikistan, the Government of Uzbekistan is a guarantor of the June 27 Tajik peace accords and allowed UNHCR to repatriate Tajik refugees from northern Afghanistan through Uzbekistan. Along with Kazakhstan and Kyrgyzstan, it invited Tajikistan to join the Central Asian (Economic) Union in March, and in May it assigned an ambassador to Tajikistan. It also allowed international humanitarian organizations to stage their assistance efforts in Tajikistan from cities in Uzbekistan. While the government publicly denounced the invasion of northern Tajikistan in November 1998 by a renegade Tajikistani colonel and his ethnic Uzbek forces, and re-affirmed its commitment to the Tajik peace accords, the rebel forces were allowed access to Uzbekistani territory for sanctuary, transit, and as a base of operations for extended periods in 1997 and 1998.

Section 498A(a)(6): "implement responsible security policies, including--
(A) adhering to arms control obligations derived from agreements signed by the former Soviet Union;
(B) reducing military forces and expenditures to a level consistent with legitimate defense requirements;
(C) not proliferating nuclear, biological, or chemical weapons, their delivery systems, or related technologies; and
(D) restraining conventional weapons transfers."

The Government of Uzbekistan supports international efforts to eliminate nuclear, chemical and biological weapons and has consistently reiterated its acceptance of relevant arms control obligations of the former Soviet Union. Uzbekistan became a party to the Treaty on the Non-Proliferation of Nuclear Weapons as a non-nuclear-weapons state on May 2, 1992. Following up on a conference on a Central Asian Nuclear Weapons Free Zone in September 1997, which it hosted, it participated in a second conference which produced a draft treaty, circulated for comment to the declared nuclear states, in July 1998.

We do not believe that the Government of Uzbekistan has engaged in the proliferation of nuclear, biological, or chemical weapons, their delivery systems, or related technology. Uzbekistan has signed and ratified the Comprehensive Test Ban Treaty (CTBT; the Convention on the Prohibition on the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction (CWC); and the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction (BWC). It has filed a declaration with the Organization for Prevention of Chemical Weapons. To our knowledge, the Government of Uzbekistan has not engaged in any significant level of conventional arms transfers. It has taken steps to develop its own export control system, and it has positively engaged with U.S. cooperative programs to counter proliferation and develop export controls.

The Government of Uzbekistan has armed forces of some 90,000 troops. This level is consistent with legitimate defense requirements. The government does not allow forces from any third party, such as the CIS, to guard its borders.

Section 498A(a)(7): "take constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources."

In line with the Nukus Declaration of September 1995, Uzbekistan and its neighbors continue to cooperate on problems of the Aral Sea watershed, most notably with a March 1998 multi-year agreement on water and power-sharing. This

agreement, and the Interstate Council by which it was negotiated, was expanded in March 1998 to include Tajikistan. The Government of Uzbekistan has also hosted four annual OSCE environmental seminars, most recently in September 1998.

Uzbekistan has suffered severe environmental problems, including lingering agrochemical pollution, as a result of the cotton monoculture imposed during the Soviet era. The government has supported a shift of some lands from cotton to grain production that could mitigate the problem. Serious public health issues continue to present a challenge to Uzbekistan and its neighbors. The government, bilaterally and through regional organizations, seeks international assistance to deal with these issues. The Uzbekistani Government's Fund for Ecology and Health of Uzbekistan has worked to increase the public consciousness and understanding of the environmental problems. Several government committees deal with specific environmental and ecological issues.

Section 498A(a)(8): "deny support for acts of international terrorism."

The Government of Uzbekistan does not grant sanctuary from prosecution to individuals or groups that have committed acts of or otherwise support international terrorism. Uzbekistan is a party to seven of the eleven international counter-terrorism conventions.

Section 498A(a)(9): "accept responsibility for paying an equitable portion of the indebtedness to United States firms incurred by the former Soviet Union."

In October 1991, shortly before the Soviet Union dissolved, Russia and nine other Soviet republics signed a Memorandum of Understanding declaring themselves jointly and severally liable for the pre-October 1991 debt to foreign creditors of the Soviet Union. In December 1991, Russia and seven other republics signed an agreement which assigned to each of the newly independent states a share of all the external assets and foreign debt of the former Soviet Union. Uzbekistan did not sign either the October or the December 1991 agreements. The December 1991 agreement provided that Uzbekistan's share of the debt would be 3.27 percent. In 1992, Russia sought to replace the joint and several liability principle by seeking full liability for the debt in return for all the external assets. In July 1992, Uzbekistan signed a "zero option" agreement with Russia under which Russia will pay Uzbekistan's share of the debt, as defined by the December 1991 agreement, in return for Uzbekistan's share of the assets.

Please see section 498A(a)(9) of the Russia FSA report regarding indebtedness to the United States incurred by the former Soviet Union.

Section 498A(a)(10): "cooperate with the United States Government in uncovering all evidence regarding Americans listed as prisoners-of-war, or otherwise missing during American operations, who were detained in the former Soviet Union during the Cold War."

The U.S. effort to uncover evidence of American POWs and MIAs in the former Soviet Union is being conducted through the U.S.-Russian Joint Commission on POWs/MIAs that was established in March 1992. The Government of Uzbekistan has been cooperative with all related interviews conducted in Uzbekistan and in February 1996 hosted a successful visit by the Commission.

Section 498A(a)(11): "terminate support for the communist regime in Cuba, including removal of troops, closing military and intelligence facilities, including the military and intelligence facilities at Lourdes and Cienfuegos, and ceasing trade subsidies and economic, nuclear, and other assistance."

In 1995, 1996 and 1997, Uzbekistan was one of only two countries (Israel was the other) to support the U.S. position on the Cuban embargo by voting against a United Nations General Assembly resolution initiated by the Cuban Government. In all three years, Uzbekistan also co-sponsored and voted with the United States in favor of a General Assembly resolution condemning human rights abuses in Cuba. In 1998, Uzbekistan abstained on the Cuban embargo resolution; there was no resolution condemning human rights abuses in Cuba. Uzbekistan also abstained on the resolution on coercive measures as a means of political and economic compulsion (generally interpreted as opposing the Cuban embargo), which it had previously supported. The Government of Uzbekistan is not providing military, economic, nuclear, or other assistance to the Government of Cuba.

CHECKLIST FOR GROUNDS OF INELIGIBILITY UNDER SECTION 498A(b) OF THE FOREIGN ASSISTANCE ACT OF 1961

UZBEKISTAN

Section 498A(b)(1): Has the President determined that the Government of Uzbekistan has "engaged in a consistent pattern of gross violations of internationally recognized human rights or of international law"?

No. However, the U.S. Government is concerned by the Uzbekistani Government's May 1998 religion law, which if fully and strictly implemented could have the effect of substantially limiting the free practice of religion. Media censorship and suppression of viewpoints and activity perceived as threatening or opposing the government remain a problem. The U.S. Government will continue to monitor the Uzbekistani Government's human rights performance, including the status of prisoners which leading international human rights groups have declared to be political prisoners or prisoners of conscience.

Section 498A(b)(2): Has the President determined that the Government of Uzbekistan "has failed to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements signed by the former Soviet Union"?

No. We do not think that the Government of Uzbekistan has failed to take such actions.

Section 498A(b)(3): Has the President determined that, after October 24, 1992, the Government of Uzbekistan "knowingly transferred to another country --

(A) missiles or missile technology inconsistent with the guidelines and parameters of the Missile Technology Control Regime; or

(B) any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determine[d] that the material, equipment, or technology was to be used by such country in the manufacture of such weapon"?

No such determinations were made with respect to Uzbekistan in 1998.

Section 498A(b)(4): Is the Government of Uzbekistan "prohibited from receiving such assistance by section 101 or 102 of the Arms Export Control Act or sections 306(a)(1) and 307 of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991?"

No. The Government of Uzbekistan is not prohibited from receiving assistance under these statutes.

Section 498A(b)(5): Has the President determined and certified to the appropriate congressional committees that the Government of Uzbekistan "is providing assistance for, or engaging in non-market-based trade (as defined in section 498B(k)(3)) with the Cuban Government? If so, has the President taken action to withhold assistance from Uzbekistan under the Foreign Assistance Act within 30 days of such a determination, or has Congress enacted legislation disapproving the determination within that 30-day period?"

The U.S. Government is unaware of any such non-market-based trade between the Governments of Uzbekistan and Cuba.

V. EVALUATION OF THE USE OF "NOTWITHSTANDING" AUTHORITY

In FY 1998, the U.S. Agency for International Development (USAID) and the Department of State continued to use "notwithstanding" authority to respond to unanticipated needs and to provide assistance to the NIS. While USAID and the Department of State have been careful to limit their use of "notwithstanding" authority, this authority has given them the flexibility to carry out their respective missions in the unique environment of the NIS.

Below are evaluations of the three specific uses of the "notwithstanding" authority during FY 1998:

AGENCY	DATE	ACTIVITY	AMOUNT
USAID	**Throughout FY 1998**	**Personal Services Contracts**	**Various**

Rationale: "Notwithstanding" authority was exercised throughout the year to waive legislation prohibiting federal agencies from employing individuals under personal services contracts (PSCs) to work in Washington. Since USAID-Washington has substantial management responsibilities for NIS programs, it has been necessary for the Bureau for Europe and the NIS to employ Washington-based PSCs, especially technical specialists, to ensure adequate program management.

AGENCY	DATE	ACTIVITY	AMOUNT
U.S. Department of State	**3/1/98-12/31/98**	**Cooperative Grant**	**$275,000**

Rationale: The Office of the Coordinator of U.S. Assistance to the NIS (S/NIS/C) exercised "notwithstanding authority" to award a noncompetitive grant to initiate a new program in response to language in the House Appropriations Committee Report accompanying the FY 1998 Foreign Operations Appropriations Act requesting that S/NIS/C reinitiate a program similar to Operation Support Freedom that would allow small and medium-sized U.S. private voluntary organizations (PVOs) to ship a minimum of one container at the expense of the U.S. Government. S/NIS/C invoked "notwithstanding" authority in order to avoid a lengthy competitive process and was able to make the new program available for use by PVOs on March 1, 1998.

AGENCY	DATE	ACTIVITY	AMOUNT
USAID and the U.S. Department of State	**Throughout FY 1998**	**Humanitarian Assistance**	**approx. $31.2 million**

Rationale: The FY 1998 Foreign Operations Appropriations Act stated that funds "shall be made available for humanitarian assistance for humanitarian refugees, displaced persons, and needy civilians affected by the conflicts in the Southern Caucasus region, including those in the vicinity of Abkhazia and Nagorno-Karabakh, notwithstanding any other provision of this or any other Act." USAID and the Office of the Coordinator of U.S. Assistance to the NIS relied on this provision to provide humanitarian assistance to the victims of the Nagorno-Karabakh conflict, including the awarding of grants and subgrants that included provisions for working through Azerbaijani Government health-care facilities and providers.

CUMULATIVE FUNDS BUDGETED (FY 1992 TO DATE) FOR MAJOR NIS ASSISTANCE PROGRAMS BY COUNTRY AS OF 9/30/98

(millions of dollars, rounded to the nearest $10,000)

FREEDOM SUPPORT ACT (FSA) FUNDS	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
USAID/ENI - BUREAU FOR EUROPE AND THE NIS														
- NIS Special Initiatives (Humanitarian, etc.)	591.36	69.82	55.64	222.08	70.99	87.58	7.45	4.74	29.45	1.71	3.60	1.87	8.50	27.91
- Energy Efficiency and Market Reform[1]	452.20	43.29	85.30	73.79	0.08	21.21	10.62	6.21		0.08	0.09	2.02	4.44	205.07
- Environmental Policy and Technology[1]	145.90	15.84	63.01	0.53		0.61	13.58	0.96	0.40	6.50	8.86	0.23	2.90	32.49
- Health-Care Improvement[1]	245.42	24.61	88.91	7.09	0.24	5.43	35.76	11.49	2.81	3.23	8.13	2.66	5.78	49.27
- Private-Sector Initiatives[1]	990.45	17.71	549.63	21.86	1.48	20.64	80.04	44.45	0.23	0.10	6.31	7.08	62.18	178.74
- Food-Systems Restructuring	106.24	2.13	46.05	0.25	0.45	4.77	1.53	0.09					5.23	45.74
- Democratic Reform[1]	341.37	21.54	138.42	18.11	3.43	10.48	27.64	13.00	3.89	1.89	6.37	5.13	5.30	86.18
- Housing-Sector Reform	242.64	2.39	202.77	9.44			7.01	1.70						19.33
- Economic Restructuring and Financial Reform	332.05	20.38	78.12	23.53	0.14	7.85	42.01	25.92	2.59	3.20	16.49	0.12	16.54	95.17
- Eurasia Foundation	107.90	44.75	25.54	9.98	0.10	3.19	1.01	1.10	0.32	0.22	1.78	1.04	0.46	18.40
- Enterprise Funds	483.20	45.00	267.00	5.10	4.95	4.95	17.45	10.63	1.81	10.20	21.21		9.49	85.41
- Exchanges and Training[1]	178.61	5.05	87.44	9.15	2.64	6.09	10.34	7.83	5.78	5.91	7.06	2.16	1.90	27.27
- Russia Energy & Environmtl. Commodity Import Program (CIP)	59.50		59.50											
- Administrative Expenses	25.30	25.30												
TOTAL USAID/ENI[1]	4302.13	337.81	1747.33	400.91	84.50	172.80	254.45	128.12	47.29	33.04	79.89	22.29	122.74	870.97

[1] As of the 3/31/96 report, these numbers no longer include transfers to other agencies which are now implementing their own programs using FSA funds; these transfers are now included in each agency's line-item below.

OTHER USAID PROGRAMS														
- Humanitarian Assistance - Armenia (155-0001)	10.78			10.78										
- Presidential Medical Initiative (156-0001)	5.00			5.00										
- USAID Farmer-to-Farmer Program & OFDA	39.96	8.32	16.79	1.29		0.32	3.55	1.29	0.32	0.65	0.66	1.29	0.97	4.52
- Ukraine Credit Facility	10.60													10.60
- Transfers to Other USAID Bureaus[2]	63.98	55.10	1.60	2.83	0.03	0.40	1.27	0.39	0.13	0.73	1.07		0.02	0.42
- Parking Fines	0.09	0.09												
TOTAL OTHER USAID PROGRAMS	130.41	63.52	18.39	19.90	0.03	0.73	4.82	1.68	0.45	1.37	1.73	1.29	0.98	15.54
TOTAL USAID[3]	4432.55	401.33	1765.72	420.81	84.53	173.53	259.27	129.80	47.74	34.41	81.62	23.59	123.72	886.51

[2] Includes disaster assistance, Women in Development, USAID-Israel Cooperative Development/Research, science and technology, agricultural, environmental, family planning and child survival programs.

[3] Includes $235m in FY 1992 Economic Support Funds, $11.36m in FY 1992-95 Development Assistance and $29.61m in FY 1992-94 International Disaster Assistance. A total of $95,000 was withheld for parking fines in FY 1998.

TRANSFERS TO OTHER AGENCIES	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
U.S. DEPARTMENT OF COMMERCE														
- Business Information Service for the NIS (BISNIS)	10.63		5.32	0.23	0.16	0.23	1.17	0.30	0.12	0.19	0.41	0.32	0.23	1.95
- Business Information Service - Russia (BISTA)	1.00		1.00											
- American Business Centers (ABCs)	13.50	1.43	10.19				0.61				0.47	0.26		0.54
- SABIT Business Internship Training Program	21.46	0.96	11.97	0.34	0.21	0.58	1.10	0.48	0.31	0.24	0.61	0.49	0.39	3.78
- Commercial Law Development Program (CLDP)	4.42	0.25	1.94										0.32	1.90
- Business Development Committees (BDCs)	1.93	0.50	1.19				0.10					0.01		0.12
- Consortia of American Businesses in the NIS (CABNIS)	4.50		4.50											
TOTAL DEPARTMENT OF COMMERCE	57.44	3.14	36.11	0.57	0.37	0.81	2.98	0.78	0.43	0.43	1.49	1.08	0.94	8.29
USIA FREEDOM SUPPORT ACT EXCHANGES	354.83	6.60	194.21	15.40	7.58	9.50	14.01	9.09	4.16	4.32	8.14	11.82	9.04	60.95
U.S. DEPARTMENT OF ENERGY														
- Nuclear Reactor Safety	220.33		88.60	11.63										120.10
- Initiatives for Proliferation Prevention (formerly Industrial Partnering Prog.)	35.00		30.67				0.67					0.37		3.29
- Chomobyl Initiative	73.00													73.00
TOTAL DEPARTMENT OF ENERGY	328.33		119.27	11.63			0.67					0.37		196.39
U.S. DEPT. OF STATE - S/NIS/C - HUMANITARIAN ASSISTANCE														
- Transportation Costs and Grants	257.29		57.76	54.89	11.61	46.95	15.04	8.85	4.92	2.81	6.37	8.05	12.10	27.94
- Cargo Value (DoD excess and privately donated)[4]	1974.56		582.24	177.66	57.52	269.59	142.31	84.11	29.44	26.73	57.90	128.05	78.99	340.02
TOTAL S/NIS/C HUMANITARIAN ASSISTANCE	2231.85		640.00	232.55	69.13	316.54	157.35	92.96	34.36	29.54	64.27	136.10	91.09	367.96

[4] The value of these U.S. Department of Defense excess and privately donated commodities is not included in the TOTAL CUMULATIVE FUNDS BUDGETED lines below.

U.S. DEPARTMENT OF STATE														
- INL / Anti-Crime Training & Tech. Assist.	54.26	6.40	23.13	0.76	0.18	2.15	3.44	1.74	0.32	0.90	1.62	1.10	2.18	10.34
- INR / Title VIII Research Program	21.19	10.85	7.52	0.14	0.17	0.24	0.34	0.19	0.23	0.21	0.26	0.11	0.10	0.83
- Science Centers	49.91		28.50	3.35		1.52	5.00	0.25			0.24			11.05
TOTAL DEPARTMENT OF STATE	125.35	17.25	59.15	4.25	0.36	3.91	8.78	2.18	0.55	1.11	2.12	1.21	2.28	22.22
U.S. DEPARTMENT OF JUSTICE - Criminal Law Assistance	3.60		3.10											0.50
OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)	72.00	72.00												
U.S. TRADE & DEVELOPMENT AGENCY (TDA)	66.85	1.32	42.68	1.17		1.95	4.61	0.15		3.12	3.48	1.42	0.11	6.85
PEACE CORPS	51.35		13.50	4.31			6.82	4.39		4.35	4.60		4.23	9.17
ENVIRONMENTAL PROTECTION AGENCY	22.62	0.38	17.57			0.13							0.13	4.42
NSF / CIVILIAN RESEARCH & DEVELOPMENT	2.55	0.90		0.70		0.05	0.30	0.25			0.05			0.30

	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
U.S. CUSTOMS SERVICE / GEORGIA BORDER SECURITY	16.64					16.64								
U.S. NUCLEAR REGULATORY COMMISSION (NRC)	29.97		13.65	1.32			0.95							14.05
U.S. DEPT. OF AGRICULTURE (USDA)														
- Cochran Fellowship Program	9.85	0.16	2.68	0.55	0.38	0.44	0.82	0.72	0.51	0.50	0.79	0.26	0.64	1.41
- Faculty Exchange Program	2.00		0.80				0.19							1.01
- Collaborative Biotech Research Program	0.55		0.55											
TOTAL USDA EXCHANGE PROGRAMS	12.40	0.16	4.03	0.55	0.38	0.44	1.01	0.72	0.51	0.50	0.79	0.26	0.64	2.42
U.S. DEPARTMENT OF THE TREASURY														
- G-7 Support Implementation Group	3.37		3.37											
- Technical Advisors	45.05	11.93	10.30	3.44		2.38	2.47	2.04	0.11		0.83	1.20	2.71	7.63
TOTAL U.S. DEPT. OF THE TREASURY	48.42	11.93	13.67	3.44		2.38	2.47	2.04	0.11		0.83	1.20	2.71	7.63
CONGRESSIONAL RESEARCH SERVICE (CRS)	4.90		2.00											2.90
TOTAL TRANSFERS TO OTHER AGENCIES	1437.90	113.68	576.69	98.23	20.30	66.11	57.64	28.45	10.69	16.64	27.86	25.40	32.18	364.04

TOTAL CUMULATIVE FSA FUNDS BUDGETED AS OF 9/30/98	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	5870.45	515.01	2342.42	519.03	104.82	239.64	316.90	158.24	58.43	51.05	109.48	48.99	155.89	1250.55

NON-FREEDOM SUPPORT ACT FUNDS	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
U.S. DEPARTMENT OF DEFENSE (DoD)														
COOPERATIVE THREAT REDUCTION (CTR) PROGRAMS (Nunn-Lugar)														
- Weapons Dismantlement	1056.57		517.40				104.30				6.00	36.85		392.02
- Chain of Custody	622.60		509.09			7.30	35.26					20.74		50.21
- Demilitarization	375.62	84.74	107.92				33.28					26.50	45.00	78.18
- Other	217.18	187.18	30.00											
TOTAL CTR	2271.97	271.92	1164.41			7.30	172.84				6.00	84.09	45.00	520.41
- DoD Warsaw Initiative	42.31	42.31												
- DoD/ Military Technical Cooperative Efforts	98.60	98.60												
- DoD Customs Border Security / Counterproliferation	9.00	9.00												
- DoD/FBI Counterproliferation	1.29					0.20	0.40	0.27			0.40		0.02	
TOTAL DEPARTMENT OF DEFENSE	2423.17	421.83	1164.41			7.50	173.24	0.27			6.40	84.09	45.02	520.41
U.S. DEPARTMENT OF AGRICULTURE														
- Food Assistance	3003.07		1256.98	352.69	49.50	334.84	40.74	211.67	156.15	100.20	4.60	218.20	117.17	160.33
- Cochran Fellowship Program	6.33	0.08	2.50	0.10		0.20	0.85	0.20	0.20	0.20	0.16	0.20	0.10	1.54
- Agricultural Extension Programs	2.99			2.99										
- Agricultural Research Services	0.34						0.27	0.07						
TOTAL DEPARTMENT OF AGRICULTURE	3012.72	0.08	1259.48	355.78	49.50	335.04	41.86	211.94	156.35	100.40	4.76	218.40	117.27	161.87
U.S. DEPARTMENT OF ENERGY														
- Nuclear Reactor Safety	106.19		72.44	0.37										33.38
- Materials Protection, Control and Accounting (MPC&A)	344.61		326.30			0.21	14.59				1.67	0.65		1.19
- Initiatives for Proliferation Prevention (formerly Industrial Partnering Prog.)	79.20		67.77				3.21					1.87		6.35
- Export Control Programs (Nuclear)	6.34	0.83	2.44				1.56							1.51
- Uranium Supply Enrichment	1.00		1.00											
- Arms Control Support	4.54		3.80				0.03				0.01	0.20		0.50
- Research & Development - FSU States	13.80		13.80											
- Fissile Materials Disposition	25.60		25.60											
- RERTR / Reduced Enrichment for Research & Test Reactors	1.00		1.00											
TOTAL DEPARTMENT OF ENERGY	582.28	0.83	514.15	0.37		0.21	19.39				1.68	2.72		42.93
NSF / CIVILIAN R & D FOUNDATION	19.71	18.81	0.90											
NSF / COOPERATIVE RESEARCH PROJECTS	10.80	10.80												
U.S. DEPARTMENT OF COMMERCE - CABNIS	1.50		1.00				0.50							
U.S. EXPORT-IMPORT BANK	300.00	300.00												
U.S. TRADE AND DEVELOPMENT AGENCY (TDA)	11.19	0.63	7.47	0.04		0.10	0.51	0.04	0.02	0.10	1.15	0.01	0.09	1.03
U.S. INFORMATION AGENCY (USIA)	222.70	8.55	114.94	7.78	5.55	8.87	12.57	5.51	1.91	2.10	11.95	8.42	5.00	29.56
U.S. DEPARTMENT OF STATE														
- International Military Exchanges and Training (IMET)	16.92		3.84			1.18	1.71	0.93		0.98	1.13	0.90	1.16	5.08
- NADR / Counterproliferation	1.89		1.40	0.06		0.01	0.10	0.09	0.02	0.06	0.02		0.04	0.12
- Nonproliferation/Disarmament Fund	10.00	5.03	0.71	0.71	0.71		0.71	0.71			0.71		0.71	
- Warsaw Initiative	33.25		4.50			6.05	3.75	2.15		0.95	2.55		4.25	9.05
TOTAL DEPARTMENT OF STATE	62.07	5.03	10.45	0.77	0.71	7.24	6.27	3.88	0.02	1.98	4.41	0.90	6.16	14.25
PEACE CORPS	41.86		11.35	4.01			4.97	3.23		2.92	4.22		3.37	7.79

TOTAL CUMULATIVE NON-FSA FUNDS BUDGETED AS OF 9/30/97	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	6688.00	766.56	3084.16	368.75	55.76	358.96	259.31	224.87	158.29	107.50	34.57	314.55	176.91	777.83

TOTAL CUMULATIVE USG (FSA+NON-FSA) FUNDS BUDGETED AS OF 9/30/98	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	12558.46	1281.57	5426.57	887.78	160.58	598.60	576.21	383.11	216.72	158.55	144.05	363.53	332.80	2028.38

CUMULATIVE OBLIGATIONS (FY 1992 TO DATE) FOR MAJOR NIS ASSISTANCE PROGRAMS BY COUNTRY AS OF 9/30/98

(millions of dollars, rounded to the nearest $10,000)

FREEDOM SUPPORT ACT (FSA) FUNDS	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
USAID/ENI - BUREAU FOR EUROPE AND THE NIS														
- NIS Special Initiatives (Humanitarian, etc.)[1]	554.91	61.56	55.43	219.39	65.46	78.26	7.43	4.50	26.80	1.71	3.60	1.87	2.50	26.39
- Energy Efficiency and Market Reform[1]	437.69	43.04	85.25	71.12	0.08	16.53	10.62	6.21		0.08	0.09	2.02	3.97	198.69
- Environmental Policy and Technology[1]	140.21	15.65	60.46	0.53		0.61	13.58	0.96	0.40	6.50	8.86	0.23	2.90	29.54
- Health-Care Improvement[1]	235.42	24.61	87.92	6.84	0.24	3.56	35.28	11.39	2.71	3.23	7.71	2.66	5.78	43.49
- Private-Sector Initiatives[1]	971.72	17.71	544.52	18.38		18.42	80.04	44.45	0.23	0.10	6.31	7.08	62.00	172.48
- Food-Systems Restructuring	98.80	2.13	46.05	0.25	0.45	4.55	1.53	0.09					5.23	38.52
- Democratic Reform[1]	323.31	21.24	133.46	16.36	2.35	9.25	25.02	12.80	3.62	1.89	5.71	4.43	4.42	82.76
- Housing-Sector Reform	242.64	2.39	202.77	9.44			7.01	1.70						19.33
- Economic Restructuring and Financial Reform	312.86	20.38	77.62	22.06		7.03	39.98	25.62	1.23	2.60	16.11	0.12	16.37	83.75
- Eurasia Foundation	100.15	44.25	21.39	8.98	0.10	3.19	1.01	1.10	0.32	0.22	1.28	1.04	0.46	16.80
- Enterprise Funds	482.20	45.00	266.00	5.10	4.95	4.95	17.45	10.63	1.81	10.20	21.21		9.49	85.41
- Exchanges and Training[1]	176.03	4.65	87.39	8.38	2.64	5.89	10.34	7.14	5.78	5.91	6.59	2.16	1.90	27.27
- Russia Energy & Environmental Commodity Import Program (CIP)	59.50		59.50											
- Administrative Expenses	25.30	25.30												
TOTAL USAID/ENI[1]	4160.73	327.90	1727.76	386.84	76.28	152.24	249.29	126.59	42.90	32.44	77.47	21.59	115.03	824.42

[1] As of the 3/31/96 report, these numbers no longer include transfers to other agencies which are now implementing their own programs using FSA funds; these transfers are now included in each agency's line-item below.

OTHER USAID PROGRAMS														
- Humanitarian Assistance - Armenia (155-0001)	10.78			10.78										
- Presidential Medical Initiative (156-0001)	5.00			5.00										
- USAID Farmer-to-Farmer Program & OFDA	39.96	8.32	16.79	1.29		0.32	3.55	1.29	0.32	0.65	0.66	1.29	0.97	4.52
- Ukraine Credit Facility	10.60													10.60
- Transfers to Other USAID Bureaus[2]	61.68	53.59	1.00	2.83	0.03	0.40	1.26	0.39	0.13	0.73	0.89		0.02	0.42
- Parking fines	(NOT APPLICABLE)													
TOTAL OTHER USAID PROGRAMS	128.01	61.91	17.79	19.90	0.03	0.73	4.81	1.68	0.45	1.37	1.55	1.29	0.98	15.54
TOTAL USAID[3]	4288.74	389.80	1745.55	406.73	76.30	152.96	254.10	128.27	43.35	33.81	79.02	22.88	116.01	839.96

[2] Includes disaster assistance, Women in Development, USAID-Israel Cooperative Development/Research, science and technology, agricultural, environmental, family planning and child survival programs.

[3] Includes $235m in FY 1992 Economic Support Funds, $11.36m in FY 1992-95 Development Assistance and $29.61m in FY 1992-94 International Disaster Assistance. A total of $95,000 was withheld for parking fines in FY 1998.

TRANSFERS TO OTHER AGENCIES	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
U.S. DEPARTMENT OF COMMERCE														
- Business Information Service for the NIS (BISNIS)	8.30		4.16	0.18	0.14	0.18	0.91	0.23	0.10	0.15	0.31	0.21	0.18	1.54
- Business Information Service - Russia (BISTA)	0.97		0.97											
- American Business Centers (ABCs)	13.46	1.43	10.15				0.61				0.47	0.26		0.54
- SABIT Business Internship Training Program	18.96	0.01	11.28	0.32	0.20	0.54	1.06	0.45	0.29	0.23	0.59	0.48	0.37	3.14
- Commercial Law Development Program (CLDP)	4.29	0.25	1.77										0.32	1.95
- Business Development Committees (BDCs)	1.08	0.31	0.68				0.04					0.01		0.03
- Consortia of American Businesses in the NIS (CABNIS)	4.50		4.50											
TOTAL DEPARTMENT OF COMMERCE	51.56	2.00	33.52	0.50	0.34	0.72	2.62	0.68	0.40	0.38	1.37	0.96	0.87	7.20
USIA FREEDOM SUPPORT ACT EXCHANGES	354.83	6.60	194.21	15.40	7.58	9.50	14.01	9.09	4.16	4.32	8.14	11.82	9.04	60.95
U.S. DEPARTMENT OF ENERGY														
- Nuclear Reactor Safety	219.83		88.60	11.63										119.60
- Initiatives for Proliferation Prevention (formerly Industrial Partnering Prog.)	35.00		30.67				0.67					0.37		3.29
- Chornobyl Initiative	73.00													73.00
TOTAL DEPARTMENT OF ENERGY	327.83		119.27	11.63			0.67					0.37		195.89
U.S. DEPT. OF STATE - S/NIS/C - HUMANITARIAN ASSISTANCE														
- Transportation Costs and Grants	257.29		57.76	54.89	11.61	46.95	15.04	8.85	4.92	2.81	6.37	8.05	12.10	27.94
- Cargo Value (DoD excess and privately donated)[4]	1974.56		582.24	177.66	57.52	269.59	142.31	84.11	29.44	26.73	57.90	128.05	78.99	340.02
TOTAL S/NIS/C HUMANITARIAN ASSISTANCE	2231.85		640.00	232.55	69.13	316.54	157.35	92.96	34.36	29.54	64.27	136.10	91.09	367.96

[4] The value of these U.S. Department of Defense excess and privately donated commodities is not included in the TOTAL CUMULATIVE OBLIGATIONS lines below.

U.S. DEPARTMENT OF STATE														
- INL / Anti-Crime Training & Tech. Assist.	54.26	6.40	23.13	0.76	0.18	2.15	3.44	1.74	0.32	0.90	1.62	1.10	2.18	10.34
- INR / Title VIII Research Program	21.19	10.85	7.52	0.14	0.17	0.24	0.34	0.19	0.18	0.20	0.32	0.11	0.10	0.83
- Science Centers	49.91		28.50	3.35		1.52	5.00	0.25			0.24			11.05
TOTAL DEPARTMENT OF STATE	125.35	17.25	59.15	4.25	0.36	3.91	8.78	2.18	0.50	1.10	2.18	1.21	2.28	22.22
U.S. DEPARTMENT OF JUSTICE - Criminal Law Assistance	2.80	0.15	1.31	0.36		0.05					0.04		0.13	0.76
OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)	66.00	66.00												
U.S. TRADE & DEVELOPMENT AGENCY (TDA)	66.85	1.31	42.68	1.17		1.95	4.61	0.15		3.12	3.48	1.42	0.11	6.85
PEACE CORPS	51.35		13.49	4.31			6.82	4.39		4.35	4.60		4.23	9.17
ENVIRONMENTAL PROTECTION AGENCY	19.66	0.38	15.47			0.21							0.21	3.39
NSF / CIVILIAN RESEARCH & DEVELOPMENT	2.42	0.90		0.62		0.05	0.25	0.25			0.05			0.30

	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
U.S. CUSTOMS SERVICE / GEORGIA BORDER SECURITY	16.64					16.64								
U.S. NUCLEAR REGULATORY COMMISSION (NRC)	24.12		11.85	0.92			0.54							10.81
U.S. DEPT. OF AGRICULTURE (USDA)														
- Cochran Fellowship Program	9.03	0.16	2.39	0.51	0.34	0.40	0.81	0.67	0.49	0.44	0.78	0.24	0.63	1.17
- Faculty Exchange Program	1.71		0.69				0.12							0.90
- Collaborative Biotech Research Program	1.78		0.99				0.07							0.72
TOTAL USDA EXCHANGE PROGRAMS	12.52	0.16	4.07	0.51	0.34	0.40	1.00	0.67	0.49	0.44	0.78	0.24	0.63	2.79
U.S. DEPARTMENT OF THE TREASURY														
- G-7 Support Implementation Group	2.71		2.71											
- Technical Advisors	37.49	11.27	7.56	2.51		1.56	2.26	1.78	0.11		0.55	1.20	2.47	6.23
TOTAL U.S. DEPT. OF THE TREASURY	40.20	11.27	10.27	2.51		1.56	2.26	1.78	0.11		0.55	1.20	2.47	6.23
CONGRESSIONAL RESEARCH SERVICE (CRS)	4.69		1.92											2.77
TOTAL TRANSFERS TO OTHER AGENCIES	1407.45	106.02	564.96	97.07	20.23	65.30	56.58	28.04	10.58	16.52	27.55	25.27	32.07	357.26

TOTAL CUMULATIVE FSA OBLIGATIONS AS OF 9/30/98	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	5696.19	495.83	2310.51	503.80	96.53	218.26	310.68	156.31	53.93	50.32	106.57	48.15	148.08	1197.22

NON-FREEDOM SUPPORT ACT FUNDS	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
U.S. DEPARTMENT OF DEFENSE (DoD)														
COOPERATIVE THREAT REDUCTION (CTR) PROGRAMS (Nunn-Lugar)														
- Weapons Dismantlement	907.13		461.32				87.35					28.93		329.53
- Chain of Custody	540.15		429.67			5.92	34.65					20.11		49.80
- Demilitarization	339.18	62.45	104.43				32.32					25.75	40.00	74.23
- Other	79.07	49.12	29.95											
TOTAL CTR	1865.53	111.57	1025.37			5.92	154.32					74.79	40.00	453.56
- DoD Warsaw Initiative	38.12	38.12												
- DoD/ Military Technical Cooperative Efforts	98.60	98.60												
- DoD Customs Border Security / Counterproliferation	9.00	9.00												
- DoD/FBI Counterproliferation	1.29					0.20	0.40	0.27			0.40		0.02	
TOTAL DEPARTMENT OF DEFENSE	2012.54	257.29	1025.37			6.12	154.72	0.27			0.40	74.79	40.02	453.56
U.S. DEPARTMENT OF AGRICULTURE														
- Food Assistance	3003.07		1256.98	352.69	49.50	334.84	40.74	211.67	156.15	100.20	4.60	218.20	117.17	160.33
- Cochran Fellowship Program	5.49	0.08	2.44	0.10		0.20	0.72		0.20	0.20	0.14	0.20	0.10	1.11
- Agricultural Extension Programs	2.99			2.99										
- Agricultural Research Services	0.34						0.27	0.07						
TOTAL DEPARTMENT OF AGRICULTURE	3011.88	0.08	1259.42	355.78	49.50	335.04	41.73	211.74	156.35	100.40	4.74	218.40	117.27	161.44
U.S. DEPARTMENT OF ENERGY														
- Nuclear Reactor Safety	106.09		72.34	0.37										33.38
- Materials Protection, Control and Accounting (MPC&A)	312.64		295.84			0.21	13.38				1.50	0.65		1.06
- Initiatives for Proliferation Prevention (formerly Industrial Partnering Prog.)	79.20		67.77				3.21					1.87		6.35
- Export Control Programs (Nuclear)	6.34	0.83	2.44				1.56							1.51
- Uranium Supply Enrichment	1.00		1.00											
- Arms Control Support	4.54		3.80				0.03				0.01	0.20		0.50
- Research & Development - FSU States	13.80		13.80											
- Fissile Materials Disposition	25.60		25.60											
- RERTR / Reduced Enrichment for Research & Test Reactors	1.00		1.00											
TOTAL DEPARTMENT OF ENERGY	550.21	0.83	483.59	0.37		0.21	18.18				1.51	2.72		42.80
NSF / CIVILIAN R & D FOUNDATION	13.49	12.59	0.90											
NSF / COOPERATIVE RESEARCH PROJECTS	10.80	10.80												
U.S. DEPARTMENT OF COMMERCE - CABNIS	1.50		1.00				0.50							
U.S. EXPORT-IMPORT BANK	300.00	300.00												
U.S. TRADE AND DEVELOPMENT AGENCY (TDA)	11.19	0.63	7.47	0.04		0.10	0.51	0.04	0.02	0.10	1.15	0.01	0.09	1.03
U.S. INFORMATION AGENCY (USIA)	222.70	8.55	114.94	7.78	5.55	8.87	12.57	5.51	1.91	2.10	11.95	8.42	5.00	29.56
U.S. DEPARTMENT OF STATE														
- International Military Exchanges and Training (IMET)	16.92		3.84			1.18	1.71	0.93		0.98	1.13	0.90	1.16	5.08
- NADR / Counterproliferation	1.89		1.40	0.06		0.01	0.10	0.09	0.02	0.06	0.02		0.04	0.12
- Nonproliferation/Disarmament Fund	9.76	4.80	0.71	0.71	0.71		0.71	0.71			0.71		0.71	
- Warsaw Initiative	33.25		4.50			6.05	3.75	2.15		0.95	2.55		4.25	9.05
TOTAL DEPARTMENT OF STATE	61.82	4.80	10.45	0.76	0.71	7.24	6.27	3.88	0.02	1.98	4.41	0.90	6.16	14.25
PEACE CORPS	41.79		11.34	4.01			4.97	3.21		2.91	4.21		3.36	7.79

TOTAL CUMULATIVE NON-FSA OBLIGATIONS AS OF 9/30/98	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	6237.93	595.57	2914.48	368.74	55.76	357.58	239.44	224.65	158.29	107.49	28.37	305.25	171.89	710.43

TOTAL CUMULATIVE USG (FSA+NON-FSA) OBLIGATIONS AS OF 9/30/98	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	11934.12	1091.39	5224.99	872.54	152.29	575.84	550.13	380.96	212.23	157.81	134.93	353.39	319.97	1907.64

CUMULATIVE EXPENDITURES (FY 1992 TO DATE) FOR MAJOR NIS ASSISTANCE PROGRAMS BY COUNTRY AS OF 9/30/98

(millions of dollars, rounded to the nearest $10,000)

FREEDOM SUPPORT ACT (FSA) FUNDS	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
USAID/ENI - BUREAU FOR EUROPE AND THE NIS														
- NIS Special Initiatives (Humanitarian, etc.)[1]	483.34	32.19	45.70	203.12	55.59	76.65	7.24	3.50	24.95	1.71	3.50	1.87	2.50	24.83
- Energy Efficiency and Market Reform[1]	354.80	32.15	70.20	49.11	0.08	15.39	10.38	6.06		0.08	0.09	2.02	2.76	166.48
- Environmental Policy and Technology[1]	119.79	12.62	49.48	0.53		0.61	13.23	0.96	0.40	6.50	8.66	0.23	2.90	23.68
- Health-Care Improvement[1]	191.49	20.27	71.85	4.43	0.24	3.44	31.62	10.17	2.16	2.11	5.87	2.66	5.78	30.90
- Private-Sector Initiatives[1]	884.58	15.50	513.95	12.14		15.08	79.55	44.34	0.23	0.10	6.31	5.97	49.48	141.94
- Food-Systems Restructuring	86.73	1.45	44.26	0.00	0.34	3.75	1.53	0.09					5.23	30.09
- Democratic Reform[1]	260.98	17.63	111.61	10.69	2.00	6.83	20.50	9.66	2.25	1.23	3.86	4.16	3.34	67.20
- Housing-Sector Reform	235.01	2.12	196.31	8.62			7.01	1.70						19.24
- Economic Restructuring and Financial Reform	248.04	18.67	67.65	18.58		5.91	27.73	20.58	0.76	1.18	12.58	0.09	11.71	62.59
- Eurasia Foundation	94.39	44.25	21.39	8.87	0.10	2.51	1.01	1.10	0.32	0.22	1.28	1.04	0.46	11.83
- Enterprise Funds	369.94	40.00	232.92	1.12	1.09	1.09	9.81	7.80	1.53	3.69	10.16		6.07	54.67
- Exchanges and Training[1]	171.40	4.16	84.94	7.51	2.25	5.89	10.20	7.14	5.77	5.91	6.59	2.16	1.90	26.99
- Russia Energy & Environmental Commodity Import Program (CIP)	58.25		58.25											
- Administrative Expenses	25.30	25.30												
TOTAL USAID/ENI[1]	3584.03	266.31	1568.51	324.72	61.68	137.15	219.80	113.10	38.37	22.73	58.90	20.19	92.15	660.43

[1] As of the 3/31/96 report, these numbers no longer include transfers to other agencies which are now implementing their own programs using FSA funds; these transfers are now included in each agency's line-item below.

OTHER USAID PROGRAMS														
- Humanitarian Assistance - Armenia (155-0001)	10.78			10.78										
- Presidential Medical Initiative (156-0001)	5.00			5.00										
- USAID Farmer-to-Farmer Program & OFDA	39.95	8.32	16.79	1.29		0.32	3.55	1.29	0.32	0.65	0.65	1.29	0.97	4.52
- Ukraine Credit Facility	(NOT APPLICABLE - SEE COMMERCIAL FINANCING AND INSURANCE CHART)													
- Transfers to Other USAID Bureaus[2]	32.14	24.98	0.84	2.14		0.35	1.26	0.39	0.13	0.73	0.89		0.02	0.42
- Parking Fines														
TOTAL OTHER USAID PROGRAMS	87.87	33.30	17.63	19.21		0.67	4.81	1.68	0.45	1.37	1.54	1.29	0.98	4.94
TOTAL USAID[3]	3671.90	299.61	1586.14	343.92	61.68	137.82	224.61	114.78	38.82	24.10	60.44	21.49	93.13	665.37

[2] Includes disaster assistance, Women in Development, USAID-Israel Cooperative Development/Research, science and technology, agricultural, environmental, family planning and child survival programs.

[3] Includes $235m in FY 1992 Economic Support Funds, $11.36m in FY 1992-95 Development Assistance and $29.61m in FY 1992-94 International Disaster Assistance. A total of $95,000 was withheld for parking fines in FY 1998.

TRANSFERS TO OTHER AGENCIES	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
U.S. DEPARTMENT OF COMMERCE														
- Business Information Service for the NIS (BISNIS)	8.29		4.16	0.18	0.14	0.18	0.91	0.23	0.10	0.15	0.31	0.21	0.18	1.54
- Business Information Service - Russia (BISTA)	0.97		0.97											
- American Business Centers (ABCs)	12.19	1.39	8.95				0.60				0.46	0.26		0.53
- SABIT Business Internship Training Program	12.23	0.01	6.65	0.29	0.16	0.40	0.83	0.37	0.27	0.21	0.49	0.29	0.27	2.01
- Commercial Law Development Program (CLDP)	4.28	0.25	1.76										0.32	1.95
- Business Development Committees (BDCs)	0.95	0.28	0.60				0.04					0.01		0.03
- Consortia of American Businesses in the NIS (CABNIS)	4.50		4.50											
TOTAL DEPARTMENT OF COMMERCE	43.41	1.93	27.58	0.47	0.29	0.58	2.39	0.59	0.37	0.35	1.26	0.77	0.77	6.05
USIA FREEDOM SUPPORT ACT EXCHANGES	354.83	6.60	194.21	15.40	7.58	9.50	14.01	9.09	4.16	4.32	8.14	11.82	9.04	60.95
U.S. DEPARTMENT OF ENERGY														
- Nuclear Reactor Safety	166.72		88.60	4.30										73.82
- Initiatives for Proliferation Prevention (formerly Industrial Partnering Prog.)	34.20		30.21				0.64					0.37		2.98
- Chornobyl Initiative														
TOTAL DEPARTMENT OF ENERGY	200.92		118.81	4.30			0.64					0.37		76.80
U.S. DEPT. OF STATE - S/NIS/C - HUMANITARIAN ASSISTANCE														
- Transportation Costs and Grants	257.29		57.76	54.89	11.61	46.95	15.04	8.85	4.92	2.81	6.37	8.05	12.10	27.94
- Cargo Value (DoD excess and privately donated)[4]	1974.56		582.24	177.66	57.52	269.59	142.31	84.11	29.44	26.73	57.90	128.05	78.99	340.02
TOTAL S/NIS/C HUMANITARIAN ASSISTANCE	2231.85		640.00	232.55	69.13	316.54	157.35	92.96	34.36	29.54	64.27	136.10	91.09	367.96

[4] The value of these U.S. Department of Defense excess and privately donated commodities is not included in the TOTAL CUMULATIVE EXPENDITURES lines below.

U.S. DEPARTMENT OF STATE *(NOTE: INL cum. exp. are as of 9/30/97*														
- INL / Anti-Crime Training & TA *INL 9/30/98 exp. are not yet available)*	27.31	3.95	17.02			0.27	0.98	0.52	0.09	0.09	0.34	0.98	0.60	2.48
- INR / Title VIII Research Program	17.91	7.61	7.52	0.14	0.17	0.24	0.34	0.18	0.17	0.20	0.32	0.11	0.08	0.83
- Science Centers	49.91		28.50	3.35		1.52	5.00	0.25			0.24			11.05
TOTAL DEPARTMENT OF STATE	95.13	11.56	53.04	3.49	0.17	2.03	6.32	0.95	0.26	0.29	0.90	1.09	0.68	14.35
U.S. DEPARTMENT OF JUSTICE - Criminal Law Assistance	2.80	0.15	1.31	0.36		0.05					0.04		0.13	0.76
OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)	(NOT APPLICABLE - SEE COMMERCIAL FINANCING AND INSURANCE CHART)													
U.S. TRADE & DEVELOPMENT AGENCY (TDA)	56.42	1.05	37.44	0.74		1.36	4.02	0.15		2.52	2.23	1.42	0.11	5.39
PEACE CORPS	50.87		13.34	4.26			6.77	4.35		4.31	4.55		4.19	9.09
ENVIRONMENTAL PROTECTION AGENCY	18.36	0.38	14.80			0.01							0.01	3.16
NSF / CIVILIAN RESEARCH & DEVELOPMENT	0.89	0.50		0.14			0.25							

	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
U.S. CUSTOMS SERVICE / GEORGIA BORDER SECURITY	1.89					1.89								
U.S. NUCLEAR REGULATORY COMMISSION (NRC)	22.32		11.29	0.70			0.38							9.95
U.S. DEPT. OF AGRICULTURE (USDA)														
- Cochran Fellowship Program	7.90	0.13	2.17	0.46	0.29	0.33	0.68	0.52	0.44	0.41	0.68	0.24	0.56	0.99
- Faculty Exchange Program	1.22		0.49				0.08							0.65
- Collaborative Biotech Research Program	1.58		0.95				0.07							0.56
TOTAL USDA EXCHANGE PROGRAMS	10.70	0.13	3.61	0.46	0.29	0.33	0.83	0.52	0.44	0.41	0.68	0.24	0.56	2.20
U.S. DEPARTMENT OF THE TREASURY														
- G-7 Support Implementation Group	2.29		2.29											
- Technical Advisors	23.23	5.22	6.33	1.86		1.48	1.87	0.99	0.11			1.18	1.82	2.37
TOTAL U.S. DEPT. OF THE TREASURY	25.52	5.22	8.61	1.86		1.48	1.87	0.99	0.11			1.18	1.82	2.37
CONGRESSIONAL RESEARCH SERVICE (CRS)	4.69		1.92											2.77
TOTAL TRANSFERS TO OTHER AGENCIES	1144.13	27.52	543.72	87.07	19.95	62.29	52.51	25.50	10.26	15.01	24.17	24.94	29.42	221.78

TOTAL CUMULATIVE FSA EXPENDITURES AS OF 9/30/98	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	4816.03	327.13	2129.86	430.99	81.63	200.10	277.13	140.28	49.08	39.11	84.60	46.43	122.55	887.14

NON-FREEDOM SUPPORT ACT FUNDS	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
U.S. DEPARTMENT OF DEFENSE (DoD)														
COOPERATIVE THREAT REDUCTION (CTR) PROGRAMS (Nunn-Lugar)														
- Weapons Dismantlement	553.82		235.22				54.10					26.40		238.10
- Chain of Custody	313.04		228.43			0.16	24.97					19.08		40.40
- Demilitarization	303.83	50.73	88.79				29.16					25.52	40.00	69.63
- Other	64.27	38.33	25.94											
TOTAL CTR	1234.96	89.06	578.38			0.16	108.23					71.00	40.00	348.13
- DoD Warsaw Initiative	38.12	38.12												
- DoD/ Military Technical Cooperative Efforts	98.60	98.60												
- DoD Customs Border Security / Counterproliferation	9.00	9.00												
- DoD/FBI Counterproliferation	1.29					0.20	0.40	0.27			0.40		0.02	
TOTAL DEPARTMENT OF DEFENSE	1381.97	234.78	578.38			0.36	108.63	0.27			0.40	71.00	40.02	348.13
U.S. DEPARTMENT OF AGRICULTURE		380.49	578.38			0.56	109.03	0.54			0.80	71.00	40.04	348.13
- Food Assistance	3003.07		1256.98	352.69	49.50	334.84	40.74	211.67	156.15	100.20	4.60	218.20	117.17	160.33
- Cochran Fellowship Program	5.46	0.08	2.44	0.10		0.20	0.72		0.20	0.20	0.14	0.20	0.10	1.08
- Agricultural Extension Programs	2.99			2.99										
- Agricultural Research Services	0.34						0.27	0.07						
TOTAL DEPARTMENT OF AGRICULTURE	3011.85	0.08	1259.42	355.78	49.50	335.04	41.73	211.74	156.35	100.40	4.74	218.40	117.27	161.41
U.S. DEPARTMENT OF ENERGY														
- Nuclear Reactor Safety	69.03		43.29	0.37										25.37
- Materials Protection, Control and Accounting (MPC&A)	262.56		245.96			0.21	13.20				1.50	0.63		1.06
- Initiatives for Proliferation Prevention (formerly Industrial Partnering Prog.)	34.15		27.62				1.12					1.54		3.87
- Export Control Programs (Nuclear)	6.34	0.83	2.44				1.56							1.51
- Uranium Supply Enrichment	1.00		1.00											
- Arms Control Support	4.54		3.80				0.03				0.01	0.20		0.50
- Research & Development - FSU States	13.80		13.80											
- Fissile Materials Disposition	20.30		20.30											
- RERTR / Reduced Enrichment for Research & Test Reactors	1.00		1.00											
TOTAL DEPARTMENT OF ENERGY	412.72	0.83	359.21	0.37		0.21	15.91				1.51	2.37		32.31
NSF / CIVILIAN R & D FOUNDATION	10.80	9.90	0.90											
NSF / COOPERATIVE RESEARCH PROJECTS	10.80	10.80												
U.S. DEPARTMENT OF COMMERCE - CABNIS	1.50		1.14				0.36							
U.S. EXPORT-IMPORT BANK	300.00	300.00												
U.S. TRADE AND DEVELOPMENT AGENCY (TDA)	11.14	0.62	7.46	0.06		0.10	0.51	0.02	0.02	0.12	1.10	0.01	0.09	1.03
U.S. INFORMATION AGENCY (USIA)	222.70	8.55	114.94	7.78	5.55	8.87	12.57	5.51	1.91	2.10	11.95	8.42	5.00	29.56
U.S. DEPARTMENT OF STATE														
- International Military Exchanges and Training (IMET)	16.92		3.84			1.18	1.71	0.93		0.98	1.13	0.90	1.16	5.08
- NADR / Counterproliferation	0.24		0.02	0.06		0.01	0.03	0.02	0.02	0.06	0.02		0.01	0.02
- Nonproliferation/Disarmament Fund	9.76	4.80	0.71	0.71	0.71		0.71	0.71			0.71		0.71	
- Warsaw Initiative	33.25		4.50			6.05	3.75	2.15		0.95	2.55		4.25	9.05
TOTAL DEPARTMENT OF STATE	60.17	4.80	9.07	0.76	0.71	7.24	6.20	3.81	0.02	1.98	4.41	0.90	6.13	14.15
PEACE CORPS	38.69		10.59	3.76			4.58	2.99		2.68	3.94		3.02	7.14

TOTAL CUMULATIVE NON-FSA EXPENDITURES AS OF 9/30/98	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	5462.34	570.36	2341.11	368.51	55.76	351.82	190.48	224.33	158.29	107.28	28.04	301.11	171.53	593.73

TOTAL CUMULATIVE USG (FSA+NON-FSA) EXPENDITURES AS OF 9/30/98	TOTAL	NIS-REG	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	10278.37	897.49	4470.97	799.50	137.39	551.92	467.61	364.61	207.37	146.39	112.65	347.54	294.07	1480.87

CUMULATIVE U.S. GOVERNMENT COMMERCIAL FINANCING AND INSURANCE AS OF 9/30/98

(millions of dollars, rounded to the nearest $10,000)

U.S. EXPORT-IMPORT BANK (EXIMBANK)

	TOTAL	NIS	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
- SHORT TERM INSURANCE SHIPMENTS	**508.50**		17.10				48.20			80.50	138.60			224.10
- LOANS OR GUARANTEES	**5344.80**		3583.70			16.80	140.00			423.60	849.00			331.70
TOTAL EXIMBANK	**5853.30**		**3600.80**			**16.80**	**188.20**			**504.10**	**987.60**			**555.80**

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

	TOTAL	NIS	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
- FINANCE PROJECTS	**1152.15**		1010.70			23.80		87.00			3.00		5.70	21.95
- INSURANCE PROJECTS	**3253.79**		2518.89	0.62		20.97	74.48	216.50		5.00	278.28		0.23	138.82
- FUNDS SUPPORT	**1217.01**	1125.00		30.67	30.67	30.67								
TOTAL OPIC	**5622.95**	**1125.00**	**3529.59**	**31.29**	**30.67**	**75.44**	**74.48**	**303.50**		**5.00**	**281.28**		**5.93**	**160.77**

U.S. DEPARTMENT OF AGRICULTURE (USDA)

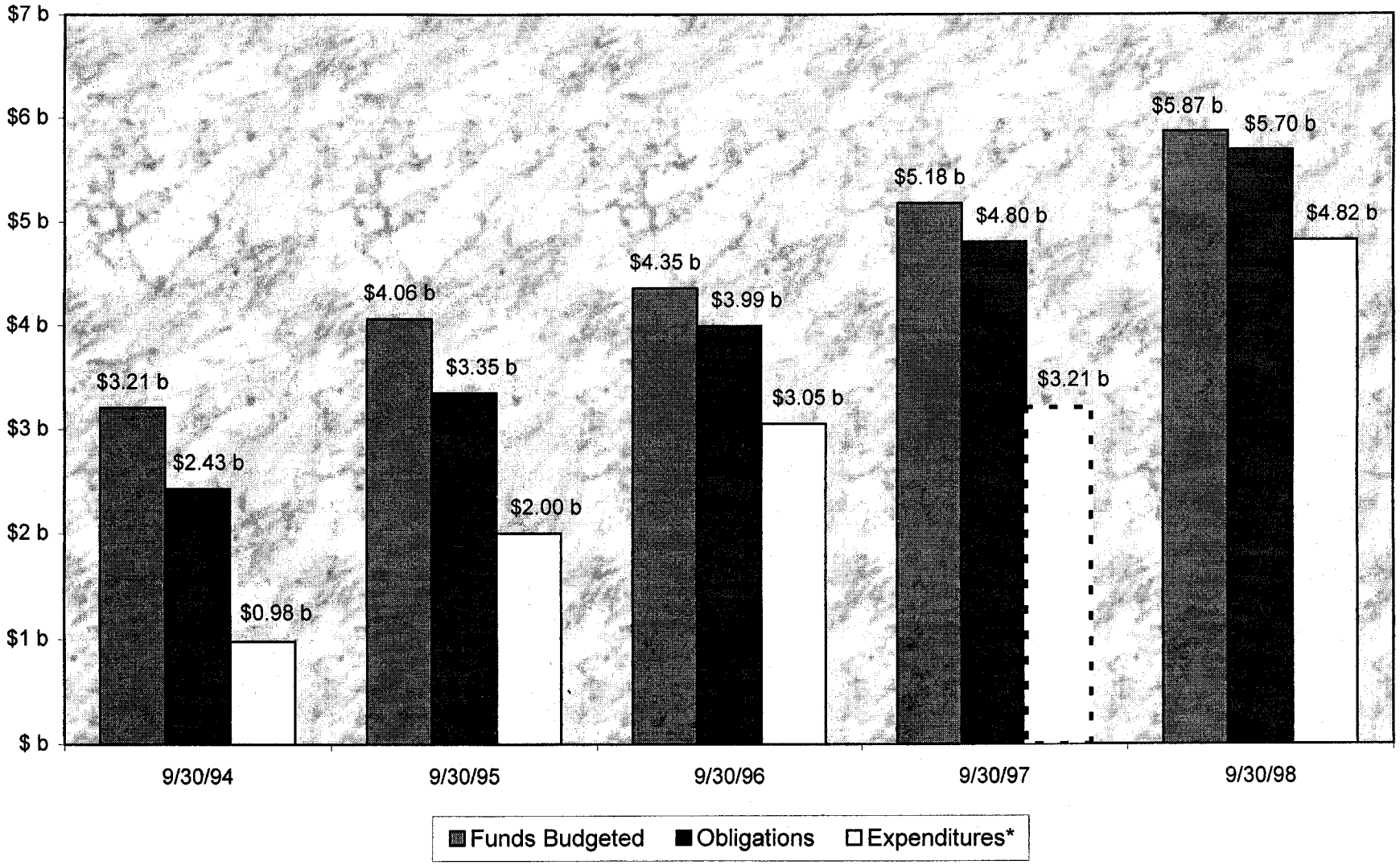
	TOTAL	NIS	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
GSM-102 (FN)														
- FY 1991 SALES REGISTERED	**1911.00**	1911.00												
- FY 1992 SALES REGISTERED	**2585.00**	1832.00	644.00											109.00
- FY 1993 SALES REGISTERED	**520.00**		415.00								15.00			90.00
- FY 1994 SALES REGISTERED	**23.80**		4.20							4.90	14.70			
- FY 1995 SALES REGISTERED	**4.10**		4.10											
- FY 1996 SALES REGISTERED	**53.90**		53.90											
- FY 1997 SALES REGISTERED	**125.50**		105.40											20.10
- FY 1998 SALES REGISTERED	**53.40**		49.90				3.50							
- FY 1998 ALLOCATIONS	**115.00**	10.00	95.00			5.00	5.00							
TOTAL USDA	**5276.70**	**3743.00**	**1276.50**				**3.50**			**4.90**	**29.70**			**219.10**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

	TOTAL	NIS	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
- UKRAINE CREDIT FACILITY	**143.50**													143.50
TOTAL USAID	**143.50**													**143.50**

TOTAL CUMULATIVE USG COMMERCIAL FINANCING AND INSURANCE AS OF 9/30/98	TOTAL	NIS	RUS	ARM	AZR	GEO	KAZ	KGZ	TJK	TKM	UZB	BLR	MLD	UKR
	16,896.45	**4868.00**	**8406.89**	**31.29**	**30.67**	**92.24**	**266.18**	**303.50**		**514.00**	**1298.58**		**5.93**	**1079.17**

Cumulative FREEDOM Support Act Funds



* NOTE: 9/30/97 cumulative expenditures do not include USAID expenditures.

FREQUENTLY USED ABBREVIATIONS

A&E's	audits and examinations
ABA/CEELI	The American Bar Association's Central and East European Law Initiative
BW	biological weapons
CAAEF	Central Asian - American Enterprise Fund
CTR	Cooperative Threat Reduction Program
CW	chemical weapons
DoD	U.S. Department of Defense
DOE	U.S. Department of Energy
EBRD	European Bank for Reconstruction and Development
ENI	USAID's Bureau for Europe and the NIS
EPA	U.S. Environmental Protection Agency
EU	European Union
Eximbank	U.S. Export-Import Bank
FMF	Foreign Military Financing
FSA	FREEDOM Support Act*
FY	fiscal year
GDP	gross domestic product
GNP	gross national product
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development
ICBM	intercontinental ballistic missile
IDP	internally displaced person
IFIs	international financial institutions
IFC	International Finance Corporation
IMET	International Military Education and Training
IMF	International Monetary Fund
IPR	intellectual property rights
m	million
MoD	Ministry of Defense
MOU	memorandum of understanding
MPC&A	material protection, control and accounting
MT	metric ton
MVD	Ministry of Internal Affairs
NATO	North Atlantic Treaty Organization
NGO	non-governmental organization
NIS	New Independent States of the former Soviet Union
NPP	nuclear power plant
NPT	Nuclear Non-Proliferation Treaty
OPIC	Overseas Private Investment Corporation
OSCE	Organization for Security and Cooperation in Europe
PCV	Peace Corps volunteer
P.L.	Public Law
PSA	production-sharing agreement
PVO	private voluntary organization
RI	Regional Initiative
RFE	Russian Far East
SLBM	submarine-launched ballistic missile
SMEs	small to medium-sized enterprises
SNAE	strategic nuclear arms elimination
S/NIS/C	Office of the Coordinator of U.S. Assistance to the NIS
SOAE	strategic offensive arms elimination
SSBN	ballistic missile submarine
START	Strategic Arms Reduction Treaty
TACIS	The European Union's technical assistance program for the NIS
TDA	U.S. Trade and Development Agency
TUSRIF	The U.S.-Russia Investment Fund
UNHCR	United Nations High Commissioner for Refugees
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USIA (USIS)	U.S. Information Agency (known abroad as the U.S. Information Service)
WFP	United Nations World Food Program
WMD	weapons of mass destruction
WNISEF	Western NIS Enterprise Fund
WTO	World Trade Organization

*Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act