U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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ANNEX III

Europe and the New Independent States

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
FY 1998 CONGRESSIONAL PRESENTATION

EUROPE AND THE NEW INDEPENDENT STATES
ANNEX III

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EUROPE AND THE NEW INDEPENDENT STATES

FY 1998 Assistance to Central Europe	$492,000,000
FY 1998 Assistance to the New Independent States	$900,000,000
FY 1998 Economic Support Fund	$84,600,000
FY 1998 Development Assistance Fund	$4,000,000
FY 1998 P.L. 480 Title II	$11,407,000

INTRODUCTION

The central national security goal of the United States is to help establish conditions around the world which will prevent U.S. involvement in war while preserving our freedom. That is why the incorporation of the former Eastern bloc nations of Central Europe and the new independent states (NIS) of the former Soviet Union into the ranks of democracy and free market economies will continue to be one of our highest foreign assistance priorities.

Since the overthrow of communist regimes in Europe and the dissolution of the Soviet Union, the U.S. Government has been helping the Central European and NIS countries make the transition from centralized, authoritarian control to sovereign nations governed on the basis of democratic, free-market principles. The political, economic and security benefits of this transition are as enormous to the people of the United States as they are to the people of Central Europe and the former Soviet Union. Overall U.S. policy in this region is focused on establishing normal, enduring and productive relations with each country and on encouraging such relations among them as well as with the other members of the international community. These relations must be based on the mutual recognition of reasonable security interests, the maintenance of normal economic relations, and the free movement of people, goods and ideas. The U.S. assistance effort in Central Europe and the NIS is intended to move these countries into a normal trade and security relationship with the United States and Europe. Programs are designed to emphasize cooperation, exchange and cross-national linkages, rather than the typical donor-recipient relationships found in more traditional assistance programs.

In just eight years in Central Europe and five in the NIS, the U.S. assistance program has contributed significantly to the development of market democracies. Democracy has taken root in most of Central Europe, and the private sector now dominates economic activity in most states there. Historic changes have occurred in the NIS from development of independent media and grass-roots organizations to massive private sector ownership and entrepreneurship. A significant start has been made in creating the institutions and systems that permit the rule of law and nurture private initiative. The U.S. Government's assistance programs are making a positive impact. It is crucial that the United States now helps these nations consolidate these changes to make them irreversible and increase emphasis on trade, investment, and other linkages typical of nations that expect to share a peaceful and prosperous common future. Accordingly, the Administration is proposing a **Partnership for Freedom** initiative beginning in FY 1998 that will reorient the assistance program, initially for Russia and then for the other NIS, toward longer-term and more cooperative programs to spur economic growth and develop lasting links.

U.S. assistance programs in Europe and the New Independent States (ENI) are uniquely structured to meet U.S. foreign policy challenges. Assistance programs are overseen by two legislatively mandated State Department coordinators, one for the New Independent States under the FREEDOM Support Act (FSA) and the other for Central Europe under the Support for East European Democracy (SEED) Act. This oversight is intended to ensure coordination of policy and development decisions in the region, and to promote synergy among U.S. Government assistance programs.

USAID has managed the largest portion by far of U.S. assistance to the region. In addition, a dozen other U.S. Government agencies implement programs financed through the FSA or SEED resources. A major element of assistance to Russia, the Gore-Chernomyrdin Commission, is under the direct

leadership of the Vice President. A parallel structure is the Gore-Kuchma Commission which guides U.S. programs in Ukraine. As the Partnership for Freedom program unfolds, USAID's traditional technical assistance programs will diminish in countries which have substantially achieved the basic democratic market transition. New emphasis on trade and investment and cooperative activities to promote democracy will sustain the transition and encourage lasting ties.

U.S. NATIONAL INTERESTS AND PRIORITIES

The primary goal of U.S. assistance to the ENI region is to promote American security by helping integrate the countries of Central Europe and the former Soviet Union into the community of market-oriented democratic nations with a significant stake in developing normal and productive international relationships. This process, now well underway, has several tangible benefits.

Peace Dividend. The end of the East-West rivalry has freed up substantial resources for investment here at home. These savings are being applied to deficit reduction and to vital needs -- crime prevention, health, education, environment -- at home.

Democratic Expansion. In Russia in 1996, President Boris Yeltsin defeated communist and right-wing parties in an election deemed "free and fair" by international observers. Significantly, defeated parties and candidates in Russia and throughout the region accepted the election results, including the communist party, which had seized power through force and held it for over 75 years. At the grassroots level, hundreds of active nongovernmental organizations (NGOs), including free trade unions, environmental organizations and human rights monitors, guard their respective interests in a region where the NGO sector didn't exist just a few years ago. A free press and independent media have provided myriad alternatives to the government-controlled media of the recent past.

New market development. U.S. trade with the region has more than doubled in the last decade and has the potential to multiply several fold in the coming years, translating into well-paying, export-related jobs. Private U.S. investment, previously non-existent, is well over $10 billion. During the Cold War, this market of 400 million people was closed to U.S. business. Today it is open and anxious to expand trade.

Regional Security and Cooperation. The countries of Central Europe and the former Soviet Union are cooperating to build new security arrangements to promote peace and economic prosperity and are working closely with the United States to address regional and global problems. The current discussion over the enlargement of the North Atlantic Treaty Organization to include states in the region points to the progress that has been made in a few short years. Poland, for instance, for which the Warsaw Pact was named, is now high on the list to join NATO, the western democratic alliance.

Peace in Bosnia. The Dayton Accords present a unique opportunity to help build durable peace in Bosnia-Herzegovina. The U.S. Government, in concert with our NATO allies and a large international donor community is committed to stabilizing the post-war situation, providing a foundation for economic revitalization and assisting the establishment of effective political and constitutional institutions. As the lead U.S. agency in Bosnia, USAID is also committed to helping meet remaining humanitarian needs to support reconstruction finance, municipal infrastructure and services, and to provide economic and democratic technical assistance programs.

USAID IS ACHIEVING RESULTS

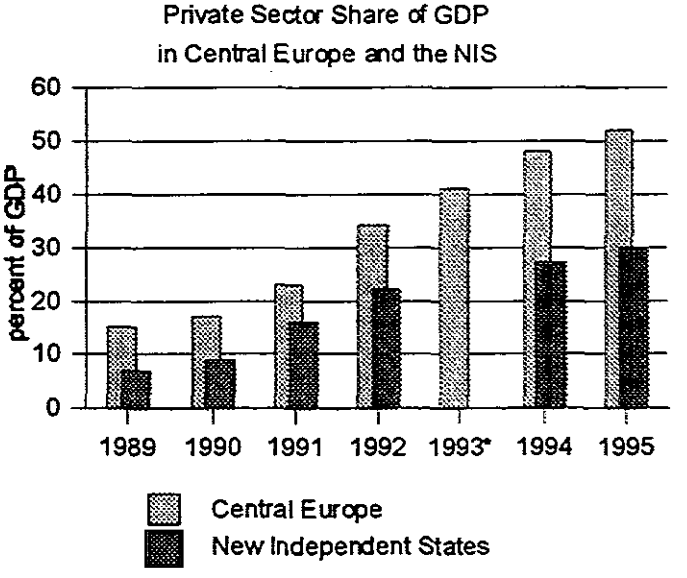
The USAID program pursues three strategic goals in this region: economic restructuring, democratic transition and social stabilization. Beginning in FY 1998 a new goal related to economic growth -- increased trade and investment -- will apply to the NIS countries that have made the most progress in restructuring their economies.

Economic Restructuring

Since 1989, USAID programs have contributed to sweeping economic changes, including mass privatization, land privatization, fiscal reform, development of modern banking systems and energy sector restructuring. Establishment of private property rights and the growth of entrepreneurship have given ordinary citizens a stake in the new economic system. With USAID assistance, most countries have made systemic changes such as creation of laws and institutions to permit private business, as well as specific changes in practices such as adopting Western accounting principles and banking practices. Many are in the process of gaining accession to the World Trade Organization and improving their trade prospects. In Central Europe, the fruits of reform are seen in the encouraging macroeconomic performance of most countries. In that region, economic growth averaged 5% in 1995, up from 4% the previous year. In the NIS, significant progress has been made towards price stability, a precursor to higher economic growth. Furthermore, the severe output declines experienced by most NIS countries since the collapse of the Soviet Union appear to have bottomed out. Armenia, Georgia and Kyrgyzstan have already returned to positive growth. Most of the rest, including Russia, are expected to follow in 1997.

USAID has helped to create a private sector.

USAID's assistance to the private sector begins with the landmark privatization process. From mass privatization in Russia to small-scale privatization in Kazakstan to analyzing and negotiating the sale of large state enterprises in Central Europe, USAID has been at the forefront. From a regional average of about 10% in 1989, the private sector now generates over 50% of gross domestic product (GDP) in Central Europe (less in the NIS). (See figure 1).



*Data not available for NIS
Sources: EBRD, IMF

Figure 1

USAID has been instrumental in moving privatization forward in the NIS. For example, after a slow start, some 400 companies a month are entering the auction process in Ukraine. In Moldova, people are owning their homes for the first time. Outside of the cities, USAID's collective farm restructuring project has proven so successful the Moldovan Government has requested its replication in all 40 districts. In Kyrgyzstan, demonopolization work has led to the creation of new businesses in transport and wholesale marketing. Polls show that 70% of the population now supports privatization, representing a dramatic, positive shift in opinion.

Where privatization has encountered difficulties, USAID has persevered. In Bulgaria, when central-level privatization stalled, USAID reoriented its assistance program to focus on reform-minded municipalities with the goal of replicating local successes throughout the country. USAID's assistance to Albania's successful land privatization now is supported by a law allowing for the buying and selling of land. USAID took the lead in implementing a property registration system to provide secure tenure and to establish the basis for a land market. Over 256,000 final titles have been issued. This will permit the consolidation of fragmented parcels into economically viable holdings and will improve access to credit for the economically disadvantaged, including women.

Not only did USAID help propel privatization forward, but it has extended technical assistance, training, and credit to the mushrooming small business sector, which has been the source of most of the new job opportunities. Support for business associations strengthens the fledgling private sector and provides advocates for legal and regulatory reforms that can aid business growth. Throughout the region USAID has also been active in the provision of credit facilities for small businesses using Enterprise Funds and other financing mechanisms. In Kyrgyzstan, USAID's microfinance has been provided to clients (75% of whom are women) who otherwise would not have been able to secure loans.

USAID has helped lay the foundation for a market-oriented financial sector.

USAID's work in the financial sector supports an essential element needed for the development of a flourishing, sustainable market-oriented economy. In Poland, Warsaw is one of the most exciting financial centers among emerging markets, and stock market and bank transactions are now more efficient in transferring resources to the most productive uses. Strengthened central bank supervision provides the bedrock for often fragile financial sectors and improves public confidence in financial institutions. For example, USAID's bank supervision assistance to the Bank of Lithuania provided an invaluable service in maintaining the integrity of the banking system when major problems at ten banks surfaced in late 1995. Assistance to the Bank of Armenia has enabled it to restructure completely, to enforce bank laws and regulations, and to install an electronic payments system. Similarly in Ukraine, the central bank has taken significant steps toward establishing a sound banking sector, which now boasts a fully functional Interbank Payment System.

USAID's collateral law reform assistance has been particularly beneficial to the banking sector. Banks are now able to provide asset-based lending so that commercial lending for small businesses and mortgage lending for potential homeowners are increasing. A major recent success was the passage of the Polish collateral law in December 1996.

To support its financial sector work USAID helped develop a range of institutional and legal functions essential for an operational capital market, including stock exchanges, clearing and settlement organizations, share registries and depositories, and securities commissions. Several legal reform programs specifically addressing capital markets issues, including corporate governance and shareholder rights, have been implemented and have produced favorable results. In Russia, capital markets are up and running, and regulatory mechanisms are in place. Kazakstan opened its first private stock exchange in April 1995. This landmark development has proved its worth in unexpected ways. In October 1995, the exchange became a forum for auctioning off government-owned shares for cash.

In Central Europe, progress in capital markets has been rapid. Hungary's stock exchange, with 44 stocks listed, is Central Europe's most liquid market. Romania approved a Securities and Exchange law, created a new National Securities Commission and opened the Bucharest Stock Exchange in June 1995. Over-the-counter electronic transactions have begun. The Tirana Stock Exchange opened in May 1996 in Albania, providing a venue for trading in government treasury bills, bonds and privatization vouchers. The Bratislava Stock Exchange in Slovakia has grown steadily in both listings and in trading volumes, which rose from $525,000 in 1993 to almost $1.3 billion in 1995.

USAID has helped governments improve finances.

Governments throughout the region have faced tremendous fiscal pressures stemming from the breakdown of command-based economies. These problems have tended to be more acute in the NIS, where USAID advisors have made major contributions in the fiscal policy and tax administration areas. Through USAID assistance, Kazakstan's new tax code was introduced in June 1995. Regarded as the most efficient and equitable code to be adopted in any former Soviet republic, it is serving as a model for draft codes elsewhere. A new tax code in Uzbekistan awaits enactment by Congress. A budget (state financial procedures) law and a treasury law are almost completed. With USAID advisory

assistance, Kyrgyzstan leads the Asian Republics in economic stabilization. The Kyrgyz *som* is the most stable currency in the region, at times appreciating against the dollar. Through cuts in production and consumption subsidies, and short-term cash management measures, the Ministry of Finance has reduced the budget deficit from about 17% of GDP in 1992 to a projected 5.5% in 1996.

USAID has helped make the energy sector more efficient and the environment cleaner.

One of USAID's main objectives in its economic restructuring program is to change the patterns of energy use and intensity, so as to promote energy efficiency while helping to protect people and improve the environment. Appropriate energy costs are also key to a market-oriented economy, and USAID's energy program has contributed to improved energy-pricing policies. USAID's success is apparent in many ways throughout the region. In Estonia, U.S. assistance has helped build institutional capacities to strengthen environmental analysis and decision-making, has involved local governments and citizens in the process, and demonstrated that sound environmental practices can also be commercially profitable. USAID-supported waste minimization projects helped 18 Polish companies achieve annual savings of $7.2 million, while protecting the environment from further degradation. Improved environmental technologies are providing cost savings to Hungarian industrial plants. Nuclear safety has been improved at Ignalina Power Plant in Lithuania with USAID assistance, and the regional electricity grid has been upgraded. In Slovakia, major enterprises are adopting clean technology, resulting in substantial reductions in pollution. In Ukraine, power sector restructuring has progressed beyond that of any other nation in the former Soviet Union. The wholesale electricity market began operation in April 1996 under the structure of an independent regulator. Ukraine's eight regional monopolies which controlled power generation, transmission and distribution were broken up into 33 joint stock companies. Efforts are well under way in Armenia to de-monopolize the electricity sector, rationalize energy pricing, and improve tariff collection. In Georgia, restructuring of the energy sector has resulted in the sale of a number of hydro power plants to private investors. Similarly in Kazakstan, the electricity sector has been de-monopolized and foreign strategic investors are in the process of privatizing major power plants. U.S. environmental expertise is also leveraging large amounts of other donor funding. In Russia, the World Bank has asked for U.S. environmental advisers to help it co-finance $200 million in pollution abatement loans.

Democratic Transition

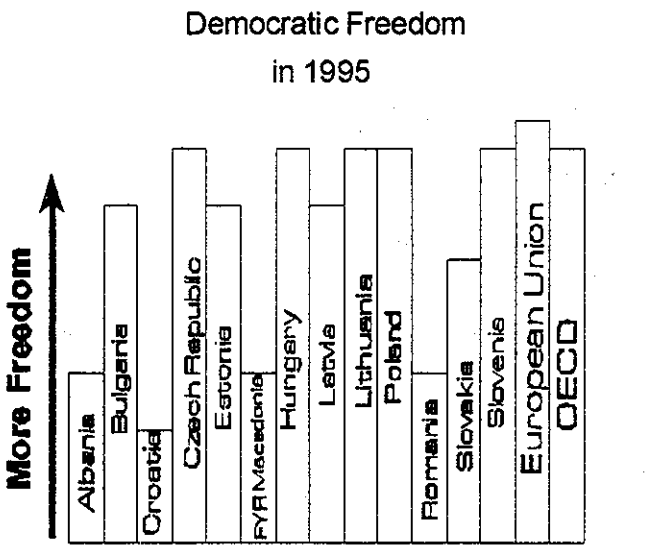
Democratic governance is critical to these formerly authoritarian states. Under communist rule, there was widespread abuse of civil and human rights and little access to information or citizen participation in political decision-making. Now free and fair elections are being held across the region, governments are being decentralized, independent media access is making information available and increasing government accountability, and NGOs are attracting support and influencing policy as they help articulate citizens' needs. Indeed, democracy-building leads the reform process in many countries. Drawing from Freedom House assessments, several countries in Central Europe appear to have achieved democratic freedoms roughly on a par with Western European countries. (See figure 2).

USAID's democracy and governance programs help make recipient governments transparent and responsive to the public by creating checks and balances against the arbitrary power of political leadership and the state bureaucracy. They also create the legal and informational environments which facilitate community initiative outside government and protect individual rights. Increasingly, USAID's support for the development of commercial laws provides the environment necessary for individuals to enjoy economic freedom on a par with newly acquired personal freedom.

USAID has helped to promote citizen participation.

In FY 1996, Armenia, Azerbaijan, Kyrgyzstan, Kazakstan and Russia received election-related training and technical assistance which complemented ongoing long-term political process programs. USAID grantees organized extensive voter and civic education programs. The fact that an increasing number

of political parties, candidates, independent trade unions, and civic organizations participated in political processes was an encouraging sign that democratic reform was progressing in the NIS. The success of the Russian presidential elections and the continued evolution of participatory democracy in that country support the long-term promise for a blossoming of democracy throughout the region. In Lithuania, for example, the results of recent elections have demonstrated the maturity of the political process in that country as voters gave the independence reform party a majority of seats in the parliament after voting them out of power in the previous national elections.



Source: Freedom House, *Freedom in the World*

Figure 2

In 1991, only a handful of NGOs operated in Russia; now there are more than 40,000 registered there as a result of USAID's encouragement of legislation supporting NGO formation. USAID has assisted numerous activities intended to support citizen and NGO participation in community and national life. Activities include legal assistance, strengthening and networking of NGOs, education reform programs in schools and universities, and support to women's, youth, environmental, charitable, and civic groups. In the NIS, assistance provided by U.S. PVOs is increasing the technical and institutional capacity of local groups through leadership training, fundraising and networking, and is providing seed grants to implement small projects. For example, in the Russian Far East, support for local environmental NGOs has helped to give them a formal role in local resource management decision-making.

Civil society is emerging in the ENI countries, but the public needs better access to multiple independent sources of information and more secure freedoms to take individual and community initiative. Independent press and electronic media have been established despite continuing or even increased control by some governments. USAID funds media resource centers, journalist exchanges, journalism programs, and technical assistance for media outlets. Many viewers in the NIS were able to get objective news of the Chechnya conflict only from a television news network developed by a USAID grantee.

USAID has helped to establish the rule of law.

Parliamentary exchanges, training, and technical assistance have been instrumental in orienting many ENI parliaments to enact economic and political reforms, civil liberties laws, and new constitutions. New or modified criminal and civil codes have been reviewed or adopted in Albania, Armenia, the Czech Republic, the Former Yugoslav Republic of Macedonia, Georgia, Lithuania and Slovakia. Russia's civil code is a major example of legislation which lays the foundation for the development of commercial laws that will promote a market economy. The code guarantees both freedom of contract and protection of private property and will improve confidence in market institutions in an environment where financial crime is a serious problem. In June 1996, the Ukrainian parliament ratified its first post-Soviet constitution, receiving considerable input from USAID grantees in terms of material, public debate, and media coverage throughout the development and adoption process.

USAID has also worked with judges throughout the ENI region in forming associations, drafting codes of judicial ethics, and lobbying for judicial independence. Training in new legislation has been provided

through U.S. and European experts. Increasingly emphasis is being placed on the development of indigenous expertise. For example, a judicial training center has been established in Latvia, while the Bulgarian judges association has been weaned from USAID assistance and is providing continuing legal education to judges throughout the country. Similar work is being done with attorneys in the region in order to increase skills and competence throughout the legal profession.

USAID has helped to strengthen local governments.

USAID's public administration, and housing and urban development assistance has strengthened local governments. For example, newly elected mayors in the Czech Republic, Poland, and Slovakia have become more effective and independent by using USAID assistance to make their professional organizations self-sufficient. An association of reform-minded Bulgarian mayors provided input on amendments to the local government law. In Bulgaria, USAID is fully committed to developing the New Partnerships Initiative (NPI) announced by Vice President Gore in March 1995. The NPI promotes governmental and nongovernmental collaboration to enhance grass-roots capacity for solving local problems. NPI investments are also taking hold in Romania and Russia.

USAID has helped municipal governments in several NIS countries become more transparent, accountable and responsive. The Municipal Finance and Management (MFM) program has completed pilot activities with governments of eight demonstration cities in the region, with the aim of improving management, financial practices and service delivery. USAID efforts have also focused on the financial sector. For example, the USAID-supported Association of Polish Cities and Union of Polish Metropolitan cities positively influenced national legislation, making municipal bonds more feasible and the allocation of housing subsidies more equitable. Similarly, a new municipal debt market created in the Czech Republic allows municipalities and commercial banks to finance environmental infrastructure projects. Forty environmental and energy-related municipal infrastructure projects, funded with a housing guaranty loan, directly benefited more than 35,000 households and 124,000 people in 26 municipalities.

Social Stabilization

When social dislocation is ignored or inadequately addressed, citizens suffer. Citizens associate their plight with reforms, and in some cases have used newly acquired voting rights to elect politicians who exploit these concerns. Neither USAID nor other donors can finance social "safety nets," but the agency can provide targeted technical assistance to strengthen the countries' own social protection systems. For example, helping Ukraine, Russia and Slovakia to move away from virtually free housing for all to market-based rents and maintenance fees has improved the quality of housing while freeing municipalities' resources for targeted subsidies for the most vulnerable groups. In areas affected by civil strife, USAID has played a major role in alleviating suffering, particularly in the Caucasus, Tajikistan and Bosnia.

USAID has helped to balance fiscal responsibility with aid to the most vulnerable.

Central governments can no longer afford to subsidize populations to the same degree as before. USAID helps to identify the most needy in society so that governments can provide for those for whom care is a necessity. With USAID support, the Ukrainian Government introduced targeted, means-tested subsidies for housing and utilities, reaching over 3.2 million families. This enabled price increases for housing and communal services, resulting in an estimated net savings of $600 million for 1995. In Armenia, USAID funded the creation of a computer database, which verifies household vulnerability. International donors also use the information to target those most in need of humanitarian interventions.

USAID realizes that, as humanitarian crises in the Caucasus and elsewhere abate, the needs of refugees and other vulnerable groups move away from food aid, shelter, and healthcare towards the means to

develop self-sufficiency. Already hundreds of unemployed workers in Armenia have benefited from USAID-supported jobs in agriculture and light industries.

USAID has moved to shore-up health care systems as it has become more difficult for the state to provide social benefits. USAID's strategy promotes efficient, cost-effective health care systems by supporting systemic improvements in financing, payment, service delivery, management, and quality control. In the Czech Republic, USAID has worked to identify weaknesses in the health system. Reproductive health programs are being funded in Central Asia, Moldova, Russia, Ukraine, Albania, and Romania. Preliminary data from the NIS indicate that service improvements have resulted in reduced abortion rates and increased contraceptive use. Health partnerships between U.S. and ENI medical institutions are making inroads into maternal mortality, an area traditionally neglected in the region. The Central Asian republics are now reported to be polio-free as a result of USAID immunization programs. Also in Central Asia, the USAID- supported Aral Sea initiative will ultimately provide potable water to over a million people and a public health program to some 1.5 million.

PROGRAM AND MANAGEMENT CHALLENGES

Managing for Results in the ENI Region

Since the inception of U.S. assistance to Central Europe and NIS, USAID has envisioned these programs as efforts intended to jump start the process of political and economic reform. The aim has been to help move the countries of the region far enough along the road to becoming market-based democracies that they can enter into normal political and economic relations with other countries and complete the journey on their own. In response to the programmatic and management implications of this strategy, USAID developed a results-oriented monitoring system which enables it to track both the impact of U.S. assistance programs (program impact monitoring), as well as the more general macro-level progress of the countries (country progress monitoring) to determine the extent to which countries are making their transition.

USAID has made exceptional progress during the last two years in designing and implementing tools to monitor program impact. In that time, USAID developed a strategic framework for assistance to the ENI region and established concrete strategic objectives for all country programs. Through a collaborative process with USAID development partners, field missions defined sets of results, performance indicators and targets for measuring progress against the achievement of strategic objectives. With these tools in place, USAID is systematically incorporating performance information into program reviews, planning and decision-making.

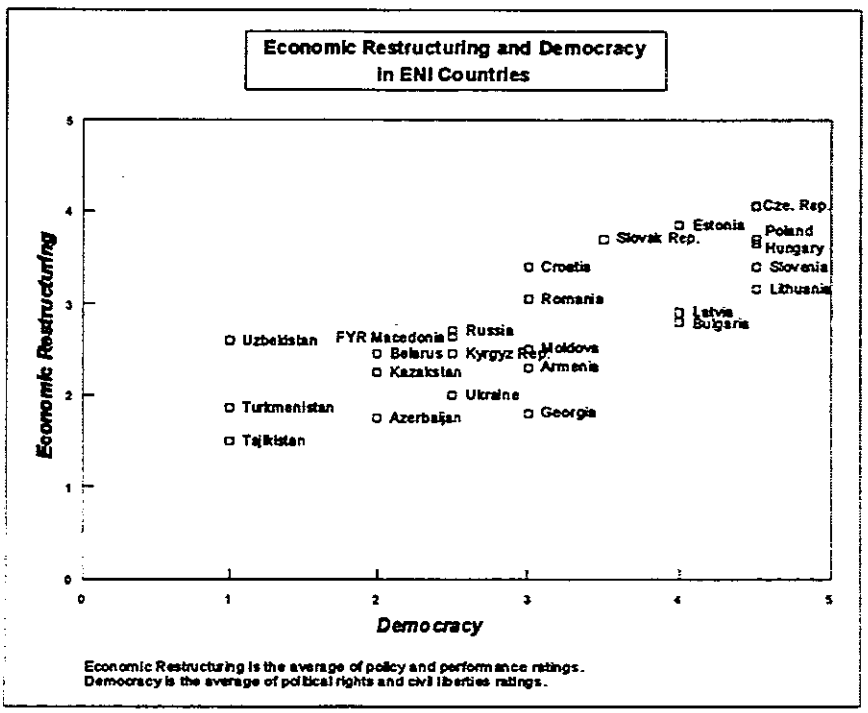
Country progress monitoring examines macroeconomic performance, democracy and governance, and social sector data to help determine whether continued assistance is necessary or justified. This analysis is conducted annually and shared with the State Department-based Coordinators for U.S. Assistance for Central Europe and NIS. In combination with other variables, this information helps form the basis for country-level resource requests as well as decisions on country graduation from U.S. assistance.

By managing for results, USAID has confirmed that many of the countries in the region are on track with their reforms; although there is still work to be done. The Agency has also recognized that some countries -- such as Estonia, Czech Republic and Slovenia -- are on their way to a successful transition and that cessation of U.S. assistance will not jeopardize it. On the other hand, countries like Belarus and Turkmenistan are making so little progress that the Agency has chosen to limit transition assistance until it can be better used. Still others, such as Albania and the Central Asian Republics, seem to be facing longer-term development challenges and need to be viewed as potential candidates for traditional sustainable development assistance.

The Remaining Challenge -- Sustaining the Transition and Promoting Lasting Ties

As we look toward reducing U.S. assistance in Central Europe, USAID will stress the sustainability of the reforms and institutional changes which have been put in place thus far. In the northern tier countries, where progress has been most rapid, there remains the need to consolidate, deepen and expand the transformation. For example, both Poland and Hungary have demonstrated that although overall country progress indicators are strong, the degree of restructuring is uneven among geographic regions within each country. Programs, between now and closeout of U.S. assistance, will help to consolidate reforms at the local level, push transition beyond the capital and a few key regions, and concentrate on enhancing sustainability of key activities after U.S. Government assistance ends. In Central Europe's southern tier, where economic and political change has much farther to go, there is still a need to put some of the more fundamental changes in place, as well as to ensure the irreversibility of those reforms.

Progress in the NIS has been slower than in Central Europe as shown in the comparative ratings of economic and democratic performance in Figure 3. European Bank for Reconstruction and Development (EBRD) ratings of macroeconomic policy in the NIS and in Central and Eastern Europe show almost all the NIS countries behind Central Europe in areas such as privatization policy, price liberalization, financial sector reform, and reform of the legal and regulatory regime confronting businesses. Only Russia, Moldova and Kyrgyzstan are at a stage of economic policy reform comparable to the lagging countries of Central Europe (e.g., Romania, Bulgaria), and the rest lag far behind. Inflation in the NIS remains very high -- 189%, on average, in 1995. Fifty-five percent of the NIS economy is still generated by the public sector, while investment levels remain negligible and fiscal deficits remain far too high.



Sources: EBRD, World Bank, Freedom House

Figure 3

It is hard to generalize about democratic reform in the NIS countries. There are notable success stories in terms of the number of elections held, the degree of NGO development and a flourishing independent media. In contrast, however, there is retrogression which USAID will monitor. For example, the undermining of parliamentary independence by the Executive in Belarus, a repressive regime in Turkmenistan, and the disputed Fall 1996 elections in Armenia raise the question as to whether political and civil rights have improved everywhere since the dissolution of the Soviet Union. Some social trends are also troubling, indicating that reform has not yet gone far enough. Some of the NIS countries -- most notably Russia -- are now experiencing income inequalities comparable to Latin American levels. Although this may be attributable, in part, to wealth creation among a few, poverty has also increased significantly. While five countries in the NIS witnessed an increase in life expectancy since 1991, on balance, the region experienced a decrease. Life expectancy among Russian males has plummeted --

from 64 years in 1989 to 59 in 1993 and possibly as low as 57 today. In addition, six countries in the region have experienced an increase in infant mortality since 1991. It is important that the fall of communism, and the new democratic and free enterprise systems that followed, not be equated with reduced quality of life.

The security of the United States and the rest of the world is immeasurably enhanced if Russia and the other NIS countries are stable democracies participating in the global economy. For this reason, the United States must stay engaged in the NIS countries visibly and materially to help ensure that fundamental democratic and market institutions take root. In addition to the ongoing technical assistance program -- which is focused on fundamental economic and democratic reform -- the Administration is proposing a Partnership for Freedom initiative, focused on trade and investment and long-term cooperative activities, beginning in FY 1998. While ongoing assistance activities will continue to help put in place the basic laws, regulations and systems needed for market-oriented democracies to function, new emphasis will support mutually beneficial relationships -- such as partnerships, exchanges, joint ventures, endowments and cooperative projects -- directed toward leveraging additional private, governmental and community resources for investment in the transition. The additional resources of the Partnership for Freedom will be concentrated initially on those NIS countries that have come the furthest in accomplishing their economic and political transitions and are ready for trade, investment, rapid growth, and a multitude of economic, political, and cultural ties to the West. At the same time, the base program of NIS technical assistance will continue to focus on those countries that have shown a willingness to undertake reform but have not substantially completed their transitions.

Resource Allocation Trends

FY 1996 saw a significant decrease in Russia's portion of NIS assistance resources, and a sharp increase in funding for Ukraine and Armenia -- as directed by the Congress -- and this continued in FY 1997. While a gradual reduction in Russia's share of the budget had already begun, due to satisfactory progress on many of the reforms implemented in that country, events of the past year suggest that the successful completion of Russia's transition cannot be taken for granted. Last summer's presidential election was, in the end, encouraging; nevertheless, some 40% of the Russian people voted against reform. Nostalgia for the Soviet system will continue to grow so long as average Russians feel that they have lost ground since its fall. Accordingly, the Administration's budget request would restore Russia's share of the budget from 15% in FY 1997 to 27% in FY 1998 in order to allow timely completion of technical assistance for fundamental economic and democratic reforms and to begin new programs to expand trade and investment and other ties with the United States.

Proposed funding for Ukraine and Armenia will remain substantial. FY 1998 funding, in combination with ongoing activities, will be sufficient to continue all the major reform efforts underway as well as the ongoing programs to improve the safety of Ukraine's nuclear power generation. Significant resources are also planned for reformers like Moldova and Kyrgyzstan and strategically important countries like Kazakstan.

The country levels for Central Europe represent a continued shift in the proportion of resources devoted to the southern tier. Approximately $232 million (including $6.5 million in P.L. 480 Title II) is provided for Bosnia in FY 1998 to meet U.S. Government commitments to economic reconstruction. Increased resources in the southern tier are necessary to take advantage of the opportunity for genuine economic reform in Romania, to catalyze reform at the local level in Bulgaria, to help FYR Macedonia accelerate reform now that economic sanctions have been removed, and to deepen democratic institutions in Albania. Resources are also needed to assist in the peaceful reintegration of the Eastern Slavonia region of Croatia. Bosnia will account for almost 46% of the SEED budget under the Administration's request for FY 1998. Forty-eight percent of the non-Bosnia SEED budget is allocated to southern tier countries in FY 1998, up from 45% in FY 1997 and 35% in FY 1996, while the northern tier share is reduced to 21% in FY 1998, from 30% in FY 1997 and 36% in FY 1996. The remainder is allocated regionally.

Closing Out USAID Programs

As reform results are achieved and these countries enter into more normal trade and security relationships, USAID assistance and field offices will be closed out. This process is already underway in Central Europe. In FY 1996, Estonia was the first country to be graduated from USAID assistance, and USAID assistance to the Czech Republic and Slovenia will end in FY 1997. During the next few years, USAID anticipates additional states in Central Europe will move to graduation, such as Hungary, Latvia, Lithuania, Poland, Slovakia and possibly Croatia. Although Latvia was originally scheduled for an early close-out, slower economic reform and weaker performance than anticipated has led USAID to continue a modest assistance level and to delay Latvia's graduation date. On the NIS side, no country is scheduled for graduation before the end of the decade.

Estonia: A Graduation Success Story

The U.S. economic assistance program in Estonia began in late 1991 with emergency medical and feed grain shipments. Shortly thereafter, technical advisory and training programs were initiated. Over five years, the U.S. Government contributed almost $32 million in project funding, plus about $18 million in agricultural commodities. Estonia's laudable progress, marked by rapid political and economic transformation, enabled it to become, in September 1996, the first country to graduate from the SEED-funded assistance program.

USAID's contribution to Estonia's success is highlighted by five major activities: privatization; rule of law; banking system; environment; and health systems. As a result, Estonia is well on its way toward successfully integrating into the global marketplace and has joined the growing company of democratic nations.

Donor Coordination

USAID has been able both to coordinate donor efforts and to leverage hundreds of millions of dollars, *beyond its own contributions*, for the region. USAID coordinates its activities with the World Bank, the European Bank for Reconstruction and Development (EBRD), and the European Union's (EU) technical assistance programs for the NIS and Europe, as well as through the recently launched Transatlantic Initiative with the EU.

USAID's technical assistance often has set the stage for World Bank and EBRD work in energy, housing, infrastructure, and social sector restructuring loans. For example, USAID and the World Bank are in the process of implementing several programs in Russia, including a Gas Distribution Rehabilitation and Energy Efficiency Loan I ($106 million) and a Medical Equipment Loan totaling $300 million. USAID/EBRD collaboration with the Enterprise Funds continues. USAID recently signed two $1 million grant agreements to implement Venture Capital investment activities in Slovenia via the Slovenian Development Capital Fund and the Horizonte Slovene Enterprise Fund. In Fall 1996, USAID and EBRD approved the creation of the Hungarian Equity Partners by the Hungarian American Enterprise Fund.

In Bosnia-Herzegovina, the international community is working closely on all aspects of economic recovery, in full coordination with the North Atlantic Treaty Organization (NATO) Stabilization Force (SFOR) mission. The U.S. contribution is expected to be 20% of the total World Bank estimate of bilateral aid needs, while the European Union and its member states continue to contribute the lion's share of these needs. Through regular meetings of the Steering Board of the Peace Implementation Conference, semi-annual convening of the full Peace Implementation Conference, and daily cooperation with the High Representative and World Bank representatives, the United States and its partners seek to streamline the coordination of civilian program implementation.

External Debt

At the end of 1994, the total debt stock in Central Europe and the NIS was an estimated $216.6 billion. In 1991, under the terms of the so-called zero-option agreement, Russia assumed full responsibilities for all foreign assets and debts of the defunct Soviet Union. Excluding Russia, the total debt stock of the former Soviet republics (includes the Baltic States) grew from about $1 billion in 1992 to $15 billion in 1994. In 1995, debt averaged an estimated 20% of GDP for this group of countries, but ranged widely from a high of 80% of GDP in Moldova to 1% of GDP in Turkmenistan. Russia's debt was an estimated 31% of GDP. In Central Europe, excluding the Baltic countries, total debt stock rose from $82.7 billion in 1989 to $107 billion in 1994.

Over the past few years, debt restructuring agreements reached with official and commercial creditors have reduced the debt burden appreciably for a number of states. Those countries concluding agreements were Albania, Bulgaria, Poland, Croatia, the Former Yugoslav Republic of Macedonia, Slovenia, and Russia. While the level of debt for most countries continued to be modest through 1995, many have significantly increased external borrowing since beginning market reforms. Net energy importers in the NIS have also rapidly accumulated debt on supplies of oil and gas obtained from Russia and Turkmenistan. Given the large investment needs of the transition countries, increased borrowing from official and private sources is to be expected. Of particular concern, however, is whether debt will be used to finance needed investment or for domestic consumption. If public and private debt is not used effectively for investment purposes, then over time the risk of balance-of-payments difficulties is increased.

Although many countries have moved toward removing obstacles to foreign direct investment (FDI), only a handful have acquired the lion's share of these non-debt creating capital flows. Regionally, FDI flows almost doubled in 1995, rising 82% to $12.2 billion. This represented by far the highest level of FDI in any year since the beginning of the transition. Hungary led the way with $4.5 billion, followed by the Czech Republic and Russia with $2.5 billion and $1.5 billion, respectively.

FY 1998 PROGRAM

The first two strategic goals of USAID's program in the region, economic restructuring and democratic transitions, reflect U.S. national interest in the development of stable, market-oriented democracies. The third goal, social stabilization, recognizes that social pain, including deteriorating social services, can undermine reform efforts and become an obstacle to comprehensive economic and political reform. A new goal of economic growth will apply to the NIS in FY 1998 for those countries that have substantially accomplished their economic restructuring, particularly Russia.

While economic restructuring efforts continue to constitute the majority of the program, USAID is planning an increase in democracy programs in the Central Europe region over the next two years. Efforts to increase citizen participation, establish the rule of law, and strengthen local government will be given higher priority; the share of budget resources devoted to democracy programs in the country budgets will rise from roughly 22% in FY 1997 to about 27% in FY 1998. A significant refocusing of efforts toward democracy programs, where progress is still fragile, is being undertaken in Slovakia, Albania, Bulgaria and Romania.

In both Central Europe and the New Independent States, there is an increasing emphasis on local level approaches, through NGOs, local government, and small and medium enterprises. In Bulgaria, Hungary, Poland, Russia and the Central Asian republics, USAID is focusing resources on a bottom-up approach as a means of deepening democratic commitment and strengthening decentralization. In Kazakstan, Kyrgyzstan and Uzbekistan, there has been a strong shift toward NGO development. In some cases, such as Bulgaria, the local level approach was developed in response to lackluster reform performance at the national level. In other cases, this trend represents the need to help consolidate reform efforts

at the local level and push transition beyond the capital city, as is the case in Poland and Hungary. All of these efforts reinforce the Agency's New Partnerships Initiative.

Economic Restructuring and Economic Growth

USAID proposes $98,842,000 for SEED and $474,686,000 for FSA funds under these strategic goals to (a) foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed, and (b) promote growth of restructured NIS economies through trade and investment and other ties to the West.

To achieve the economic restructuring goal, USAID first undertakes activities aimed at systemic reform - laws, policies, institutions, information flows - which are fundamental to free enterprise and private markets. These include legal and regulatory reforms to facilitate privatization; capital market development; improved realignment of revenue policies and budget allocation with economic objectives; modernization of tax codes and systems; establishment of commercial law and regulatory procedures; contract law, demonopolization and bankruptcy; development of small and medium-sized enterprises; establishment of efficient, well-regulated private banking operations; and energy conservation and restructuring of energy pricing and delivery systems.

Specific strategic objectives are: increased transfer of state-owned assets to the private sector; sound fiscal policies and fiscal management practices; accelerated development and growth of private enterprises; a more competitive and market-responsive private financial sector; and a more economically sound and environmentally sustainable energy system.

To achieve the economic growth goal, beginning in FY 1998, emphasis in the NIS will be placed on promoting increased trade and investment, particularly in Russia, and on implementing assistance activities through a more mature set of mechanisms, such as partnerships and cooperative projects. Funds will be provided to establish a Trade and Investment Facility to promote U.S. and other investment necessary for growth, and to support businesses' efforts to expand U.S.-NIS trade. Russia and Ukraine will be major participants.

Democratic Transition

USAID proposes $73,036,000 for SEED and $139,750,000 for FSA funds under this strategic goal to support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes and freedom of information.

To achieve this goal, systemic change to facilitate participation, information flows and the rule of law are key. Among the activities USAID supports are: strengthening of political parties and support of free and fair elections; development of independent, responsible media; strengthening of parliamentary processes and establishment of laws and regulations to enhance local government authority; and development of an independent judiciary to allow changes in legal procedures and the capacity of judicial systems to operate independently and effectively. USAID helps strengthen thousands of NGOs which now serve advocacy functions for ordinary citizens and help open up the political process. FY 1998 funding will build on these efforts and include support for selected foundations, community-based exchanges and sister city partnerships, increased number of cooperative activities focused on anti-crime and law enforcement issues, including economic crimes, and targeted support to community institutions. As part of the Partnership for Freedom, funds will be provided to make change permanent by endowing key U.S. and NIS institutions and activities.

Specific strategic objectives are: increased, better-informed citizens' participation in political and economic decision-making; legal systems that better support democratic processes and market reforms; and more effective, responsive, and accountable local government.

Social Stabilization

USAID proposes $249,730,000 for SEED and $87,139,000 for FSA funds under this strategic goal to respond to humanitarian crises and strengthen the capacity to manage the human dimension of the transition to democracy. Funding for economic reconstruction and other activities in Bosnia comprises almost 90% of the SEED request under this goal for FY 1998.

This goal aims to help governments address the problem of deteriorating services and contain the "backlash" against economic reform. USAID provides targeted technical assistance to reform social protection systems. Rather than universal, but unaffordable subsidies for a wide range of services, countries are moving to fee-based systems for those who can afford to pay, coupled with targeted subsidies for the most vulnerable groups. Reforms which develop incentives for an enlarged private sector role in service delivery and financing also will reduce the public burden.

The reduction of conflict in the Caucasus, the Balkans and Tajikistan has permitted USAID to plan the reorientation of assistance resources away from humanitarian assistance toward the first two strategic goals. More emphasis will be placed on economic restructuring and reconstruction assistance which will address the longer-term development needs of these countries. In addition to emergency relief, activities pursued by USAID under the social stabilization goal include increasing reliance on alternative modes of health care provision and financing, moving to market-based rents and maintenance systems for housing; and improving the operational safety at nuclear power plants and the effectiveness of nuclear regulatory bodies.

The goal of the U.S. assistance program in Bosnia is to establish a stable post-war state with a functioning free-market economy and democratic government. Four years of war have ravaged that country's infrastructure and a large international reconstruction effort coordinated by the World Bank and the European Union is underway. To help stabilize the economic, political and social environment for Bosnians, FY 1998 funding will build on the U.S. commitment to revitalize the economy, develop the private sector, and expand employment opportunities. Democracy-building and reconciliation activities will focus on strengthening civil society by supporting independent media and moderate political parties as well as enabling NGO development. In addition, funding for local government capacity- building and the strengthening of judicial institutions will support recently elected governmental bodies and new government institutions.

Specific strategic objectives are: reduced human suffering and crisis impact, improved sustainability of social benefits and services, and reduced environmental risks to public health.

Cross-cutting and Special Initiatives

USAID proposes $70,392,000 for SEED and $198,425,000 for FSA funds under cross-cutting and special initiatives for the following types of programs: (1) activities that do not contribute directly to the strategic objectives, but nevertheless serve strong U.S. interests or address an extraordinary circumstance requiring USAID assistance in a particular country; (2) activities that are too limited in scope or impact to be designated a strategic objective in the country program; and (3) cross-cutting activities that contribute to more than one strategic objective. An example of a cross-cutting effort is USAID's work with the Eurasia Foundation which provides small grants to grass-roots organizations under both the economic restructuring and democracy rubrics. Another example is USAID's Russian Far East program which not only provides assistance to the economically critical forestry sector, but also strengthens regional government capacity and public participation while helping to meet global biodiversity goals. In those instances where activities implemented by other U.S. agencies do not directly support USAID strategic objectives, they are included under this rubric (e.g. Peace Corps, U.S. Information Agency, State Department Science Centers program, etc.).

Economic Support Funds, Development Assistance Funds and P.L. 480 Funds

The Administration proposes $84,600,000 for Economic Support Funds (ESF), $4,000,000 for Development Assistance (DA) and $11,407,000 for P.L. 480 Title II funds. Of these amounts the Administration requests $50,000,000 in ESF and $4,000,000 in DA for Turkey; $19,600,000 in ESF for Ireland; $15,000,000 in ESF for Cyprus; $6,569,000 in P.L. 480 Title II for Bosnia; and $4,838,000 in P.L. 480 Title II for NIS Regional activities.

In Turkey, the ESF funds are used primarily to enable Turkey to continue servicing its large debt while advancing its economic reform and structural adjustment efforts. The DA funding supports U.S. and indigenous NGO efforts to improve women's health through improved family planning.

In Northern Ireland and the Republic of Ireland, ESF will be used to contribute to the International Fund for Ireland to support the Northern Ireland peace process. Economic assistance at the community level has been identified as the most effective means to break the cycle of violence. The objectives of the Fund are to promote economic and social advancement and to encourage contact, dialogue, and reconciliation between Nationalists and Unionists. The Fund seeks to reach these objectives by supporting and promoting social reconciliation through economic development in Ireland and Northern Ireland, with priority given to new investments that create jobs and reconstruct disadvantaged areas.

In Cyprus, ESF will be used to support bi-communal activities in sectors such as sanitation, rehabilitation of the handicapped; forestry; animal disease and pest control; environmental protection; health; water; and education. Funds will also be used to provide academic training at U.S. institutions for students working towards undergraduate and graduate degrees, as well as short-term professional training and bi-communal training in conflict resolution and business management.

EUROPE FY 1998 COUNTRY SUMMARY

COUNTRY	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
EUROPE*	--	--	--	--	--
Albania	16,950,000	10,600,000	850,000	1,600,000	30,000,000
Bosnia	--	--	--	--	231,569,000
-- SEED Act	--	--	225,000,000	--	--
-- P.L. 480 Title II	--	--	6,569,000	--	--
Bulgaria	8,270,000	6,200,000	500,000	10,030,000	25,000,000
Croatia	3,000,000	10,000,000	10,000,000	1,000,000	24,000,000
Cyprus	--	--	--	--	15,000,000
-- Econ. Sup. Fd. (ESF)	--	--	--	15,000,000	--
FYR Macedonia	11,600,000	2,400,000	--	2,000,000	16,000,000
Hungary	4,250,000	1,750,000	--	1,000,000	7,000,000
Ireland	--	--	--	--	19,600,000
-- ESF	--	--	--	19,600,000	--
Latvia	1,500,000	1,200,000	--	300,000	3,000,000
Lithuania	2,050,000	400,000	--	550,000	3,000,000
Poland	15,822,000	17,178,000	--	2,000,000	35,000,000
Romania	19,300,000	4,733,000	5,150,000	3,817,000	33,000,000
Slovakia	--	5,475,000	1,100,000	1,425,000	8,000,000
Turkey	--	--	--	--	54,000,000
-- ESF	--	--	--	50,000,000	--
-- Devel. Asst. (DA)	--	--	4,000,000	--	--
Europe Regional	16,100,000	13,100,000	7,130,000	46,670,000	83,000,000
	--	--	--	--	--
EUROPE TOTAL	**98,842,000**	**73,036,000**	**260,299,000**	**154,992,000**	**587,169,000**
-- SEED	98,842,000	73,036,000	249,730,000	70,392,000	492,000,000
-- P.L. 480 Title II	--	--	6,569,000	--	6,569,000
-- ESF	--	--	--	84,600,000	84,600,000
-- DA	--	--	4,000,000	--	4,000,000

* All funds under EUROPE are Support for East European Democracy Act (SEED) unless otherwise noted.

NEW INDEPENDENT STATES
FY 1998 COUNTRY SUMMARY

COUNTRY	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
NIS**					
Armenia	38,840,000	8,100,000	21,000,000	12,060,000	80,000,000
Azerbaijan	6,000,000	2,000,000	17,000,000	6,500,000	31,500,000
Belarus	--	--	--	4,900,000	4,900,000
Georgia	21,400,000	6,100,000	9,400,000	5,000,000	41,900,000
Kazakstan	28,000,000	8,000,000	4,500,000	11,500,000	52,000,000
Kyrgyzstan	19,000,000	6,000,000	3,000,000	8,500,000	36,500,000
Moldova	20,000,000	--	--	12,800,000	32,800,000
Russia	122,800,000	69,800,000	12,500,000	36,400,000	241,500,000
Tajikistan	6,500,000	1,000,000	2,400,000	5,500,000	15,400,000
Turkmenistan	3,200,000	400,000	400,000	2,000,000	6,000,000
Ukraine	149,400,000	31,800,000	9,050,000	35,250,000	225,500,000
Uzbekistan	17,200,000	5,000,000	2,800,000	7,500,000	32,500,000
NIS Regional	--	--	--	--	104,338,,000
-- FSA	42,346,000	1,550,000	5,089,000	50,515,000	--
-- P.L. 480 Title II	--	--	4,838,000	--	--
NIS TOTAL	**474,686,000**	**139,750,000**	**91,977,000**	**198,425,000**	**904,838,000**
-- FSA	474,686,000	139,750,000	87,139,000	198,425,000	900,000,000
-- P.L. 480 Title II	--	--	4,838,000	--	4,838,000
-- ESF	--	--	--	--	--
-- DA	--	--	--	--	--

** All funds under NIS are FREEDOM Support Act (FSA) unless otherwise noted.

EUROPE AND THE NEW INDEPENDENT STATES
FY 1998 TOTALS

COUNTRY	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
GRAND TOTAL	**573,528,000**	**212,786,000**	**352,276,000**	**353,417,000**	**1,492,007,000**
-- SEED total	98,842,000	73,036,000	249,730,000	70,392,000	492,000,000
-- FSA total	474,686,000	139,750,000	87,139,000	198,425,000	900,000,000
-- P.L. 480 Title II total	--	--	11,407,000	--	11,407,000
-- ESF total	--	--		84,600,000	84,600,000
-- DA total	--	--	4,000,000	--	4,000,000

Thomas A. Dine
Assistant Administrator
Bureau for Europe and the New Independent States

ALBANIA

FY 1998 Assistance to Central Europe Request . . . . . $ 30,000,000

Introduction.

When democratic elections were held in March 1992, Albania, the poorest country in Europe, emerged from a 47-year legacy of almost total isolation and repressive communist dictatorship. The new government immediately embarked on an ambitious macroeconomic and structural reform program for which donor support continues to be critically needed. The flawed 1996 parliamentary election process underlines the need for continued attention to democratic development in Albania. Supporting a peaceful and sustained democratic and economic transition in Albania contributes to the U.S. foreign policy objective of promoting stability in the Balkans. Beyond our support to the transitional processes common to other countries in Central and Eastern Europe, continued engagement in Albania will also lead us to focus on "sustainable development" objectives, such as those often encountered in other parts of the developing world. A comprehensive Strategic Plan for assistance to Albania will be prepared in FY 1997 and will address issues that would be involved in moving to Development Assistance (DA) programming, justifications for doing so, and implications of not doing so.

The Development Challenge.

Albania faces all the challenges of an economy in transition from an authoritarian, command-driven system to one which is democratic and market-oriented. With a per capita gross domestic product (GDP) of approximately $630, Albania also faces the challenges common to many poor, developing countries.

The Albanian economy suffered a 50% decline in real output during 1990-1991, which included a 70% drop in industrial production and a 30% decline in agricultural output. Official unemployment (registered unemployed) is around 13%, but actual unemployment is likely much higher. Much of the economic downturn is attributed to supply and transport bottlenecks associated with collapse of the central planning system and to disruption associated with the spontaneous mass privatization and fragmentation of land.

Although economic growth in Albania has been impressive over the past several years, recent signs of slippage in the Government of Albania's fiscal and economic management may generate new economic reform challenges in the short- to medium-term. A growing budget deficit, creeping inflation, and sharply increased levels of popular investment in an informal and unregulated financial sector (as evidenced, among other things, by burgeoning "pyramid schemes") all raise risks for continued positive macroeconomic performance.

In July 1995, Albania's debt to commercial banks was reduced by $371 million through a debt buyback which cost $96.5 million. Albania contributed $55 million of its own resources, with the Debt Reduction Facility of the International Development Association (IDA) and other donors picking up the remainder of the cost. Another $130 million in commercial debt was converted into long-term bonds. In addition, rescheduling agreements have been signed with bilateral creditors and all payments due under the Paris Club agreements have been made.

While much progress has occurred since 1992 in establishing democratic practices, there have been increasing concerns about the performance of the Albanian Government in the democratic reform area. Institutionalizing certain democratic concepts -- rule of law, independence of the judiciary, executive oversight by the parliament, independence of the media, and decentralized governance -- is critical at this stage of Albania's development.

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Other Donors.

USAID and the donor community pledged over $400 million in 1995 for development activities in Albania. The United States is the second largest bilateral partner. Other major contributors include Italy, Germany, the World Bank, the European Investment Bank, the European Bank for Reconstruction and Development, the International Monetary Fund, the International Fund for Agricultural Development, and the EU PHARE program.

FY 1998 Program.

Progress in implementing the Albanian SEED Program continues to reflect the overall economy which remains one of the fastest growing in the Central Europe region. Initiated in 1991, the USAID program originally had a significant focus on humanitarian assistance (food aid and medicines) and emergency responses (fertilizer and school textbooks), but since then has shifted its focus to developmental and transitional assistance as a more market-oriented economy and elements of a democratic society have emerged. In FY 1998, an estimated 45% of program funding will support the accelerated development and growth of private enterprises. New activities initiated in FY 1995 and 1996 are related to public administration, private forestry development, women's reproductive health, a more professional media, and enhanced performance of the legal system (the legal process in and through the courts, and training of judicial personnel); implementation of these activities will be well underway in FY 1998. Following the seating of a new Parliament and administration in 1996, additional possibilities for promoting and catalyzing Albania's steps toward economic and social transition will be identified.

As a result of some questionable actions taken by the Government of Albania in the realm of respect for democratic process and human rights, USAID has undertaken a wide-ranging strategy review. The outcome of that strategy review is reflected in the FY 1998 program plan. (Additionally, as noted above, a Strategic Plan will be prepared in FY 1997.) In all cases, coordination and collaboration with other donors will continue to be emphasized.

Strategic Goal: Economic Restructuring

Agriculture continues to dominate the Albanian economy by providing over 50% of the GDP and employment. A major proportion of USAID's assistance continues to focus on this sector. Efforts have supported increases in agricultural production by assisting suppliers to obtain credit and import fertilizer, seeds and other vital inputs that cannot be produced locally. A USAID-supported agricultural input dealers association and a national farmers' association successfully lobbied for reducing a turnover tax on fertilizer. With USAID's assistance, over 92% of the land is in private hands. Land registration offices are now open in 15 districts, 519,000 certificates which legally recognize land holdings have been issued to farm families, and 256,000 final property titles have been issued. A law allowing for the buying and selling of agricultural land has been passed and will soon be implemented. This will allow for consolidation of fragmented parcels into economically viable holdings. Private forestry development assistance addresses a critical resource need through agroforestry development on private farm lands, development of small enterprise nurseries, seedling development and processing, and a stronger private forestry extension capacity.

In addition, the small and medium enterprise sector is rapidly expanding. Of the 48,000 registered non-agricultural enterprises, over 90% employ only one or two persons. With USAID assistance over 25,000 potential entrepreneurs have been trained in various fields. In March 1995 the Albanian-American Enterprise Fund was incorporated, and subsequently opened for business in Tirana and New York in August of that year. As of October 1996, loans valued at $4.3 million had been approved, and a total of $1.6 million disbursed to borrowers.

With virtually all the agricultural land, housing, and most small and medium enterprises privatized, the FY 1998 program will target improved productivity and quality in agriculture, increased access to credit

and skills training for the private sector.

The underpinnings on which to base economic sustainability include completion of the mass privatization of SMEs and larger enterprises, capital markets development, a sound, efficient banking sector, improved quality of urban and infrastructure services, and resolution of issues related to the status of state commercial banks. Several new private banks were opened in 1996. On the macro level the potential for spillover of instability in former Yugoslavia into Albania in the form of refugee flows from Kosovo (or, worse, engagement of Albanian and Serb military forces in Kosovo or Albania) constrains international investor interest in the country. If significant refugee flows do occur, the effects on Albania's weak economy would be devastating. The lack of physical infrastructure (power, water supply, highways, telecommunications, etc.) also constrain Albania's overall transition to a market-based economy. A weak and non-transparent legal system and continuing disputes between current and former land owners deter foreign investors.

- Strategic Objective: Accelerated Development and Growth of Private Enterprises

- Strategic Objective: A More Competitive and Market-Responsive Private Financial Sector

Strategic Goal: Democratic Transition

The basic concepts underpinning democracy -- popular representation and participation in government, diversity in ideas and sources of information, rule of law and respect for human rights -- have been introduced in Albania, but support for their institutionalization is very much needed. To aid Albania's transition, the SEED-funded National Democratic Institute (NDI) has worked closely with the Society for Democratic Culture (SDC) to oversee election activities, recruit and train election monitors, and encourage citizen participation. NDI and SDC implemented a comprehensive plan, which included voter education, media monitoring and public opinion polling, for the 1996 parliamentary elections. The International Republican Institute was particularly active in sponsoring a multi-party round table process after the flawed parliamentary elections, which led to substantive changes in the organization of the successful 1996 local elections. The Democracy Network project is encouraging the development and institutional strengthening of public NGOs involved in democracy, the environment, economic growth, and social safety nets. Advisors from the American Bar Association / Central and East European Law Initiative (ABA/CEELI) have assisted in the establishment of a Women's Legal Group as a women's rights advocacy group and a women's bar association and in development of a code of legal ethics. They have developed, published and now distribute professional journals and have established a publicly accessible law library.

Key policy objectives for the FY 1997 to 1998 period include the drafting and passage of a national constitution for Albania, to replace the interim governing framework laws passed in 1991 and 1992.

In the area of local government management and urban services, USAID has assisted the Ministry of Public Works and five cities in management of municipal services, including a plan to privatize solid waste collection, and to develop a strategy to implement water privatization in Tirana and other cities. A public administration activity is being augmented by a housing and urban development activity focusing on five municipalities, fostering urban planning, economic development, improved public management capacity, and improved local budgeting capability.

Continued commitment by senior government officials to democratic reform will advance the consolidation of democracy and reinforce the effectiveness of USAID activities. At the local level, democratic reform initiatives are being efficiently and independently pursued by NGOs and local authorities.

- Strategic Objective: Increased, Better-Informed Citizen Participation in Political and Economic Decision-Making

- Strategic Objective: Legal Systems That Better Support Democratic Processes and Market Reforms

- Strategic Objective: More Effective, Responsive and Accountable Local Government

Strategic Goal: Social Stabilization

A focus on social benefits and services to strengthen the human dimension of the transition to democracy is appropriate given their virtual disintegration by 1991-1992. Albania now has some of the worst health indicators in Europe, e.g., high maternal mortality (40 women per 100,000 births in 1994) and high infant mortality (35.7 per 1,000 births in 1994). To lower maternal and child mortality rates, as well as reduce the prevalence of abortion as a method of family planning, USAID in 1995 initiated a women's reproductive health care project with a focus on training public sector and private sector health care providers and the associated development and use of informational materials. While life expectancy was 72 years in 1990 (compared to an average of 76 years in Western Europe), this figure is expected to decline, especially for males, in the absence of appropriate and effective interventions; such decline would be consistent with patterns in the other ex-communist countries of Eastern Europe and Russia.

A second emphasis in the health sector is improving the administration and management of health care in general. A "partnership in health care" with the Robert Wagner School of Public Service at New York University will offer extensive training and faculty exchanges in health administration and management to counterparts in the Ministry of Health, the University Hospital Center, the Medical School and the Institute of Public Health. This is complemented by financial management advisory services, arranged through the U.S. Department of Health and Human Services, to develop a hospital payment system and sustainable health insurance mechanisms. Another "partnership" focusses on community outreach and involvement in improving emergency medical services and women's health.

- Strategic Objective: Improved Sustainability of Social Benefits and Services

ALBANIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	13,350,000	--	--	--	13,350,000
Financial Reform	3,600,000	--	--	--	3,600,000
Energy	--	--	--	--	--
Citizens' Participation	--	3,500,000	--	--	3,500,000
Legal Systems	--	4,050,000	--	--	4,050,000
Local Government	--	3,050,000	--	--	3,050,000
Crises	--	--	--	--	--
Social Benefits	--	--	850,000	--	850,000
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	1,600,000	1,600,000
TOTAL	16,950,000	10,600,000	850,000	1,600,000	30,000,000

*Support for East European Democracy (SEED) Act funds

USAID Representative: Dianne Blane

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Private Enterprise, 180-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $13,350,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Accelerated development and growth of private enterprises.

Background: Albania had one of the most centralized and repressive regimes in the world from the mid-1940s until late 1990. The collapse of communism in Albania came later and was more chaotic than in most other Central and Eastern European countries. Attempts at reform only began in early 1992 after real GDP had fallen by over 50% from its peak in 1989. The democratically-elected government, which assumed office in April 1992, launched an ambitious economic reform program to halt economic deterioration and put the country on the path toward a market economy. Key elements included price and exchange system liberalization, fiscal consolidation and monetary restraint. These were complemented by a package of structural reforms including privatization, enterprise and financial sector reform, and creation of a legal framework for a market economy and private sector activity. These measures resulted in strong macroeconomic performance through 1995. More recently, slippage in Albania's fiscal and economic management has raised concerns about the prospects for continued strong performance.

USAID Role and Achievements to Date: Led largely by the private sector, the Albanian economy is among the fastest growing in the Central and Eastern Europe region. GDP is estimated to have grown by 8.6% in 1995. Projections for 1996 range from 5% to 13.4%. Inflation, which was 16% in 1994, decreased to eight percent in 1995. The Albanian lek has remained stable against the dollar. Agriculture, one of the first sectors to privatize, dominates the economy by providing over 50% of GDP and employment. USAID support has been vital in setting up a network of input supply dealers to provide fertilizer, seeds and other critical inputs. USAID has also taken the lead in implementing a property registration system to provide secure tenure to farm families and in establishing a fledgling land market, which will allow for consolidation of small parcels into economically viable holdings. In addition to work on private farm lands, assistance to private forestry is producing incentives for private leasing of public "refused" lands for sustainable forestry and grazing uses. The small and medium enterprise sector is also rapidly expanding. Technical assistance to small and medium enterprises is being provided in two major secondary cities. In other non-agricultural areas, over 25,000 potential entrepreneurs have been trained in English, computers, secretarial skills, cosmetology, auto mechanics, business and other areas. Many graduates have started their own businesses, while others have found higher paying jobs. Assistance has been provided to the GOA in establishing and improving the policy, legal and regulatory framework required to support the private sector.

Description: Over 55% of USAID/Albania's FY 1997 funding and 45% of proposed FY 1998 resources are in support of this activity. Given the importance of agriculture, a substantial proportion of these resources has been directed to this sector. U.S. firms and universities provide assistance to the GOA in agricultural policy, research, statistics, forestry and in changing university economics curricula to teach free market principles. Agribusiness support is provided directly to entrepreneurs by U.S. firms and NGOs, as is support to non-agricultural small and medium enterprises. U.S. universities lead support to the GOA in setting up a property registration system and in the establishment of Albania's first MBA program. Support is provided by the U.S. Department of Commerce to the GOA in trade policy, trade association development and in accession to the World Trade Organization. U.S. NGOs and firms provide training and technical assistance in legal areas such as commercial/business and collateral law and bankruptcy.

Host Country and Other Donors: Other major donors, especially the European Union (EU) and World Bank, are active in many of the sectors USAID supports. In some cases, USAID/Albania has activities which are closely linked with theirs. These include support to small and medium enterprises and implementation of a property registration system. USAID/Albania collaborates effectively with donors in other areas as well. In agriculture, USAID and EU-PHARE are the major donors. USAID is reorganizing the agricultural research system, while EU-PHARE is working on the development of an extension service. In another example, EU-PHARE has set up mechanization centers and helped develop herbicide and pesticide imports, while USAID has helped set up private fertilizer dealerships and assists with fertilizer imports. USAID support of private farm forestry is complemented by Peace Corps work in forestry extension and World Bank support to the Forestry Directorate. Government support is in the form of personnel, facilities and a demonstrated willingness to make policy and legal changes required to support the private sector.

Beneficiaries: Rural families, which make up approximately 60% of the population, are the major beneficiaries of this activity. USAID support to the agricultural sector and property registration system affects virtually all of them. Other significant beneficiaries of training and technical assistance are entrepreneurs engaged in small and medium enterprises in both Tirana and secondary cities.

Principal Contractors, Grantees, or Agencies: USAID implementors include: Department of Commerce, Urban Institute, ABA/CEELI, Coopers & Lybrand, Development Alternatives Inc. (DAI), Chemonics, International Fertilizer Development Center (IFDC), Winrock International/VPI&SU, University of Wisconsin Land Tenure Center, Volunteers in Overseas Cooperative Assistance (VOCA), Peace Corps, Land O'Lakes, Partners In Education and Training (PIET), the American ORT Federation and the University of Nebraska.

Major Results Indicators:

	Baseline	Targets
Real GDP Growth	-27.1% (1991)	+5% (2000)
% of labor force unemployed	27 % (1992)	8% (2000)
New private sector enterprises (Number)	2,600 (1991)	90,000 (2000)
Domestic investment (US$)	$509 million (1993)	$1,290 million (2000)
Foreign Investment	$10 million (1991)	$120 million (2000)
Membership of selected business advocacy groups (individuals)	0 (1991)	TBD (2000)

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Financial Reform, 180-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,600,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more competitive and market responsive private financial sector.

Background: The banking system in Albania is virtually insolvent from bad loans to moribund enterprises. Furthermore, capital markets are still in an embryonic stage and not capable of fulfilling their function. Constraints to lending to entrepreneurs include the inability of banks to undertake secured lending, to take control of assets through bankruptcy procedures, and the non-existence of credit reference services. Though state assets are being divested to the public, the shallowness of capital markets impedes the efficient distribution of those assets among those best able to maximize their potential. Informal "pyramid" investment schemes risk drawing capital from more legitimate and production-oriented investment opportunities.

USAID Role and Achievements to Date: USAID's support includes assistance to the Ministry of Finance in privatization of the state banks, to the Central Bank in bank supervision and bank licensing and to both institutions in setting up the Share Registry for the stock exchange. USAID has also set up the Albanian American Enterprise Fund (AAEF) to increase foreign (especially U.S.) and domestic investments in promising Albanian enterprises. As a result, a new Chart of Accounts for banks is being adopted, new private banks -- foreign and domestic -- are being considered for licenses, the ability of the central bank to undertake on-site bank examinations has been increased, and citizens can now register the shares in companies they received as part of the voucher privatization, thereby significantly reducing the potential for fraud and abuse in the privatization and capital market formation processes.

Description: To increase the ability of the Albanian financial sector to effectively, efficiently, and legally mobilize capital towards its most productive use, both through banks and capital markets development, U.S. resident advisors are providing expertise in policy formation and analysis, as well as drafting legislation and regulations. Short-term assistance has focused on hands-on, discrete activities. Credit, equity investments and investment guarantees will be provided directly to investors and entrepreneurs.

Host Country and Other Donors: An International Monetary Fund advisor assists the central bank governor on financial sector policy. The World Bank has a $5 million credit line and has provided considerable technical assistance to the Albanian Rural Commercial Bank to make long-term loans to farmers. The German aid organization, GTZ, has provided technical assistance to the National Commercial Bank and will provide training in bankruptcy procedures as well as expertise in drafting commercial laws.

Beneficiaries: Beneficiaries include: *U.S. exporters and investors* wishing to do business in Albania who rely on the technical ability of the banks to carry out financial transactions; all *depositors and borrowers* who rely on the banking system; *entrepreneurs* seeking capital for development and expansion of private businesses; and *institutional investors*, domestically and abroad, seeking either to diversify risk or to invest in growing markets.

Principle Contractors, Grantees, or Agencies: USAID implements these activities through the U.S. Treasury Department, the AAEF and U.S. firms.

Major Results Indicators:

	Baseline	Targets
Funds available in private sector	$5 million (1995)	$29.5 million (2000)
Equity capital (public & private institutions)	$58 million (1995)	$140 million (2000)
Public/private institutions with adequate capital and earnings (Number)	0 (1995)	12 (1999)
Legally registered financial institutions actively making loans (Number)	1 (1995)	10 (2000)
State-owned banks restructured (i.e., privatized or liquidated - cumulative number)	0 (1995)	5 (2000)
Stock exchange operative	No (1995)	Yes (1996)
Stock exchange transactions (average number per session)	0 (1995)	60 (2000)

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Citizens' Participation, 180-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,500,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased, better-informed citizens' participation in political and economic decision-making.

Background: Attempts at democratic reform in Albania started in early 1992 when the newly-elected Government began to develop the legal and political framework necessary for effective citizen participation in the political process. Since that time, Albania has held several elections and a national referendum on a proposed constitution. A parliamentary election held in May 1996 demonstrated that democratic processes have still not been fully established in Albanian political life. The tainted outcome of those parliamentary elections continues to be a source for concern, as it is expected that the Parliament will play a large role in preparing a national constitution during its current tenure. Government management of subsequent local elections in the fall of 1996 did, however, demonstrate notable improvement over the earlier process.

More encouragingly, since the arrival of democracy in Albania there has been a surge in formal and informal associations. Unheard of, and unimaginable during the previous regime except when used as instruments of the state, NGOs now make it possible for citizens to participate in the affairs of society. Almost four hundred new organizations have now been formally established. Strapped for cash and lacking experience, many of them have not developed the capacity for concerted action. Government policy toward the NGOs has been generally supportive but, with a few notable exceptions, these organizations are fragile, underfunded and often ineffective. A new broadcast law is expected to result in the establishment of several private radio and television stations.

USAID Role and Achievements to Date: USAID efforts over the past year have largely focussed on the 1996 electoral process and its aftermath. Activities have included voter education and campaign monitoring efforts in the run-up to the parliamentary elections, election monitoring, sponsorship of multiparty round table discussions prior to the 1996 local elections which promoted reforms in GOA electoral management processes, and direct technical assistance to the Central Election Commission prior to the local elections.

In addition, USAID provided the 1992-1996 Parliament with an electronic voting system, a sound system, computers, two printing presses and associated technical assistance. USAID advisors have carried out political party-building sessions in Tirana and the secondary cities, plus separate leadership training sessions with politically active women and their organizations and support groups. A Parliamentary Guidebook was published containing comprehensive information on Parliament, its deputies and organization, Government ministries, the Office of the President, the court system, political parties, etc. Since 1991, USAID has supported the Society for Democratic Culture (SDC), an Albanian election-monitoring and democracy-promoting organization. USAID advisors have sponsored public opinion polls. An assessment of the nature, problems and needs of the Albanian NGO community has been completed, and initial institution-building grants have been awarded to about twenty NGOs. Political party spokespersons have been trained in campaign management, and a group of journalists has been trained in election coverage.

Description: Current plans are to support an ongoing multiparty round table approach to political consensus-building, now focussed on promoting an open and transparent drafting process for the new constitution. Advisors also continue to support citizen participation, voter education and democracy-building activities of the SDC. USAID advisors are also supporting the Albanian NGO community by encouraging the institutional strengthening of public policy-oriented NGOs involved in four priority

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sectors: democracy, the environment, economic growth and social safety nets. To assure a sound legal foundation for the NGO community, USAID advisors will research, publish and distribute a handbook on Albanian NGO law. As a catalyst for permanent collaborative linkages between Albanian NGOs and their counterpart organizations in other countries, a series of NGO internships, exchanges, and information-sharing opportunities are being offered. Assistance is being provided to the press and broadcast media to encourage their independence and viability.

Host Country and Other Donors: Some of the political parties are receiving support and assistance from their equivalent party organizations in Western Europe. Denmark's Dialogue for Development is supporting the Albanian Civil Society Foundation which, in turn, is supporting Albania's NGO community.

Beneficiaries: These efforts will benefit the broad spectrum of politically active citizens by strengthening the organization of political parties, the network of NGOs, and the print and broadcast media.

Principal Contractors, Grantees, or Agencies: USAID implements these activities through cooperative agreements with the National Democratic Institute, the International Republican Institute, the National Forum Foundation, the International Center for Not-for-Profit Law, the Organization for Educational Resources and Technical Training, and the International Research and Exchanges Board (IREX).

Major Results Indicators:

	Baseline	Targets
Political parties more representative (number of women who run for parliament - 4 selected parties)	20 (1992)	40 (2000)
Number of 25 selected municipalities with public participation in annual budget process	0 (1995)	14 (2000)
Free and Fair Elections	No (1996)	Yes (2000)
NGOs participating in public policy-making and implementation (cumulative total)	4 (1995)	185 (2000)
Private, independent media (cumulative number of TV and/or radio stations	0 (1995)	57 (2000)
Number of public hearings by parliamentary commissions (cumulative total)	0 (1994)	58 (2000)

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Legal Systems, 180-S002.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $4,050,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Legal systems that better support democratic processes and market reforms.

Background: Albania is slowly undergoing a difficult but necessary process of transformation from a communist dictatorship, which was overturned in 1991, to a democratic society characterized by rule of law, respect for human rights, independence of the judiciary and free access to information and ideas.

USAID Role and Achievements to Date: USAID's rule of law program in Albania is aimed at promoting reform in the judiciary, the legal profession, legal education and commercial law. Work is progressing on establishing a law library at the Court of Cassation and the collection of donated books continues to grow. USAID advisors are also assisting in drafting the governing statute and code of ethics for the National Chamber of Advocates. The USAID advisors have assisted the European Law Students Association in publishing the inaugural edition of the University of Tirana Law Review. They have continued to work with the Council of Europe on distribution of over 10,000 copies of various new codes and regulations throughout Albania. The advisors have also presented continuing legal education workshops on the private practice of law, contracting, etc.; supported and participated in a study tour for judges and legal professionals; and offered comments on the proposed constitution and various draft statutes.

Description: Four areas of emphasis help assure that laws and legal institutions support democratic processes: 1) Judicial: an ongoing program to support the Albanian Association of Judges to become a respected and effective representative of the country's judges. 2) Legal: Continuing efforts to help the national and regional bar associations formulate a governing statute; the establishment of the Women's Legal Group as a women's rights advocacy group and a women's bar association; and the development of a code of legal ethics. 3) Legal Education: the development of professional journals including their publication and distribution; the establishment of a publicly-accessible law library; the establishment of a law journal at the University of Tirana's Law School. 4) Commercial Law: the presentation of continuing education courses in commercial law; the preparation of a series of workshops and a handbook on women's legal and commercial rights; and the development and implementation of modern commercial laws.

Host Country and Other Donors: The Council of Europe is providing legal expertise, training, furnishings and equipment for the establishment of a Magistrates School in Tirana to train and retrain the Albanian judiciary. The Government of Albania is refurbishing the building to house the School and courts at a cost of $1 million. Additional donors to Albania's legal reform process are the Soros Foundation, Danida (Denmark) and GTZ (Germany).

Beneficiaries: The direct beneficiaries of these activities are a significant percentage of the Albanian judiciary, including judges, lawyers, prosecutors and law students, and indirectly every member of the public who comes in contact with the legal system.

Principal Contractors, Grantees, or Agencies: USAID/Albania implements this activity through the American Bar Association's Central and East European Law Initiative (ABA/CEELI) project.

Major Results Indicators:

	Baseline	Targets
Adoption of a democratic constitution	No (1991)	Yes (2000)
Cumulative number of judges, lawyers professionally trained	0 (1991)	710 (2000)
Strengthened legal associations, as illustrated by various measurements such as revenue generation	No (1991)	Yes (2000)

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Local Government, 180-S002.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,050,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: More effective, responsive, and accountable local government.

Background: There is no tradition of decentralized authority in Albania and the public has no experience with a local government able to act on its own authority. The public expects most decisions to be made in Tirana, not by officials at the local level. In addition, current law and practices leave the local governments overly dependent on central government transfers. Albania recently passed legislation which is intended to guarantee that local government becomes an effective means of resolving public problems in order to overcome the general lack of public confidence in local administration and the tendency of the citizenry to address problems at the central level. Nevertheless, Albania is just beginning the process of decentralization of decision-making and resistance to local empowerment and decentralization remains strong.

USAID Role and Achievements to Date: Support in housing, urban development and public administration is being provided. Under the housing and urban development component: (1) the City and District of Tirana, the Ministry of Construction and the National Planning Institute formed a task force to develop a 70-hectare site, identify new sites for development, and address legal and policy issues related to residential upgrading, (2) the Concession Law for Public Services was passed in July 1995, (3) procurement procedures for contracting solid waste have been adopted by the Government of Albania (GOA) and Tirana has contracted with two private firms for solid waste collection while Korca and Durres have started the procurement process, (4) the GOA has agreed to privatize its water services, and (5) the GOA is creating a regulatory body for public utilities (power, water, telecommunications) within the Ministry of Mineral Resources and Energy. Under the new public administration component, initiated in late 1995: (1) agreement was reached between the mayor of Pogradec and a local NGO on a joint solid waste cleanup project, (2) a public-private partnership was facilitated in Shkodra which resulted in the opening of a civilian airport, and (3) public hearings are now being held in some cities, contributing to improved communication between the citizenry and local officials.

Description: The housing and urban development program is assisting in utilities management, land use planning and infrastructure development, emphasizing the roles of public-private partnerships. It is augmented by the new public administration program, which builds on the other program's successes by focussing on efforts to decentralize government decision-making, providing specific assistance in the areas of urban planning, municipal service management, budget process and economic development. This new program targets five local municipalities with an economic development potential which can be fostered through better public management, and it also aims to develop a capacity in local institutions to implement programs that will transfer knowledge gained in working with the pilot municipalities to cities throughout the country. The two programs are complementary, together working to achieve the objective of stronger management capabilities at the local level. Training and technical assistance continue to be provided to the central government as well as to local administrations in the areas of urban infrastructure privatization and regulation, and housing and urban land use planning.

Host Country and Other Donors: The World Bank and a bilateral Italian program provide support in major infrastructure (water, sewerage, etc.). The German Government has provided some technical assistance and training. The EU-PHARE is providing material support, principally computers, and some technical assistance to selected municipalities. USAID support is focused on major secondary cities

which do not receive similar assistance from other donors. GOA support is principally in the form of personnel and facilities.

Beneficiaries: By spreading the results of successful programs in pilot cities, local authorities in all municipalities will benefit. The citizens they serve, residents of Tirana and secondary cities, will benefit from improved local administration and municipal services. The central government will benefit by turning over to the municipalities many of the duties for which it is currently responsible.

Principal Contractors, Grantees, or Agencies: USAID/Albania implements this activity through DAI/Mendez-England and the Urban Institute.

Major Results Indicators:

	Baseline	Targets
Municipalities with public participation in annual budget process (number of 5) pilot cities)	0 (1995)	5 (2000)
Increased Autonomy & Home Rule (local revenues as % of total budget in 5 pilots)	12%-20% (1995)	23%-31% (2000)
Cumulative number of municipalities that have adopted capital investment plans	0 (1995)	18 (2000)
Local government implementation of budge procedures & economic development planning	No (1995)	Yes (2000)
Increased public confidence in loca government (standard survey measures)	TBD	TBD (2000)
Improved local government services:		
-water- cumulative number of cities with 50% increase hours of service	0 (1995)	26 (2000)
-garbage- cumulative number of cities affected by garbage collected and deposited in landfill	0 (1995)	19 (2000)

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Social Benefits, 180-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $850,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Improved sustainability of social benefits and services.

Background: After nearly a half-century of economic and political isolation, Albania has the least developed public system of social infrastructure among the Eastern European nations. Many of its health care facilities are seriously dilapidated and outdated. The GOA is quite aware of the urgent need to revitalize and modernize its health care system. Moreover, due to the lack of alternatives brought on by isolationism, an official pronatalist policy and poor information, abortion has been the predominant form of family planning, resulting in high mortality and morbidity rates for women. For women carrying to term, prenatal delivery and postnatal services are woefully inadequate.

USAID Role and Achievements to Date: Working with USAID advisors, key health care administrators have acquired the knowledge and skills needed to manage more efficiently and effectively at the central level (the Ministry of Health) and at the district, hospital and polyclinic levels. Two hospitals, the Durres Hospital and the University Hospital Center of Tirana, were selected to implement hospital operations improvement techniques and to serve as models for the rest of the hospital system. The number of hospital beds, reflecting vacancies, has consequently been reduced. At the Durres Hospital, where the main hospital building collapsed in 1995, a strategic planning process has been instituted which will match available resources with a long-range plan for a replacement hospital. At the University Hospital Center, administrative and medical records were computerized. In both hospitals, pharmaceutical and medical supply purchasing and distribution are being computerized. Several national conferences have been held to share the information and management techniques developed at the pilot hospitals with over eighty hospital managers and administrators from all over Albania. The hospital partnership program has carried out a number of exchanges of medical personnel, sponsored an obstetrics conference in Tirana, and opened a maternal and child health resource center at the Tirana Maternity Hospital.

Description: USAID is focusing its efforts on the areas of health management and administration. An early program between the Jacobi Hospital in the Bronx, New York, and four hospitals in Tirana had a focus on emergency medical services, women's health care, and health administration and management, all key areas of need in Albania. The American International Health Alliance (AIHA) has initiated a new partnership between New York University's Robert F. Wagner Graduate School of Public Service and the University of Tirana's Medical School to introduce a health management program into the curriculum and to sustain the gains made at two pilot hospitals in the areas of strategic planning, financial management and cost accounting, medical records and pharmaceutical group purchasing. A modest program of assistance to Albania's Health Insurance Institute will allow the Institute to study the possibility of including hospital services in the proposed health insurance program. A new two-year effort is improving the knowledge of physicians, nurses, midwives and pharmacists in providing quality family planning services and counseling, increasing the number of service delivery points in both the public and private sectors, and enhancing the ability of Albanian families to make informed decisions regarding fertility and family planning through information, education and communication activities.

Host Country and Other Donors: The World Bank is supporting the reconstruction of rural hospitals throughout Albania and the University of Montreal and the Paris Hospital System are providing planning assistance and management training to the Ministry of Health. The United Nations Development Program (UNDP) is providing health care manuals to medical facilities. Switzerland is providing assistance to the nursing school. EU-PHARE has a Public Health Facilities Maintenance project and is

supporting capacity-building at the Ministry of Health.

Beneficiaries: Medical professionals (doctors, nurses, technicians and managers) are the channels through which our programs are functioning, with the primary beneficiaries being Albanian citizens in need of medical care. Women throughout Albania will benefit from access to family planning information and improved counseling and care.

Principal Contractors, Grantees, or Agencies: USAID implements these activities through AIHA and a Participating Agency Service Agreement (PASA) with the U.S. Department of Health and Human Services.

Major Results Indicators:

	Baseline	Targets
Infant mortality (deaths per 1,000 live births)	35.7 (1994)	25 (2000)
Maternal mortality (deaths per 100,000 births)	40.6 (1994)	20 (2000)
Health Services Improved:		
-contraceptive prevalence rate (%)	8.3 (1994)	TBD (2000)
Access to health education improved:		
-cumulative # of primary school students educated about health	255,600 (1996)	TBD (1999)l
-cumulative # of citizens informed about family planning	4,000 (1995)	TBD (1999)
Health services quality improved:		
-cumulative # of primary health care clinics complying with standards	3 (1995)	66 (1999)

ARMENIA

FY 1998 Assistance to the NIS Request: $80,000,000

Introduction.

Armenia is a strategically important republic in the Caucasus which is in the early stages of a transition to achieve a democratic market-oriented economy. Its long-term political stability and economic development are inextricably linked to its success as a market economy. Armenia is important to the United States' interests because the economic and political transition taking place offers prospects that it will emerge as a western-oriented democratic participant in world markets -- a model for other NIS and Eastern European states. With a settlement of the Nagorno-Karabakh conflict, Armenia could also provide leadership to promote regional economic integration and political cooperation within the Caucasus.

The Development Challenge.

Armenia is a landlocked country with a small, homogeneous population (3.4 million), few natural resources, and a mountainous terrain which limits the area suitable for agriculture. Like other countries of the former Soviet Union, Armenia's economic development has been constrained by the legacy of Soviet central planning. The country still experiences severe economic difficulties arising from the breakdown of the former Soviet trade, payments, and financial systems. Conflict over the predominantly Armenia-populated Nagorno-Karabakh region of Azerbaijan led to a trade and transport embargo of Armenia by Azerbaijan and the closure of the Turkish border since 1991. Although a cease-fire has held since May 1994, the borders are unlikely to open until a permanent peace settlement is negotiated. Successful resolution of the conflict would: (a) allow Armenia to reopen trade routes - railways, in particular - to the east through Azerbaijan and to the west through Turkey; and, in turn, (b) make Armenia more attractive to investors; and (c) significantly reduce hardships which currently require massive humanitarian assistance from foreign donors.

Armenia held parliamentary elections and approved a new constitution in 1995. In 1996, presidential elections were held in September followed by local elections in November. International observers of both recent elections described them as flawed. Municipal and local governance lacks clarification and legitimization; and laws, though revised and approved, lack implementing procedures and enforcement.

Despite hardships, Armenia's resources are not insignificant and include: a skilled and educated workforce, with strong national identity, and strong support from a large international diaspora and the international community.

Between 1992-1996, USAID primarily focused its resources on humanitarian assistance, which will still be required, but at diminishing levels. Greater emphasis will now be directed to the restructuring of the energy and financial sectors; creating a legal, regulatory, and policy framework for broad-based competition and economic growth; and promoting a democratic transition through better-informed citizen participation in political and economic decision-making.

With donor assistance and Government of Armenia (GOA) commitment, Armenia was the first former Soviet republic to register real economic growth (albeit from a very low base) in 1994 (5%); growth in 1995 was 5.2% and a higher growth rate is expected in 1996. Inflation has come down from 30% a month in 1994, and is expected to average 1% per month during 1996. Foreign reserves have increased, and the exchange rate has remained stable through 1995. Armenia has a relatively low level of indebtedness with a long-term debt to export ratio of 68.9% in 1994. Much of Armenia's $200 million debt is attributable to energy imports from Russia and Turkmenistan. VAT exemptions of key foodstuffs were eliminated, taxpayer identification was developed and progress made on tax

rationalization; however, tax collections were far below target in the first half of 1996. Government expenditures have been reduced sharply; prices of most commodities have been liberalized and most state subsidies eliminated. Privatization of small and medium industries has proceeded apace but large state owned enterprises await international tenders. Privatization vouchers distributed to all citizens are now worth one-sixth of their face value, reflecting the publics's loss of confidence in the process.

USAID assistance to date has been approximately 70% humanitarian, predominantly foodstuffs and heating fuel, with significant impact. Over the past three years, the Winter Warmth programs resulted in the delivery of 120,000 kerosene heaters and 76,000 metric tons of kerosene distributed to 250,000 households and to 1,400 schools. The school heating program allowed schools to remain open in winter, increasing school attendance by 54% during the 1994/1995 winter, with a sustained high rate of attendance in 1996. Since 1993, out of a total population of 3.4 million, there have been over 1.5 million recipients of USAID-funded food assistance through grants to CARE and sub-grants to U.S. PVOs under Save The Children Federation. Pharmaceuticals were provided to approximately 400,000 women and children. In 1996, USAID purchased and delivered 201 million cubic meters of natural gas, which was burned to provide electricity for two-and-one-half months for consumers throughout the country.

USAID-provided bulk wheat, together with U.S. Department of Agriculture and European Union shipments, played a key role in meeting humanitarian needs and in promoting political stability. More recently, wheat has been monetized, thus also supporting economic development goals. In FY 1997, we anticipate significantly less wheat will be required.

USAID also supported humanitarian assistance through international organizations, including UNICEF to control diphtheria through the provision of vaccines to immunize the population at risk, including children and adults. USAID-funded assistance, through the International Committee of the Red Cross, supported internally displaced persons and victims of conflict in the Nagorno-Karabakh region. Also, the Caucasus Logistics Advisory Unit (CLAU - under the World Food Program) managed the rail, port, and communications network throughout the Caucasus and made the difference between the efficient delivery of humanitarian assistance and chaos. The CLAU operation, U.S. Center for Disease Control, and PVO programs - all financed by USAID - helped to build Government of Armenia (GOA) and local NGO capacity to manage and respond to human crises and emergencies on their own.

The balance of USAID assistance has been for economic restructuring, improvements in the energy sector, exchanges and training and assistance in democracy and governance which began in 1996. A USAID-financed contract with the University of Maryland provides both economic and legal advice to help Armenia in the process of accession to the World Trade Organization, constructing the legal commercial framework for a market oriented economy and developing the economic analytical capacity of the Government to help the GOA meet requirements and negotiate with the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD - World Bank) for various stabilization, stand-by, and sector loan programs. Most recent negotiations (in 1996) are for a $150 million Enhanced Structural Adjustment Facility (IMF) and a $65 million Structural Adjustment Credit (IBRD).

USAID's housing sector reform project has led to the formulation of a legal and policy framework for the continued privatization of housing stock. In January 1996, Armenia was the first of the former Soviet republics to adopt a real estate law which defines basic private property interests and rights. This project also led to the development of Armenia's first condominium association and private building maintenance cooperative, and new laws for such associations and real estate mortgages. Technical assistance was also provided to Government and Parliament to draft the law on local self government, one of the first of its kind in the former Soviet Union and signed into law in June, 1996.

Since 1996 USAID's democracy and governance contractors and grantees have been working with Armenians on new criminal and civil codes. Training has been provided by USAID and other donors

to enable lawyers, judges and lawmakers to become acquainted with western legal procedures, law and legislative drafting and adjudication practices which they can utilize in their day-to-day activities. Similar short term training and technical assistance has been provided to journalists, TV and radio professionals. Prior to the 1995 Parliamentary elections, democratic countries and institutions including those supported by USAID began to introduce the Armenian Central Election Commission and voters to democratic election procedures and citizens rights. A new election law was passed and election procedures were established.

In energy, USAID has assisted the Ministry of Energy in achieving some major accomplishments in the restructuring of the energy sector. Armenergo, the power utility previously responsible for all electricity generation, transmission, and distribution, has been effectively "unbundled" or broken up into three generation companies, one transmission and dispatching company (with some generation), and approximately 52 distribution companies. The electricity distribution companies have been established as separate state enterprises and it is expected that in 1997 these firms will be consolidated into about ten joint stock companies open for partial or full privatization. Divestiture is also planned for the generation companies. In addition, USAID's assistance has been instrumental in the development of draft energy legislation including a general energy reform law and a draft petroleum law. Finally, with respect to tariff reform efforts, on April 1, 1996 the Tariff-Setting Committee of Armenia approved an increase in the uniform nationwide tariff for electric power from 12 to 14 drams per KWH. Although special subsidies for certain rate payers have not yet ended, USAID and other donors believe that this recent development is an important first step toward eventually achieving tariff reform in the power sector.

Economic recovery will depend on the ability of commercial banks to serve as financial intermediaries between savers and investors and increasingly mobilize savings. Improvement in Central Bank operations, through USAID-funded training at U.S. Federal Reserve Banks, contributed to reduced inflation and increased trade, both domestic and regional. USAID designed on-the-job training for Armenian bank examiners with several States' bank regulatory agencies is improving the rigor with which Armenian commercial banks operate. USAID is also contributing to the formation of a viable banking sector by providing technical assistance, training and commodity support for: (1) establishing a modern, "real time" electronic accounting and payments system for timely domestic and international financial transactions; (2) training in modern portfolio management, lending, international accounting standards and (3) establishing through the Eurasia Foundation a commercial lending facility for small and medium enterprises. In a related fashion, USAID grantees (VOCA, International Executive Service Corps) are identifying and assisting potential clients to prepare viable investment and business plans to the benefit of both the borrower and lender.

In the area of fiscal reform a USAID financed U.S. Treasury debt advisor has worked with the Ministry of Finance and Central Bank of Armenia to market Government securities. Progress has been substantial and significant. Whereas the 1996 target was to market T-bills which would finance about 6% of the Government budget deficit, the actual result will be about 20%. Auctions are advertised well in advance of the event, are public and settlements happen with hours of the event. Bills have sold at 30, 91 and 182 day maturities, helping to dampen interest rates and absorb excess liquidity in the monetary system. In late 1996 a foreign investor purchased Armenian 182 day T-bills denominated in Dram, for the first time, assuming the entire foreign exchange risk. The T-bill market is already an established and important policy instrument for the Central Bank authorities to guard against the onset of inflation.

Other Donors.

Major donors and lending institutions include the International Monetary Fund, the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, and the European Union. Bilateral donors include Germany, Great Britain, Italy, Netherlands and France. The U.S. share of Overseas Development Assistance to Armenia was 45%.

FY 1998 Program.

Strategic Goal: Economic Restructuring

The USAID-funded Center for Economic Policy Research and Analysis (CEPRA) was established to provide technical assistance and training to better enable policy makers (government, parliament and executive branches) to formulate economic policies based on accurate measurement of key macroeconomic indicators and projected impacts of alternative policies. The Center's most important task in the past year and for 1997 is providing technical assistance, both economic and legal, to advise the GOA on accession to the World Trade Organization. When completed, Armenia will have in place the legal, commercial and economic framework that will enable and encourage the growth of private enterprise, as dictated by market forces. CEPRA will also provide policy and legal assistance to develop the civil code, enabling legislation to support private enterprise, and provide training for lawyers, judges and business persons in adjudication of commercial disputes.

Another USAID-contractor, the International City/County Managers Association (ICMA), provides assistance to the GOA to design, test, and develop: (a) a unified system of property registration based on a cadastre system for urban, suburban, and rural areas; and (b) a service to legally register property, convey title and record property values based on market prices. In FY 1998, ICMA will continue its work with Armenians to develop procedures to record, analyze, and report sales to facilitate the development of a real estate market based upon supply and demand, titles and their transferability. In addition ICMA will continue its work started in 1997 to assist local government units to install and operate modern financial and budgeting systems which are compatible with the responsibilities and authorities devolved to them under the Law on Local Self Government, 1996.

Technical assistance in the fiscal sector will enhance national budget and tax administration, property tax administration, and government securities management to improve GOA preparation and administration of national budgets and achieve a more effective and fairly administered system of personal, property, and commercial tax codes. The development of a government securities program is already providing a non-inflationary means to finance the national budget, and the banking system with instruments and markets to effectively implement monetary policy. A resident advisor is working with the Ministry of Finance and the Central Bank to implement a comprehensive legal and policy framework for the issuance of government securities; create a debt and cash management system; establish rules to encourage the development of a secondary market for securities; design financial instruments; and develop a detailed database for bond sales.

During FY 1998, prior assistance in the banking sector should result in stronger, market-oriented central bank and commercial bank operations, ensuring that monetary and fiscal policies already in place are implemented effectively. Assistance, as necessary, will continue.

A key to financial sector reform will be the adoption of a western-oriented, internationally accepted accounting and financial reporting system. With continuing USAID assistance, the new accounting system, standards, and practices will be implemented in commercial banks and selected enterprises, both state-owned and private. Laws establishing internationally accepted accounting procedures and policies for the Central and Commercial Banks, Ministries of Finance and Economy, State Tax Inspectorate and industry will be enacted by the GOA. Reference and training materials are being developed; accounting trainers and advisors to be involved in the conversion to the new accounting system are being trained.

Before the accounting conversion gets underway, USAID has embarked upon a program to train bankers, both in the commercial banks and the Central Bank. The focus of this training will be portfolio management including credit analysis, asset and debt management, international accounting standards, all designed to strengthen prudential relationships between the Central Bank and commercial banking sector, plus the development of sound lending procedures and systems of loan recovery.

USAID's most important initiative toward creating capital markets is the establishment of the market for Treasury Bills. In addition, USAID has funded the establishment of a commercial lending facility for small and medium enterprises (SMEs), through three competitively selected local banks. Personnel from the lending banks receive training from Western bankers and other technical experts in banking operations, accounting and lending procedures. To help stimulate the demand for such loans, USAID grantees and contractors will identify and assist potential clients to prepare viable investment and business plans to the benefit of both the borrower and lender. Horticulture exports will receive particular financial and technical assistance attention.

In response to the Trans-Caucasus Enterprise Fund earmark, USAID is establishing two finance programs intended to support private sector development and growth. The first is a private investment fund partially guaranteed by the Overseas Private Investment Corporation (OPIC). The second is a small enterprise lending program, which reports directly to USAID. Investment activities of the Partnership for Freedom are also planned for FY 1998.

In energy, USAID's emphasis is threefold: (a) to create a climate that will attract private sector participation and ownership, with subsequent improvements in the management of resources and provision of services; (b) to improve the efficiency of the sector in economic terms, with subsequent increases in capital and operating resources; and (c) to reduced the environmental hazards of operating the Medzamor Nuclear Power Plant. To establish an economically sound and environmentally sustainable energy sector in Armenia, USAID resources will be used: to support the restructuring and corporatization of the electric power and natural gas subsectors, including legislative and regulatory reform to promote private sector participation; to strengthen the commercial operations of newly-created energy sector entities, including the introduction of improved metering and collections systems and the adoption of international accounting standards; to mobilize private/public financing for selected energy projects to rehabilitate the energy infrastructure and to reinforce the reform process; and to improve the safety of the Medzamor Nuclear Power Station through short-term safety upgrades and stronger regulatory oversight, while developing energy alternatives to allow the plant to be closed as soon as possible. The European Union, the World Bank, and the European Bank for Reconstruction and Development are also expected to make other significant contributions to the energy sector.

- Strategic Objective: Increased soundness of fiscal policies and fiscal management practices
- Strategic Objective: Accelerated development and growth of private enterprises
- Strategic Objective: A more competitive and market-responsive private financial sector
- Strategic Objective: A more economically sound and environmentally sustainable energy system

Strategic Goal: Democratic Transition

Armenia has made strides and had setbacks in its democratic transition in the last fiscal year. Presidential and municipal elections held in September and November 1996 respectively were in principle, i.e., legislation and process, a marked improvement over the July 1995 parliamentary elections and constitutional referendum, but in practice, equally flawed. Much progress, however, has been made on the legal reform front, as well as in the growth and strengthening of independent media. Progress on the Civil Code, Criminal Code, and the involvement of indigenous NGOs and media outlets in the revision of the NGO and media laws are reasonable indicators of increasing political will for change.

Armenia is engaged in the difficult process of developing a democratic market-based legal system based on the rule of law. A history of Soviet legal philosophy and infrastructure presents substantial obstacles in the necessary development of transparent legal and judicial processes based on

internationally recognized democratic norms. USAID/Caucasus is dedicated to providing assistance to the Government and people of Armenia in their transition to a rule of law society.

USAID will continue to assist the GOA in developing draft legislation necessary to implement the new Constitution. In order to help the Armenians achieve a solid legal infrastructure, in addition to drafting assistance, USAID will provide a broad range of training in western legal concepts and practices for Armenian lawyers, judges, prosecutors, parliamentarians and members of government ministries. This will be a long-term process: USAID will work with Armenians, and other international donors, to develop an indigenous capacity for providing on-going continuing legal education to all members of legal society, and wide public access to legal information.

In addition, an objective, professional and independent journalistic cadre is a necessary component of a strong democratic society. Armenia's journalists, leaving behind Soviet-style news coverage, and working under continuing technical and structural difficulties, are learning to serve their fellow countrymen as a solid source of objective domestic and international information and news. USAID assistance in media development will attempt to address both the technical and structural problems of independent media in Armenia. In addition to the limited provision of critical equipment, USAID will provide training programs to bolster journalists' capacity to produce quality news reports on political developments. USAID assistance will also focus on developing media associations and networks, providing training in management, advertising, and journalists' rights and responsibilities. These activities will lead to a more pro-active, self-sustainable, media community, capable of providing the Armenian people with the objective news coverage they need to actively participate in their own communities, and in the global community.

- Strategic Objective: Increased, better-informed citizens' participation in political and economic decision-making

- Strategic Objective Legal systems that better support democratic processes and market reforms

Strategic Goal: Social Stabilization

Through technical assistance, training, and limited commodities, USAID will encourage the transformation of Armenia's dependence on humanitarian assistance to a system of family allowances and benefits so that only the most vulnerable segments of the population receive humanitarian assistance. The USAID program will also continue to promote civic action and NGO capacity building, permitting domestic organizations to begin to provide social services and thereby gradually decrease dependency on external aid.

More than 120,000 people affected by the 1988 earthquake and the economic blockade remain without permanent homes. A slow transition to a market economy further constrains economic recovery. Unemployment remains high and most of those employed do not earn adequate wages. USAID programs will attempt to improve economic conditions by generating significant employment and household income so that vulnerable families will decline significantly. To improve the social sector USAID will create a synergy among its other sector programs to establish significant supply response from agriculture and the manufacturing sectors which will be supported by an aggressive program of privatization. Additionally another major factor for ensuring Armenia's successful social and economic transition remains a peaceful and permanent resolution to its political problems with its neighbors.

- Strategic Objective: Reduced human suffering in Armenia

Cross-cutting and Special Initiatives

USAID funds a cross-cutting training program which offers learning opportunities for Armenians, mainly in the United States, in a number of sectors which support the strategic objectives of the USAID program. In those instances where activities implemented by other agencies do not directly support USAID's objectives, they are included under this heading.

ARMENIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	2,200,000	--	--	--	2,200,000
Private Enterprise	15,000,000	--	--	--	15,000,000
Financial Reform	5,800,000	--	--	--	5,800,000
Energy	15,840,000	--	--	--	15,840,000
Citizens' Participation	--	5,900,000	--	--	5,900,000
Legal Systems	--	2,200,000	--	--	2,200,000
Local Government	--	--	--	--	--
Crises	--	--	21,000,000	--	21,000,000
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	12,060,000	12,060,000
TOTAL	38,840,000	8,100,000	21,000,000	12,060,000	80,000,000

*FREEDOM Support Act (FSA) Funds

USAID Representative: Geraldine Donnelly

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE: Fiscal Reform, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,200,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased soundness of fiscal policies and fiscal management practices.

Background: Beginning in late 1994 substantial progress was achieved to improve public expenditures as evidenced by reduced deficit spending and the removal of many cross-subsidies. This effort must be matched with efforts to improve tax codes and administration for functions like collections and the restructuring of the budgetary system with new financial management systems, and elimination of remaining ineffective subsidies. The lack of an internationally-accepted market-oriented national budget law and treasury functions are a major impediment to fiscal reform. Assistance to the Government is needed to develop new financial functions for accounting, treasury operations and executive budget formulation, execution and control.

USAID Role and Achievements to Date: USAID will assist the Ministry of Finance (MOF), the State Tax Inspectorate (STI), and will coordinate with the Ministry of Economy and the Central Bank of Armenia (CBA) to develop fiscal reforms which lead to an internationally-accepted and market-oriented system of national budgeting, tax codes and administration and accounting systems which encourage private enterprise and investment.

Description: Short and long-term technical assistance is being provided to the MOF to improve the methodology for the preparation and administration of the national budget, beginning with the drafting of a new national budget law. Assistance will be given to the STI to achieve a cost-effective and fairly administered system of personal, property and commercial tax codes and to sharply improve tax collections. USAID's property registration activities will assist to establish market-valued methods of property assessment which in turn will expand the municipal revenue base to finance legitimate community services and infrastructure projects. In addition, USAID will launch training and advisory assistance for local government units, newly empowered by law, to carry out municipal planning and financial responsibilities. USAID assistance to the MOF will continue to broaden the Treasury securities market, both bills and bonds, providing the MOF and CBA with a non-inflationary means to finance the national budget which will provide the banking system with instruments and markets to effectively implement monetary policy.

Host Country and Other Donors: The U.S. Treasury advisors for budget, government securities and tax administration coordinate their activities with the IMF, the IBRD, EU/TACIS and bilateral donors. USAID coordinates its activities in cadastral reform with the IBRD's Institutional Building Loan. USAID through the International City/County Management Association and the World Bank will likely collaborate to develop a "demonstration cadastral program" to develop the government and private sectors' capabilities to survey and map property and government's capability to legally register property titles in a computerized management information system. USAID will provide the technical assistance; the IBRD will fund the commodities; the government will provide offices and staff.

Beneficiaries: The national budgeting law and the government securities program will benefit all Armenians by reducing inflation and by helping establish a more efficient revenue system. The demonstration property registration system will benefit 100,000 home and apartment owners and 50,000 farm owners.

Principal Contractors, Grantees or Agencies: US Treasury; International City/County Managers Association.

Major Results Indicators:

	Baseline	Target
Fiscal balance as a percent of GDP (Balance excluding official grants)	-12.7% (1995)	-4.7% (1999)
Tax revenue as percent of GDP	12.7% (1995)	14% (1999)
Proportion of local governments using market-oriented budget & financial systems	-0- (1995)	30% (1999)

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE: Private Enterprise, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $15,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Accelerated development and growth of private enterprise.

Background: Armenia's current macroeconomic policies, legal-regulatory framework, and corresponding institutions are inadequate to fully support the transition to a market economy. Light manufacturing, agribusiness, housing construction, services and high technology have strong development potential, but to attract investment the government must proceed with privatization and formulate economic policies that promote business enterprise and opportunity. Western oriented laws and regulations governing property rights, contracts, banks and commercial transactions are needed to allay the doubts of prospective domestic and foreign investors and to support the transition to a market economy.

USAID Role and Achievements to Date: With USAID assistance the Ministry of Economy and Parliament enacted the first market-oriented real estate law and the first condominium association law in the former Soviet Union. USAID also assisted with the drafting of bankruptcy and mortgage laws. These laws are important to develop real estate markets, ensure legal property rights and create market values for taxing real property. USAID is now helping the GOA to join the World Trade Organization.

Description: The USAID-funded Center for Economic Policy Research and Analysis (CEPRA) was established to provide technical assistance and training to better enable policy-makers (Parliament and Executive branches) to formulate market oriented economic policies based on accurate measurement of key macroeconomic indicators and projected impacts of alternative policies. CEPRA is also engaged in the development of plans, policies, and laws and regulations that support the transition to a market economy. CEPRA will also provide policy and legal assistance to develop a commercial code to support private enterprise and will provide training for lawyers, judges and business persons in adjudication of commercial disputes. USAID will assist the Government to design, test and develop a unified system of property registration based on legal descriptions contained in the real estate law; and a service to legally register property, convey title and record property values based on market prices. USAID will also assist the Government and municipal authorities to develop unified urban planning and development policies (e.g., zoning ordinances), building ordinances, public property auctions. The private investment fund implemented through OPIC and the small enterprise lending program will also support private sector development.

Host Country and Other Donors: CEPRA coordinates its economic policy analysis and legal and regulatory reform of commercial laws with the IBRD, IMF, the European Union, and the Ministries of Economy and Finance. CEPRA assists the American University of Armenia to conduct economic education activities. USAID works with the IBRD in related programs for developing the land cadastral system and small and medium enterprise development. USAID grantees (VOCA and the International Executive Service Corps) identify and assist potential clients to prepare viable investment and business plans to the benefit of both the borrower and lender.

Beneficiaries: Reformed economic policies and institutions will set the stage for foreign investment and the rapid import of new technology to put its skilled labor force back to work. Home owners and land owners will possess guaranteed rights to the use of property. Banks will increase lending because they can collateralize loans and foreclose. Government will increasingly generate revenues from property taxes based on a system of tax laws and procedures that are applied fairly. To support real estate and other markets, commercial laws will guide the way business is conducted.

Principal Contractors, Grantees or Agencies: University of Maryland/IRIS (for CEPRA); International City/County Managers Association (ICMA) is responsible for housing privatization, housing law and property registration. IESC and VOCA provide advisory assistance to Armenian entrepreneurs.

Major Results Indicators:

	Baseline	Target
Private sector percentage of income in Yerevan	57% (1995)	80% (1999)
Private sector percentage of employment	43% (1994)	56% (1999)
Private sector as percentage of GDP	50% (1995)	75% (1999)

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE: Financial Reform, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $5,800,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: A more competitive and market-responsive private financial sector.

Background: USAID emphasizes the financial sector because it is primary to the development of internal and external markets and is a basic service which business and citizens need urgently. New business development for internal markets is impeded by a lack of western oriented commercial banks, better supervised by a stronger, market-oriented central bank. Bank managers and staff require training in international lending procedures and other banking services like commercial paper and financial markets. Outmoded accounting procedures are commonplace in the banks, industry and government ministries, limiting prudent asset management, loan decisions and affecting the accuracy of financial statements for internal and external financial transactions. Finally, capital markets are needed to finance new business investment and government spending.

USAID Role and Achievements to Date: USAID, IMF, World Bank and EU are collaborating to establish a strong, market-oriented Central Bank. This began with the establishment of the domestic electronic payments system (EPS) and the establishment of the Bank Training Center within the Central Bank of Armenia (CBA) in 1996. USAID contributed to the opening of Armenia's first commercial lending facilities in three commercial banks for small and medium-sized enterprises.

Description: USAID will provide technical assistance to the Central Bank and Ministry of Finance to establish a new national accounting system based on internationally-accepted accounting standards and practices that are appropriate for Armenia, including: an accounting practices law or decree. In 1997 USAID has work underway to extend the real time electronic payments to international transactions and to install an electronic accounting system on the CBA platform. When completed the CBA will have the basic modern electronic infrastructure to facilitate domestic and international payments and capital movements. USAID launched bankers' training in 1996 in the CBA's new training center, focussing on international accounting standards, credit analysis, asset and liability management, lending operations, client services, etc. To facilitate the creation of capital markets USAID has funded the Eurasia Foundation to establish a commercial lending facility for small and medium enterprises (SMEs), through competitively-selected local banks.

Host Country and Other Donors: The installation of the EPS is a joint undertaking with the IMF, the European Union (EU), and the IBRD. USAID assistance for accounting conversion is coordinated with the IMF's Accounting Advisor to the Central Bank who is assisting with the installation of the IMF Chart of Accounts. EU short-term accounting advisors coordinate with USAID for accounting conversion.

Beneficiaries: USAID, IMF, World Bank and EU assistance will establish a strong, market-oriented Central Bank. Savings deposits will increase and collateralized-lending will expand as banks compete. Offshore funds will begin to flow into banks, increasing capital for new business ventures. Savers and borrowers will benefit as both are served by a more rational, efficient and market-oriented banking system.

Principal Contractors, Grantees or Agencies: Motorola, Lotus, Sprint, IBM/MERVA and MONTRAN for the Electronic payments and accounting systems. Eurasia Foundation established the Small and Medium-Size Enterprise Loan Fund in Armenian commercial banks. KPMG/Barents is implementing bankers' training.

Major Results Indicators:

	Baseline	Target
Financial sector assets as percent of GDP	100 (1995)	140 (1999)
Spread between deposit & borrowing rates (%)	56% (1995)	17% (1999)
Level of deposits in commercial banks (index)	100 (1995)	107.2 (1999)

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE: Energy, 110-S001.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $15,840,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: A more economically sound and environmentally sustainable energy system.

Background: As a result of the breakup of the Soviet Union, an economic blockade by Turkey and Azerbaijan, and extensive damage to infrastructure caused by the 1988 earthquake, a significant portion of the country's fuel supply and electric generating capacity has been severely impaired. The shortage of power has been a major cause of economic decline. It causes great hardship, impedes the transition to a market economy, endangers public health, and could threaten political stability unless addressed. The energy sector has been weakened by: (1) the 1988 earthquake that led to the 1989 closure of the Medzamor Nuclear Power Plant, leading to a greater reliance on fuel imports; (2) the embargo on natural gas and oil imports by Azerbaijan as a result of the conflict over Nagorno-Karabakh; (3) the civil disturbances in Georgia that led to disruption of natural gas transport through that country to Armenia; and (4) historically low energy prices and low collection rates that have both fostered excessive energy use and resulted in insufficient revenues to cover the maintenance and investment needs of the energy sector, as well as cover the costs of imported fuel. Unit 2 of the Medzamor plant was restarted in November 1995 but, as a type of reactor considered unsafe by the G-7, represents a potential environmental hazard of great magnitude.

USAID Role and Achievements to Date: USAID's emphasis is threefold: (a) to create a climate that will attract private sector participation and ownership, with subsequent improvements in the management or resources and provision of services; (b) to improve the efficiency of the sector in economic terms, with subsequent increases in capital and operating resources; and (c) to reduced the environmental hazards of operating the Medzamor Nuclear Power Plant. To date, USAID has assisted the Ministry of Energy in achieving some major accomplishments in the restructuring of the energy sector. Armenergo, the power utility previously responsible for all electricity generation, transmission, and distribution, has been effectively "unbundled" or broken up into three generation companies, one transmission and dispatching company (with some generation), and approximately 52 distribution companies. The electricity distribution companies have been established as separate state enterprises and it is expected that in 1997 these firms will be consolidated into about ten joint stock companies open for partial or full privatization. Divestiture is also planned for the generation companies. In addition, USAID's assistance has been instrumental in the development of draft energy legislation including a general energy reform law and a draft petroleum law. Last, with respect to tariff reform efforts, on April 1, 1996 the Tariff-Setting Committee of Armenia approved an increase in the uniform nationwide tariff for electric power from 12 to 14 drams per KWH. Although special subsidies for certain rate payers have not yet ended, USAID and other donors believe that this recent development is an important first step toward eventually achieving tariff reform in the power sector.

Description: While initial USAID assistance to the energy sector involved the provision of critical equipment and fuel supplies, assistance is now focused on the systemic economic reform of the sector and the reduction of the hazards presented by the nuclear plant. To establish an economically sound and environmentally sustainable energy sector in Armenia, USAID resources will be used: to support the restructuring and corporatization of the electric power and natural gas subsectors, including legislative and regulatory reform to promote private sector participation; to strengthen the commercial operations of newly-created energy sector entities, including the introduction of improved metering and collections systems and the adoption of international accounting standards; to mobilize private/public financing for selected energy projects to rehabilitate the energy infrastructure and to reinforce the reform process; and to improve the safety of the Medzamor Nuclear Power Station through short-term

safety upgrades and stronger regulatory oversight, while developing energy alternatives to allow the plant to be closed as soon as possible. In Armenia, the two energy subsectors having the greatest impact on the economy are the electric power and natural gas subsectors, and these are the two subsectors where USAID is concentrating its assistance. Assistance is channeled through three institutional contractors: one provides technical assistance in support of energy sector restructuring and privatization, including legislative and regulatory reform; another provides technical assistance and commodity support to facilitate restructuring and privatization as well as energy supply system rehabilitation; and the third is providing short-term training in all activity areas. Two US government agencies also provide nuclear safety support: one covers operational safety improvements and the other covers regulatory strengthening.

Host Country and Other Donors: The World Bank is currently taking the lead in developing a $100 million loan package for rehabilitating and strengthening the power transmission and distribution system, including improving the commercial operation of the enterprises. The Japanese have provided a $600,000 grant through the World Bank for technical assistance to the Ministry of Energy. Technical assistance from the European Union is currently being provided to support the formulation of energy efficiency policies and legislation. The European Union is also assisting the Ministry of Energy in developing energy efficiency legislation and in strengthening billing and collection systems.

Beneficiaries: Approximately 2.0 million residential and commercial consumers of electricity and natural gas.

Principal Contractors, Grantees, or Agencies: Three U.S.-based institutional contractors: Hagler Bailly (restructuring and privatization), Burns and Roe (rehabilitation of energy systems), and the U.S. Energy Association (training); and two US Government agencies: the Department of Energy (nuclear safety upgrades) and the Nuclear Regulatory Commission (nuclear safety regulation).

Major Results Indicators:*

Independent regulated utilities with meaningful financial statements established
Independent regulated utilities with sufficient current earnings and profits to sustain operations
Private sector participation in the energy sector.
State-owned enterprises fully divested

*Baseline and target data will be developed during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE: Citizens' Participation, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $5,900,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Increased better-informed citizens' participation in political and economic decision-making.

Background: Like other countries emerging from the shadow of communist rule, Armenia is struggling to consolidate nascent democratic governance. Civic society is weak and fragmented: solid democratic pluralism, independent media, and nascent private voluntary organizations need to be developed and strengthened for democracy to survive, and for a market economy to flourish. There is little tradition of spontaneous popular organizations established outside the previous government-inspired context. Freedom to make wide-ranging personal economic and political choices are a new and largely untried phenomenon.

USAID Role and Achievements to Date: USAID-funded activities in the area of independent media development have led to the establishment of the first independent television network in Armenia. Additionally, USAID activities supported the nascent development of the country's first domestic election monitoring non-government organization, and continue to support the strengthening of this indigenous organization.

Description: USAID contractors and grantees are currently working with independent television stations, political parties, parliamentarians, and indigenous non-government organizations to foster the growth of civil society and grass-roots democratic reform efforts in Armenia. These activities will be expanded in FY 1996 and FY 1997.

Host Country and Other Donors: These programs are being coordinated with other USAID activities, such as the USAID-funded Armenian Assembly of America-sponsored NGO Center (for private voluntary organizations), and the Eurasia Foundation, as well as with the U.S. Information Service (USIS). Additionally, USAID's efforts are being coordinated with international donors working in these areas, including the United Nations Development Program and the European Union.

Beneficiaries: These efforts seek to benefit approximately 6,000 individuals and organizations actively involved in civic participation and democratic reform efforts, as well as the general population over time, in encouraging further and deeper citizen participation during the country's difficult transition to a democratic market-oriented state.

Principal Contractors, Grantees, or Agencies: Current grantees include Internews, National Democratic Institute (NDI), and International Foundation for Electoral Systems (IFES). Additional grants and contracts will be established with other private US firms for expanded assistance in this area.

Major Results Indicators:*

% of bills introduced by deputies after consultations with NGOs
Citizens who listen to, watch, or read independent news daily

*Baseline and target data will be developed during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE: Legal Systems, 110-S002.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,200,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Legal systems that better support democratic processes and market reforms.

Background: Armenia inherited a Soviet legal infrastructure that presents substantial obstacles in the country's evolution toward a market-oriented society based on the rule of law. Armenia's legislative infrastructure, judicial structure, and legal society as a whole all require assistance in reform, reconstruction and retraining. The former Soviet model was designed to protect certain restrictive legal concepts not consonant with Western civil and constitutional rights for individuals and non-official associations and groups.

USAID Role and Achievements to Date: USAID funded a judicial conference in July 1995, which brought U.S. Supreme Court Justice Scalia to Armenia to discuss issues such as judicial independence and ethics with members of the Armenian judiciary and government. Additionally, USAID has funded Armenia's drafters of the country's Civil Code to travel to the Netherlands to participate in USAID-funded conferences which provided European and U.S. drafting expertise to Newly Independent States (NIS) drafters working on a model civil code.

Description: USAID contractors and grantees began work in FY 1996 and FY 1997 with legal institutions, such as the National Assembly, Constitutional Court, Ministry of Justice, Procuracy and Executive offices, on legislative and institutional reform and restructuring. Additionally, USAID will sponsor assistance in the retraining of the country's judges, lawyers and parliamentarians in international legal norms, as well as work on the grass-roots level with indigenous bar associations and legal advocacy non-government organizations, and the dissemination of legal information to the general population.

Host Country and Other Donors: These programs will be coordinated with other USAID-funded activities, particularly in the area of commercial law reform, with USAID-funded Center for Economic Policy Research and Analysis (CEPRA) and the Center for Institutional Reform and the Informal Sector (IRIS) activities. These efforts will be coordinated with international donors, including the United Nations, the European Union, and French and German legal consultants.

Beneficiaries: These efforts will benefit Armenia's legal institutions and legal advocates in the transition to a governmental system based on the rule of law and market principles, and thus will benefit the three million Armenians who rely on these institutions, both governmental and non-governmental, to support and protect their individual and property rights in accordance with the constitution and internationally recognized human rights statutes.

Principal Contractors, Grantees, or Agencies: Private U.S. firms will be contracted to carry out these activities.

Major Results Indicators:*

Number of commercial disagreements adjudicated through the judicial system.
Degree to which punishment for same crime is relatively consistent over time.

*Baseline and target data will be developed during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: *ARMENIA*
TITLE: Human Suffering 110-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $21,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Improved sustainability of social benefits and services.

Background: Following the break-up of the Soviet Union, Armenia experienced total disruption of existing social services, which were quite comprehensive under the old socialist regime. The government and USAID have determined that it is not useful or productive to rely on the old Soviet system of social categories for the distribution of humanitarian assistance or the provision of social services, as these categories are inadequate for identifying real vulnerability. What is required is the verification of poverty among identifiable households. At the same time, public and civic organizations have an important role in identifying social needs and activities to benefit vulnerable groups. However, both local non-governmental organizations (NGOs) and communities themselves presently lack the experience and capacity to perform this role.

USAID Role and Achievements to Date: USAID funds a program designed to improve the targeting and delivery of humanitarian and government assistance to vulnerable households. To date approximately 700,000 households have been registered and entered into a national data base. Major USAID- and other donor humanitarian assistance programs have begun to use beneficiary lists generated from this computer database, thus increasing the likelihood that assistance is reaching the most vulnerable portion of the population. USAID funds an NGO training and resource center, which has identified over 150 viable indigenous NGOs, trained over 50 NGO representatives in principles of management and leadership, and facilitated the creation of a cohesive, active NGO sector. Many of the strongest NGOs who have benefited from the NGO Center's services have already begun implementing programs in humanitarian assistance and social services.

Description: USAID focuses on two activity areas: creation of a computer database of registered households ranked according to social vulnerability; and capacity building of local NGOs and civic action groups to provide or revitalize social services inadequately covered by the public sector. A USAID-funded U.S. private voluntary organization is refining the database of registered households by increasing the number registered to include the entire population and improving the criteria used to calculate the vulnerability ranking of each household. Under this program, government social workers are being trained to manage the database, verify vulnerability status of individual households and design interventions for the most vulnerable households. USAID funding to U.S. and local NGOs will be used to provide management training, technical assistance and grants to local non-governmental organizations and civic action groups in order to increase local NGO and civic action group capacity to assess community needs and provide humanitarian and social services.

Host Country and Other Donors: The European Union conducts capacity building within the Ministry of Social Welfare. United Nations High Commission for Refugees (UNHCR) and United Nations Development Program (UNDP) have provided funding to some local NGOs for humanitarian assistance projects. The World Bank has provided major funding for social infrastructure rehabilitation.

Beneficiaries: These activities are intended to provide improved targeting of humanitarian assistance and social benefits to the most vulnerable parts of the population, which may number as high as 250,000 families.

Principle Contractors, Grantees, or Agencies: USAID implements activities through U.S. and local organizations including most prominently Save the Children Federation, Fund for Democracy and

Development, CARE, and Fund for Armenian Relief, among others.

Major Results Indicators: *•

Number of services privatized
Change in numbers of public/private partnerships

*Baseline and target data will be developed during the next planning period.

AZERBAIJAN

FY 1998 Assistance to the NIS Request: $31,500,000

Introduction.

Azerbaijan is the largest country in the Caucasus with a population of over 7 million and is strategically situated at the crossroads of Asia and Europe. In the aftermath of the dissolution of the Soviet Union, Azerbaijan experienced a precipitous economic decline that was exacerbated by Azerbaijan's territorial conflict with Armenia over the largely ethnic Armenian enclave of Nagorno-Karabakh. The conflict resulted in nearly one million refugees and internally displaced persons (IDPs). However, Azerbaijan is well endowed with fertile agricultural land and natural resources, especially oil, giving it the potential to become a prosperous nation capable of meeting its own economic and social development needs. Azerbajian's oil and natural gas resources make it attractive to U.S. investors. While the bulk of U.S. assistance has been in the form of humanitarian aid aimed at relieving the suffering of the population's most vulnerable segments, largely, but not exclusively, war-spawned refugees and IDPs, the promising prospects for expanded trade and investment constitutes another, more durable avenue for U.S. private sector support of Azerbaijan's peaceful transition to sustainable free-market democracy.

The Development Challenge.

Since gaining independence in 1991, Azerbaijan has confronted a panoply of economic setbacks, ranging from a huge drop in GDP, ruptured trade links with the former Soviet republics, shortage of foreign currency, rapidly deteriorating infrastructure, and serious budget constraints. The system of social benefits and services is in tatters while the health care and education systems have experienced comparable declines. Military conflict over Nagorno-Karabakh together with internal political turbulence have compounded the country's economic and social difficulties. At the same time, an authoritarian, highly centralized regime plagued by corruption has blunted democratic political reform, and progress on privatization and economic restructuring has been exceedingly slow.

However, there have been a number of encouraging developments that could breathe life into the reform process. First, a cease fire in the Nagorno-Karabakh conflict has held since May 1994 and negotiations continue on a permanent settlement. Second, an agreement was reached with an international consortium to develop offshore oil in the Caspian Sea. This accord is expected to lead to multi-billion dollar foreign investment. With the political-military situation more calm, the Government of Azerbaijan (GOA) has taken some steps to bring much needed macro-economic stability and to commence the transition to a market-oriented system. The inflation rate has fallen dramatically. The country has a low level of indebtedness. With the exception of energy, all prices have been liberalized and privatization now appears to be squarely on the government's agenda. Azerbaijan has concluded an agreement with the IMF on a Systemic Transformation Facility (STF) which aims to unify the exchange rate, make fiscal adjustments to cut the budget deficit by 50%, and to formulate a monetary program compatible with these fiscal objectives.

These positive measures notwithstanding, the absence of a comprehensive settlement to the conflict over Nagorno-Karabakh represents an enormous obstacle to economic and political development. The conflict has also shaped the U.S. assistance program in that Section 907 of the FREEDOM Support Act (FSA) bars any U.S. aid to the Azerbaijani Government until it takes steps to cease the offensive use of force and lift its total embargo against Armenia. Any and all U.S. assistance must go to private, non-governmental organizations and individuals.

From the outset, the vast proportion of U.S. assistance to Azerbaijan has been for emergency humanitarian programs for refugees and IDPs. These programs have been administered largely by

distribution of food, clothing and medicines, provision of basic medical services, and construction of shelters as well as water supply and sanitation systems, including in remote refugee/IDP camps. In FY 1996, USAID provided over $11 million in assistance to Azerbaijan. Humanitarian assistance accounted for 97% of this total, and was apportioned as follows: U.S. PVO Save the Children, 69%; U.S PVO vulnerable group feeding programs, 18%; United Nations and other international agencies, 10%; and U.S.-based training and exchange programs, 3%.

Emergency relief programs have reduced the level of human suffering but they cannot substitute for longer-term development assistance efforts. This is the case even with the introduction of bridging activities such as income generation projects which attempt to provide vulnerable populations with the means to ease their dependence on foreign aid. Moreover, Section 907 restrictions also work to retard Azerbaijan's ability to cope with humanitarian crises and to undertake reforms essential for sustained economic growth and provision of social welfare by prohibiting programs designed to bolster the institutional capacity of the government. In the event of a peaceful resolution of the Nagorno-Karabakh conflict and expected subsequent repeal of Section 907, U.S. assistance would likely shift from provision of food and medicine to more developmentally-oriented assistance. Technical assistance could be provided to help Azerbaijan initiate economic restructuring and pursue policies to stimulate private sector growth, for example, through the Trans-Caucasus Enterprise Fund and PVO programs specializing in small-medium enterprise and agribusiness development.

USAID expects that with the development of its ample oil reserves Azerbaijan will have the resources necessary to consolidate the transition to a free-market system -- given the requisite political will.

Other Donors.

Major donors and lending institutions include the International Monetary Fund, the International Bank for Reconstruction and Development (IBRD/World Bank) and the European Union. In August 1995, the World Bank approved a $65 million Rehabilitation credit to support critical reforms in enterprise and economic restructuring. Two earlier World Bank credits were approved to finance technical assistance in the petroleum sector, and to design and implement privatization reforms. The World Bank has also provided a loan for rehabilitation of Baku's main power plant and water supply system. Under an IMF Systematic Transformation Facility, the GOA has committed itself to a comprehensive program of economic stabilization and structural reform.

The UN High Commissioner for Refugees (UNHCR) plays a major role in coordinating humanitarian response systems with the EU and several bilateral donors. Direct humanitarian assistance in large quantities and dollar amounts is provided by several UN agencies (UNDP, UNICEF, World Food Program, World Health Organization) and by numerous international organizations, such as the International Federation of the Red Cross (IFRC) and International Rescue Committee (IRC).

FY 1998 Program.

USAID's program in Azerbaijan has two major objectives: (1) alleviate human suffering in a post-emergency situation while helping to reduce dependence on humanitarian assistance, in part by strengthening the capacity of indigenous PVOs/NGOs to play a role in the country's development process; and (2) support transparent and accountable democratic governance through the participation of informed citizens in the country's economic and political life. In addition, USAID is exploring Section 907-compliant ways to assist the nascent private sector by focusing on small-medium enterprise and agribusiness development, training and related areas. If peace does become a reality, USAID can be expected to rapidly reorient its effort away from humanitarian programs in the direction of full-fledged development assistance. Assistance activities would also be made available under the Partnership for Freedom in support of trade and investment in the private sector and non-governmental exchanges and training.

Strategic Goal: Democratic Transition

The goal of this assistance is to encourage and support Azerbaijan's plodding transition away from authoritarian rule toward democratic governance. Though funding in 1996 was minimal, USAID and its NGO partners have made headway in strengthening the NGO sector, political parties, independent media and independent trade union movement, all of which are in the formative stages.

In FY 1998 USAID will continue to work with indigenous NGOs and the other aforementioned non-state actors. However, these programs will be better targeted in order to produce tangible results. Activities will include bolstering the institutional and organizational capacity of NGOs, upgrading the professional skills of managers and staff of NGOs and print and broadcast media, and strengthening public outreach and voter education programs. Work will also continue with non-government affiliated political parties in areas such as constituency building and communications strategy. U.S.-based and third-country training programs in the areas of journalism, commercial law, and NGO management will continue to contribute to the realization of USAID strategic objectives and to the evolution of Azerbaijan's institutions and practices.

- Strategic Objective: Increased, better-informed citizen participation in political and economic decision-making

Strategic Goal: Social Stabilization

Assistance in this sphere has the explicit goal of easing the plight of the most vulnerable segments of the population, which since the start of U.S. Government humanitarian programs has been defined almost exclusively in terms of refugees and IDPs. Recently, USAID has begun to support, modest income generation projects as bridging activities, designed to reduce these populations' dependence on humanitarian assistance and to lay the groundwork for a full-bodied development program. In the event of a regional peace accord and repeal of Section 907, the United States will be able to dedicate increased assistance resources to refugee repatriation and resettlement, and to bolster the institutional capacity of the government to accelerate the reform process.

Since 1993, USAID has provided humanitarian assistance under an umbrella grant managed by a U.S. private voluntary organization (PVO). In FY 1996 alone, more than 300,000 refugees and IDPs have been helped with supplemental food rations, improved shelter and sanitation, medicine and basic health care, and non-food essential commodities. USAID also contributed to multilateral agency and international organizations' regional Caucasus appeals. Examples of activities follow.

- The International Rescue Committee and CARE worked with IDPs in constructing cost-effective mud-brick shelters and sanitation facilities for more than 10,000 beneficiaries in several regions of the country.

- Relief International mobile health units attended to the basic needs of more than 25,000 people per month and distributed other humanitarian assistance to 200,000 people in ten provinces.

- World Vision provided food to 115,000 refugees/IDPS, built sanitation facilities serving 27,000 people, and distributed winter clothing to another 10,000.

- The American Red Cross distributed food and shelter materials to 40,00 vulnerable people and continued to work with the International Committee for the Red Cross on a border relief program.

- USAID also contributed $1.5 million to the UN World Food Program's Azerbaijan operation.

The need for humanitarian assistance will continue to be great even though the relief efforts of the international community have prevented a humanitarian disaster and brought a measure of stability. In FY 1998, U.S. humanitarian assistance programs will continue to concentrate on the three areas of medicines, food and shelter, while also augmenting recently-initiated income generation programs.

Medicines. Within the IDP population, illnesses associated with poor sanitation and hygiene are on the rise. USAID assistance will focus on provision of additional medicines and medical supplies, improved targeting of the needy population, and closer monitoring of the usage of medicines.

Food. The UN estimates that almost 450,000 people in Azerbaijan are in need of regular food aid. The population includes the most needy refugees and IDPs, disabled and handicapped people in various types of institutions, and pensioners living alone, many of whom do not have an adequate income to maintain a subsistence diet. As in the past, USAID in FY 1998 will emphasize better coordination among the relief organizations and improved targeting of food assistance, and will continue and possibly expand ongoing kitchen garden/seed distribution programs.

Shelter. Only 10% of the refugee and IDP population is living in organized camps. The rest are housed in public buildings, government-provided shelters or with relatives and host families. The magnitude of this displacement is such that social improvements and economic recovery will depend largely on solutions found through upgrading existing facilities or the safe return and repatriation of IDPs to their home regions. FY 1998 assistance will seek to raise both the quality and quantity of shelter for IDPs and refugees, including small and medium-sized structures inside and outside the areas of repatriation.

- Strategic Objective: Reduced human suffering and crisis impact

Strategic Goal: Economic Restructuring

USAID in consultation with U.S. Embassy/Baku is designing a modest program to support fledgling private enterprise in the agricultural sector. Aside from oil and associated services, agriculture is widely viewed as having excellent potential to become a mainstay of the Azerbaijan economy. At present, the sector consists of a small number of private farms and agriculture-related retail businesses. In addition to envisioned activities in the areas of technical assistance and training for agri-retailing and agri-wholesaling, USAID will seek to foster trade and investment by U.S. agri-business. USAID will also facilitate credit and debt equity loans for small and medium private enterprises in the agriculture sector and short-term resident volunteers and technical advisors.

- Strategic Objective: Accelerated Development and Growth of Private Enterprises

Cross Cutting and Special Initiatives

Resources for Cross-Cutting and Special Initiatives are devoted to a variety of training programs which contribute simultaneously to more than one strategic objective. USAID, in consultation with U.S. Embassy/Baku will continue to design 3-4 week technical training programs for citizens of Azerbaijan not affiliated with the government, as detailed in Section 907 of the FSA. The training tend to be U.S.-based or conducted in-country by U.S. advisors, although USAID is also promoting third country training to take advantage of relevant expertise in the ENI region and elsewhere. Other training programs, managed directly by USAID, contribute to strategic objectives across the entire portfolio. Areas of emphasis include: human rights advocacy, women's rights, NGO management, legal education curriculum design, journalism, community development with a focus on public housing management and primary health care, small business development, marketing, and post-harvest food storage.

AZERBAIJAN
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	6,000,000	--	--	--	6,000,000
Financial Reform	--	--	--	--	--
Energy	--	--	--	--	--
Citizens' Participation	--	2,000,000	--	--	2,000,000
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	17,000,000	--	17,000,000
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	6,500,000	6,500,000
TOTAL	6,000,000	2,000,000	17,000,000	6,500,000	31,500,000

*FREEDOM Support Act (FSA) funds

USAID Representative: Geraldine Donnelly

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Private Enterprise, 110-S001.3
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $6,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1997; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Accelerate Growth and Development of Private Enterprises

Background: Azerbaijan has tremendous potential in the area of small-medium enterprise development, especially in agribusiness, food processing and agri-services. Development of this sector is essential for a strong and diversified national economy yet it has lagged due to shortages of key inputs, lack of investment in agriculture-related infrastructure, and the exceedingly slow pace of land privatization. Still, in some regions individual private farmers and farmer associations are beginning to have an economic impact, creating opportunities for carefully targeted assistance activities. Private entrepreneurs have not received technical assistance or credit to make their enterprises profitable.

USAID Role and Achievements to Date: This would be a new activity area to complement USAID efforts to speed the transition from emergency humanitarian assistance to a bonafide economic development programs. With Section 907 prohibiting aid to the GOA, USAID support for the embryonic private agricultural sector, if successful, could stimulate broader policy reform at the national level.

Description: The envisioned activities are designed to strengthen and expand the nascent private sector with an emphasis on agriculture, by providing technical assistance and training, short-term resident volunteers and technical experts to advise small and medium-sized retail and wholesale businesses. Credit and debt equity loans will be provided through the small enterprise lending program and a private investment fund partially guaranteed by OPIC. The goal would be to help boost trade and investment by U.S. agri-business and related industries.

Host Country and Other Donors: The World Bank has identified agriculture as a priority sector and is supporting programs in farm restructuring/privatization, infrastructure rehabilitation (e.g irrigation systems) and credit. The European Union is concentrating on banking and marketing in the grains and bread industry while a few bilateral donors fund some agriculture-based income generation projects for IDPs and refugees.

Beneficiaries: Those intended to benefit from the program are primarily farmers and owners of small agriculture-related businesses which have experienced some degree of land privatization, and other private businesses located in regions To the extent some of the activities can be linked with ongoing income generation projects for IDPs, segments of that population will also benefit.

Principal Contractors, Grantees, or Agencies: To be determined, pending approval of the proposed country assistance strategy.

Major Results Indicators:*
Per-hectare yield of privatized farms
Number of private farmer cooperatives/associations
Total value of private-farm output
Dollar level of U.S./Western investment in Azerbaijan's private enterprises
Growth (i.e. number of firms; total output) of the food processing sector
Increased profitability of small and medium enterprises

*These are illustrative indicators. USAID will finalize the Country Strategy and develop measurable results indicators and targets by Spring 1997.

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Citizens' Participation, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Increased, better-informed citizen's participation in political and economic decision-making.

Background: Azerbaijan's early post-independence progress toward democratic governance was slowed by domestic political instability and the consolidation of power by the authoritarian regime headed by President Aliyev, a former communist party boss. The conflict in Nagorno-Karabakh further impeded the development of democratic and legal reforms at the national, regional and local levels. Limited press freedom, a nominally independent judiciary and legislature, and a still-weak civil society do not provide an effective counter-weight to executive power.

USAID Role and Achievements to Date: USAID-sponsored programs have been instrumental in promoting the continuing, albeit slow, evolution of democratic institutions and participatory practices. USAID provided $400,000 for election related activities for the November 1995 presidential and parliamentary elections. Other more recent activities support an emerging NGO sector and independent media. U.S.-based training has also been an important element in USAID's democracy promotion effort. Leaders of 12 independent parties, selected by the US Embassy/Baku, received training in political party strengthening, and 36 Azerbaijanis received USAID-sponsored training in electronic media, journalism, and commercial law. A joint program sponsored by USAID and USIA for journalists from the three Caucasus countries provided an opportunity to promote cooperation within the region.

Description: Within the parameters of Section 907, USAID assistance is channeled to NGOs such as the National Democratic Institute (NDI) and the International Foundation for Election Support (IFES), for training in electoral reform, political party strengthening and civic education. Independent and financially sustainable media are being promoted through USAID grants to Internews and NDI. USAID-sponsored activities by the Free Trade Union Institute (FTUI) involve labor and trade union development, conflict resolution, negotiation and collective bargaining issues.

Host Country and Other Donors: Ongoing efforts in the democracy sector are coordinated with the U.N., OSCE and the EU. Technical and financial resources are also provided by USIA for training and exchange programs in journalism and mass media.

Beneficiaries: Attempts are made to reach citizens representing a wide spectrum of skills and occupations who are actively engaged in developing and promoting democratic initiatives, such as political parties and NGOs, particularly human rights and women's advocacy groups.

Principal Contractors, Grantees, or Agencies: USAID sponsored activities are implemented by NGOs such as Internews, FTUI, IFES and NDI.

Major Results Indicators:*
Percent of citizens who believe they are being adequately represented by their legislators
Existence of laws protecting freedom of association, assembly and speech
Percent of news coverage expressing opposing (non-governmental) views
Rating of elections as free and fair by local and international monitors

*These are illustrative indicators. USAID will finalize the Country Strategy and develop measurable results indicators and targets by Spring 1997.

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Human Crises, 110-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $17,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Reduced human suffering and crisis impact.

Background: Azerbaijan must still contend with more than 700,000 refugees and IDPs spawned by the Nagorno-Karabakh conflict. Many of these refugees live in abysmal conditions by the sides of roads, in decrepit public buildings and in rail cars. The more fortunate live in camps where they receive some but still inadequate assistance. Most of these displaced people are spending their fourth winter in such conditions and continue to require food, shelter and sanitation, clothing and health care. Although considerable financial and administrative resources are being devoted to this situation, it is likely that Azerbaijan will continue to require significant levels of humanitarian assistance from foreign donors for the foreseeable future.

USAID Role and Achievements to Date: Through USAID-funded programs and contributions to UN agencies, USAID has provided humanitarian assistance to the people of Azerbaijan since 1992. USAID grants to PVOs have provided food, clothing, shelter and sanitation, medical assistance, and commodities, and most important of all, hope, to more than 650,000 refugees and IDPs. USAID donations to the UN's World Food Program have helped IDPs throughout the country receive food parcels, and contributions to UNICEF have resulted in the immunization of the entire population against diphtheria. Recently, USAID-supported income generation projects have begun to help a number of these economically vulnerable people to become more self-sufficient.

Description: USAID-funded programs for refugees and IDPs in Azerbaijan have focused on distribution of food, clothing and other commodities, construction/rehabilitation of shelters and sanitation facilities, and provision of basic medical care. In FY 1998 USAID will continue efforts in these areas as well as look to expand existing income generation projects and consider launching some community development activities designed to help reduce the population's dependence on humanitarian assistance. If there is a peace agreement in the Nagorno-Karabakh conflict and Section 907 of the FSA is repealed, USAID would most likely shift resources toward bolstering the institutional capacity of the Azerbaijan government to deal effectively with humanitarian crises and toward refugee/IDP repatriation/settlement and infrastructure rehabilitation.

Host Country and Other Donors: For the past two years, the European Union (EU) and USAID have successfully coordinated shipment and delivery of humanitarian assistance to the Caucasus. In addition the U.S. and the EU, Japan and other bilateral donors have provided millions of dollars worth of fuel, food, medical and other humanitarian supplies. UNHCR plays a major role in coordinating humanitarian assistance provided by the EU and other bilateral donors.

Beneficiaries: Priority targets for humanitarian assistance continue to be the approximately 700,000 refugees and IDPs residing throughout the country.

Principal Contractors, Grantees, or Agencies: The main U.S. PVOs operating in Azerbaijan are SAVE the Children, CARE, ADRA, World Vision, International Rescue Committee, Relief International, and the American Red Cross.

Major Results Indicators:*

Duplication among donors eliminated
Number of people accessing basic services (e.g., food, shelter and sanitation, clean water, health care)
% of *shelters restored and/or reconstructed*

*These are illustrative indicators. USAID will finalize the Country Strategy and develop measurable results indicators and targets by Spring 1997.

BELARUS

FY 1998 Assistance to the NIS Request: $4,900,000

Introduction.

Continued assistance for Belarus is in the national interest of the United States due to three strategic concerns. First, similar to all of the New Independent States of the former Soviet Union, the U.S. Government wishes to see Belarus join the community of democratic, market oriented nations at peace with itself and its neighbors. Second, Belarus is a strategically located buffer between an increasingly assertive Russia and former states of the Eastern bloc seeking closer ties with the West and possible NATO membership; however, Belarus is pursuing closer ties with Russia to the detriment of that buffer. Third, there is a continuing interest in seeing Belarus maintain its commitment to internationally supported arms agreements. Belarus, though, is among the slowest of economic and democratic reformers in the NIS and the U.S. assistance request is appropriately modest.

The Development Challenge.

Belarus has been called the "assembly line" of the former Soviet Union, and despite a drastic decline in output, per capita income in purchasing power parity terms remains among the highest in the NIS. However, production is patently inefficient and energy intensive while the country remains highly dependent on energy sources elsewhere in the NIS. Symptomatic of structural problems, market costs of energy imports are beginning to exceed export values. In the early years of independence the Government of Belarus (GOB) attempted to retain a Soviet style administered economy in contrast to its liberalizing neighbors. Events are increasingly showing that Belarus cannot thrive in isolation from these neighbors. Uncontrolled inflation, 93% in 1991 upon independence, averaged 30% per month in 1994 and 1995.

In 1993, the GOB undertook discussions with the International Monetary Fund (IMF) on a Structural Transformation Facility and with the World Bank for a Rehabilitation Loan. Inflation has more recently been constrained and the budget kept reasonably in balance. This brought the IMF back for consultations, but despite initial progress in discussions, GOB adherence to agreements has been generally unsatisfactory. In the name of stability, the GOB recently has experimented with a dual exchange rate and has attempted to support an overvalued official exchange rate resulting in a critical loss of reserves. The IMF canceled the first review of a Standby Agreement over lack of performance on exchange rate policy, external payments and structural reform, and in February 1996 the IMF indefinitely postponed granting a loan. These economic difficulties will postpone adjustment and conceivably spill over into the social field.

Privatization also lags. USAID has funded successful small-scale privatization through the International Finance Corporation (IFC), but broader efforts have not been encouraged by the GOB, re-enforcing the lack of engagement of donors. Through the IFC, which completed its 100th auction in November 1996, about 14% of small-scale enterprises are now privately owned. Around 15% of GNP is estimated to be generated entirely in the private sector, among the lowest ratio in the NIS. While President Lukashenko signed into law legislation to complete small-scale privatization by the end of 1997 and to implement changes to facilitate the auction process, state-owned enterprises remain largely untouched by privatization and many are insolvent. Regulatory hindrances such as ceilings administered on profit margins for wholesale and retail trade, along with structural impediments, limit economic development. In the fall of 1996 price controls were reintroduced on basic goods and services.

Progress in democratization as indicated by independent judiciaries and media also mirrors the Soviet system and lags its Eastern European and NIS neighbors. May 1995 parliamentary elections were judged less than free and fair and low voter turnout invalidated results in most districts. Observers

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noted lack of press freedoms, campaign restrictions and a flawed election law. A new legislature did not convene, leaving Presidential power largely unchecked.

A relatively high voter turnout in the December 1995 elections in reaction to the President's efforts to discourage voting resulted in a functioning parliament. However, the legislature quickly divided into five caucuses, the largest of which was the pro-presidential "Concord" caucus. The President moved to assert further power by proposing changes to the Constitution to be adopted by a referendum in November 1996. The Constitutional Court ruled the changes to be in actuality a new Constitution which may not legally be adopted by a referendum. The USAID-funded American Bar Association Central and East European Law Initiative had conducted an assessment of the President's proposed revision of the Constitution at the request of the Constitutional Court. The President disregarded the ruling and proceeded with the referendum, worsening the already weak separation of powers. The referendum passed with 70.5% of the vote, giving the President broad powers, extending his term to 2001, and enabling the President to assemble a new Parliament.

Public dissent had peaked in the spring of 1996 in response to the April 2 "association" treaty with Russia. Public protests in Minsk were met by riot police and on April 26, following violent clashes with the authorities, more than two hundred people were detained. Opposition groups continue to resist the President's authoritarian tendencies, as well as his policy of seeking closer integration with Russia, but despite a recent drop, independent polls indicate that the President still enjoys broad popular support, retaining strong backing from the elderly and pensioners.

Other Donors.

Lack of progress with the IMF has slowed implementation of World Bank and European Union sectoral projects necessary to further reform. A European Union voucher privatization program for larger organizations has been stalled. The Soros Foundation is providing $8 to $9 million, and the Government of Netherlands has provided small amounts of assistance through training.

FY 1998 Program.

The development challenge continues largely unchanged from the previous year. Priorities for U.S. technical assistance, outside the Nunn-Lugar program, remain economic restructuring, democratization, and humanitarian assistance. Limited U.S. assistance will remain targeted on reform-minded elements and take advantage of opportunities to encourage progress where possible, especially at the grass roots level where reform is most promising.

Cross-cutting and Special Initiatives.

Steady progress in USAID-funded privatization of small-scale enterprises, implemented through the International Finance Corporation in ten cities, has resulted in a gradual improvement in the enabling environment. Laws enacted in the fall of 1996 accelerated small-scale privatization through the breakup of large-scale trading structures and improvements which facilitate the small-scale auction process. Though privatization has made new private enterprise possible, lack of a durable commitment to reform by the GOB is a great impediment. The investment climate remains very poor, with the GOB retaining much control over the business sector such as imposing foreign exchange restrictions and two different official exchange rates, one for privatized companies and one for state-owned enterprises. Because of past successes in privatization, USAID will continue to explore opportunities to support small-scale enterprise development in Belarus.

Public support is critical to sustained, national reform. The public, however, lacks basic and objective information. The state media provided one-sided coverage of the President's illegal referendum in November 1996. Independent media cannot use government owned printing facilities, or government distribution kiosks, or even the government postal service. Direct and often indirect government

censorship persists. Although the current political environment in Belarus limits the range of potential media activities, programs will include training of journalists in management and reporting skills. Additionally, building upon USAID success in strengthening the Constitutional Court and legal organizations through funding of the American Bar Association Central and Eastern European Law Initiative, assistance to media associations focuses on improving media laws and promoting freedom of speech with support by these institutions.

The Eurasia Foundation is an independent, grant-giving organization which uses public and private resources to foster the process of economic and political reform. The initial grant to work in the New Independent States was received in 1993. By aiming projects at economic reform, government and nonprofit sector reform, and media and communications at the local level, Eurasia supports and complements USAID's strategic objectives of increased citizens' participation and development of private enterprise while focusing on the grass-roots level targeted by USAID programs.

In FY 1996, several grants were awarded to provide Internet access and improve computer skills in schools. The Eurasia Foundation also supports an NGO resource center through the local branch of the United Way in Minsk. Eurasia consults with USAID technical staff in order to program their activities to best complement USAID and other donor and organization efforts. Eurasia is actively working to leverage other resources from organizations and private businesses for their activities.

USAID has also supported a hospital partnership program which focusses on pediatrics, poison control, and hospital administration and management. Coordinated through the American International Health Alliance (AIHA), the partners on the U.S. side are the Children's Hospital of Pittsburgh in cooperation with the University of Pittsburgh Schools of Medicine and Nursing. The Belarusian partners are Minsk Children's Hospital No. 4, the Radiation Medicine Institute and the Minsk Medical Institute. Through the partnership, Children's Hospital No. 4 initiated plans for development of a complete and accurate registry of childhood cancer. Consequently, physicians have been able to meet the pressing need to improve detection and treatment of an increased number of pediatric thyroid cancers resulting from Chernobyl. The partnership program has also helped to establish a contemporary poison information resource database and an intensive training program for clinical toxicologists in Minsk at the Poison Control Center of Children's Hospital No. 4.

BELARUS
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Cross-cutting / Special Initiatives	--	--	--	4,900,000	4,900,000
TOTAL	--	--	--	4,900,000	4,900,000

*FREEDOM Support Act (FSA) Funds

USAID Mission Director: Gregory Huger

BOSNIA AND HERZEGOVINA

FY 1998 Assistance to Central Europe Request: $225,000,000
FY 1998 P.L. 480 Title II: $6,569,000

Introduction.

Maintaining peace in Bosnia-Herzegovina (Bosnia) is of direct importance to U.S. strategic and economic interests in Europe. The Balkan conflict not only produced an intense humanitarian crisis and massive bloodshed, but also disrupted economic development and trade in Southern Europe and created tensions within the broader international community. The U.S.-brokered Dayton Peace Accords and the associated multinational military and civilian peace implementation efforts have resulted in a year of peace in Bosnia, where not one Bosnian has died in military conflict. While there continue to be difficulties in getting the Bosnian parties to work together, there has been some progress toward establishing the civilian institutions needed to cement the peace over the longer term, as evidenced by the September 1996 election of a common presidency and parliament and the recent establishment of the Council of Ministers.

Continued U.S. commitment to support the fragile peace is critical. In November 1996, the United States pledged its participation in a multinational Stabilization Force (SFOR) as a follow-on to the larger Implementation Force (IFOR) which has guaranteed the peace in Bosnia over the past year. Equally important, and closely related, is the U.S. commitment to support international efforts to promote economic revitalization in Bosnia and to create economic and democratic incentives for Bosnians to maintain the peace over the long term. While other donors, particularly the European Union and the Organization of the Islamic Conference (OIC), are expected to assume the greatest financial burden for rebuilding Bosnia, the United States plays an important, supportive and often-times catalytic role in setting the course for sound reconstruction policies and for a market-driven economy. USAIDs lengthy and extensive in-country humanitarian presence enabled us to respond much more rapidly than other donors during the first year of reconstruction assistance. USAID was able to design new programs and make them operational on the ground in a matter of months. As other donors and the international financial institutions continue to gear up for the long-term reconstruction effort, U.S. leadership remains critical.

The U.S. assistance program is an integral part of the missions of both IFOR and SFOR. It is imperative that people quickly see the benefits of economic growth and reconstruction and participate actively in democracy building in order to cement the peace process. This will create the necessary atmosphere and framework for longer-term peace and the withdrawal of U.S. troops. The U.S. assistance program seeks a stable post-war Bosnia with a functioning free-market economy and democratic government.

The Development Challenge.

U.S. national interests required our participation in the military support for the peace process initiated with the Dayton Peace Accords. Those same interests also compel continued participation in reconstruction. The war decimated the Bosnian economy, destroying substantial amounts of productive capacity and infrastructure. As a result of the war, GDP per capita fell by 75% and economic production was reduced to 6% of pre-war levels. Major national industries were shut down and may not, and in some cases should not, reopen, while many private enterprises were equally devastated. The Bosnian territory remains riddled with land mines. Schools and hospitals are in terrible shape. The population of Bosnia dropped from a pre-war level of four million to less than three million. With 1.3 million displaced persons in Bosnia, 900,000 in surrounding territories, and 800,000 displaced abroad, resettlement presents a major challenge to the peacemakers, complicated further by the partial or total destruction of over 60% of the housing stock.

USAID provided substantial humanitarian assistance throughout the war, although European contributions for humanitarian assistance over this same period have been more than twice the $1 billion U.S. contribution (though predominantly for maintenance costs for refugees in Europe). USAID's Foreign Disaster Assistance program has provided emergency humanitarian programs in the former Yugoslavia, mostly in Bosnia, since FY 1992. NGOs implement the majority of these programs and traditionally work in the sectors of water and sanitation, health, shelter repair and winterization assistance. Typical commodities distributed through the NGOs include supplemental food parcels, blankets, plastic sheeting, basic shelter materials, emergency medical supplies, winter clothing, agricultural seeds, hygiene items and sanitation kits. From FY 1992-95, USAID has provided about $110 million in humanitarian assistance to the former Yugoslavia through the Foreign Disaster Assistance program. During FY 1996, nearly $50 million in International Disaster Assistance funds were provided. The program's mandate focuses on emergency relief and rehabilitation. USAID continuously monitors the humanitarian requirements on the ground, and its programs can phase into longer-term reconstruction projects when emergency humanitarian needs no longer exist. Through the P.L. 480 Title II program, USAID has provided over $340 million in emergency food assistance from 1991-1995, of which over $270 million was programmed through the World Food Programme. The bulk of all food (85%) goes to Bosnia, although USAID-provided food may also feed refugees in other parts of the former Yugoslavia. During FY 1996, an additional $100 million in assistance was provided, and another $25 million in FY 1997 is planned.

Recovery of the economy has begun, but is starting from a level of extreme devastation, particularly in the Bosniac-majority areas. During 1995, the economy grew 7%, but still reached only 20% of the 1990 GDP level in real terms. Growth in 1995 was fueled by a 28% rate in the Federation, while weighed down by negative growth of 23% in the Republika Srpska (RS) which suffered dramatically from UN-imposed economic sanctions. During the first half of 1996, industrial production in the Bosniac-majority area rose 70% relative to the same period in 1995, though this still brought the area to just 8% of its 1991 level of production. This was accompanied by a rise in employment of 50% in 1995 and an additional 10% in the first half of 1996. Despite this, only 35% of the civilian labor force was employed by mid-1996. The most important task facing Bosnia is the reactivation of productive capacity, creating jobs and income, so that people no longer depend on humanitarian assistance. The resumption of economic activity will also enable the expected 100,000 demobilized soldiers to be reintegrated into their communities with gainful employment, thereby acquiring a stake in a lasting economic recovery. Paralleling the reconstruction process, the country needs to build the legal and financial framework and create a conducive environment for a private sector market economy. Bosnia faces a severe balance of payments deficit since the country must import most of the goods and services required for reconstruction. The current account deficit in 1995 reached $500 million, equal to 20% of Bosnia's GDP. A substantial portion of USAID resources will be geared towards bridging this balance of payments gap to help ensure compliance with a structural adjustment program supported by International Financial Institutions.

The development of a strong, pluralistic democracy and enduring democratic institutions are key elements to building a peaceful, just and multi-ethnic society in post-war Bosnia. The peaceful conduct of elections in September 1996 was an important step toward the creation of national-level elected institutions in Bosnia. Municipal elections are currently planned for mid-1997. The challenges in moving toward a democratic Bosnia are daunting, however. Nationalist sentiments were validated through the election process, resulting in authoritarian political parties without substantial opposition in each of the ethnic-majority areas. To a large extent, these parties control the flow of information through the media. Nongovernmental organizations (NGOs), to the extent they exist at all, are weak and focus mainly on humanitarian and community activities -- few are involved in advocacy.

USAID is making efforts to foster ethnic reconciliation, where possible, in the implementation of assistance. While there is still a great degree of ethnic mistrust, there are some signs of reconciliation. The Arizona market, established in the Brcko-Posavina corridor in northeast Bosnia, near the border with Croatia, is one sign of hope. The market, the security of which is guaranteed by the international

military, has become a place where ethnic Bosniacs, Croats and Serbs come to barter and sell goods. Through the MIS program, USAID is funding a multi-ethnic effort to repair a war-damaged rail bridge connecting Bosnia with Croatia at Brcko. Repair of the Mak Dizdar school in Ilidza has allowed the multi-ethnic student body to return to their school for the beginning of the 1996 school year. Through the efforts of USAID-funded advisors, an informal working group on fiscal and financial issues has been established among officials from the State, Federation and RS Ministries of Finance as well as local government representatives from Federation cantons and the RS.

Finally, it is important to note that there are positive elements in Bosnia's pre-war economic situation which may smooth the road towards economic reconstruction and democratic reform. The country has significant productive capacity and potential for creating jobs. The relative openness of the former Yugoslav economy, the limited but growing presence of private enterprise, and established links to international markets even during the Communist period can serve as a foundation for post-war reconstruction. A sizable portion of Bosnia's pre-war exports were directed to western and other convertible currency markets and Bosnia traditionally had a balance of payments surplus. The country also has a resilient, entrepreneurial, and well-educated population capable of leading the way to economic recovery and a democratic peace. Further, the country has a tradition of municipal autonomy and decentralized administration that offer promise for local democratic governance.

Other Donors.

The international donor community and the international financial institutions will ultimately have to assume the largest share of the costs involved in rebuilding war-torn Bosnia. The United States' contribution, in the short-term, is meant to be a catalyst for larger-scale, long-term commitments by other donors. The World Bank estimates that Bosnia will require over $5.1 billion to finance high priority reconstruction projects. The U.S. concurs in this estimate. Of this amount, $3 billion is to be covered by individual donor states; the rest by International Financial Institutions and foreign direct investment. Thus, the U.S. commitment to contribute $600 million over the 1996-1998 period represents 20% of the World Bank's estimate of the bilateral share of reconstruction needs. While the United States has assumed a leadership role in market reform, employment generation and democracy-strengthening, other donors will be heavily involved in financing sectoral programs with particular emphasis on infrastructure.

FY 1998 Program.

A lasting measure of the ultimate success of the IFOR and SFOR missions will be economic recovery in Bosnia Herzegovina. U.S. leadership and active engagement is essential to the peace process and to the success of the reconstruction and development effort which support economic recovery. USAID's FY 1996 program helped lay the groundwork and create a conducive environment for an enduring and just peace in Bosnia. The FY 1997-1998 program builds directly upon these efforts to expand economic productivity and employment, and support democratic growth. Major initiatives in private and financial sector development, legal reform, municipal infrastructure, as well as democracy and Federation building will continue to serve as the primary avenues of USAID assistance.

Strategic Goal: Social Stabilization

The U.S. assistance program focuses on economic and democracy-building aspects of the recovery of Bosnia from the devastation of war. Revitalizing the Bosnian economy to increase employment and supporting the development of the private sector through the reconstruction process will be primary goals of the USAID program in 1998. The rapid injection of capital into the Bosnian economy to jumpstart production and generate immediate employment, will be supplemented by the development of the necessary financial systems and legal framework to maintain economic growth. USAID programs and technical assistance will support the reconstruction and privatization of viable state-owned enterprises and continue to promote the efficient use of fiscal resources at the national,

cantonal, and municipal level. The third year of the Reconstruction Finance project will see more decision-making responsibility and accountability transferred to Bosnian commercial banks as a way of strengthening a modern and efficient private financial sector.

Democracy assistance in FY 1996 was heavily focused on activities supporting the September 1996 elections. The increased emphasis on developing nongovernmental aspects of a civil society, begun in FY 1997, will be continued in FY 1998. The role of the independent media in ensuring free and open flow of information for Bosnia's citizens will continue to be critical as will support for moderate political parties within a functioning democratic political system. In the long term, a pluralistic civil society will be essential and thus the role of nongovernmental organizations, as advocates for citizen interests and avenues for citizen participation, must be strengthened. Finally, with the election of new governmental bodies and the creation of new government institutions, support will be needed to build the capacity of local government and strengthen judicial institutions ranging from Constitutional to municipal courts to Bar and other legal associations.

- Strategic Objective: Recovery from Crisis

BOSNIA
FY 1997 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
Recovery from Crisis	--	--	225,000,000	--	225,000,000
PL 480 Title II	--	--	6,569,000	--	6,569,000
TOTAL	--	--	231,569,000	--	231,569,000

*$225,000,000, Support for East European (SEED) Act funds

USAID Mission Director: Craig Buck

ACTIVITY DATA SHEET

PROGRAM: BOSNIA HERZEGOVINA
TITLE: Recovery from Crisis, 180-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $225,000,000 SEED;
$6,569,000 P.L. 480
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: To create a stable, democratic post-war Bosnia Herzegovina with strong institutions and a market economy.

USAID Role and Achievements to Date: USAID has played an important role in jumpstarting Bosnia's recovery by quickly putting in place reconstruction programs to repair housing and community infrastructure and to help re-restart businesses with quick disbursing loans. USAID's reconstruction programs generate employment and provide balance-of-payments support to the Government of Bosnia and Herzegovina. The programs were designed and initiated in a matter of months, and are already producing results on the ground. U.S. PVOs involved in USAID's Emergency Shelter Repair program have completed repairs on 2,548 homes, providing shelter for 12,500 people in 44 villages throughout Bosnia and creating over 2,000 jobs. Through the Bosnia Reconstruction Finance Facility (BRFF), quick disbursing loans are being provided to restart and expand commercially viable businesses and generate jobs, particularly for demobilized soldiers and women. As of December 1996, 43 loans had been made totalling $24 million and contributing to the creation of over 6,000 jobs. Recipients have included a producer of roofing materials, an independent publishing house, a clothing firm, a fruit producer and a furniture plant. The BRFF program works through 23 Bosnian "agent" banks, and is working with staff from these banks to improve their skills so that, over time, they will be able to take on increasing responsibility within the program. USAID's Municipal Infrastructure and Services (MIS) program finances the repair and reconstruction of basic economic infrastructure damaged during the war. Through this program, local contractors are repairing municipal electricity distribution systems crucial to economic recovery, resurfacing roads, repairing bridges including a key railway bridge, reconstructing flood dikes, repairing municipal water systems, and rebuilding local schools and health facilities. Where possible, focus is on cross-entity projects which foster cooperation between the Federation and Republika Srpska. Projects worth about $54 million are currently underway, including repair of the Kakanj Thermal Power Plant outside of Sarajevo, critical to ensuring electricity for Sarajevo and its environs this winter. Only 43 days after the start of this project, a ceremony marked the firing up of one of the boilers at Kakanj. Under MIS, USAID is implementing a community-level infrastructure rehabilitation program (CIRP) in close partnership with US-IFOR and local municipalities. CIRP projects are designed to have maximum employment impact for demobilized soldiers and over 100 projects are currently underway in both the Federation and Republika Srpska. Overall, USAID coordinates its assistance program using the natural linkages among ESP, MIS, BRFF, USAID democracy-related projects, the humanitarian assistance efforts of DART, as well as the work of other donors, to ensure that project implementation focuses on reestablishing communities as viable social and economic units, which fosters economic recovery and encourages the return of displaced persons.

USAID's economic technical assistance plays a critical role in reinforcing Bosnia's economic recovery and ensuring its sustainability in a private sector context. A USAID-funded macroeconomic advisor is working closely with the State and Federation Prime Minister on issues related to intergovernmental finance, tax administration, the establishment of a Currency Board, and balance of payments management. The U.S. Treasury, using SEED funds, has placed several long-term advisors in Bosnia to improve the budgetary expenditure process, rationalize the tax administration system including drafting the Tax Administration Law enacted in October 1996, assist the GOBH in normalizing international financial relations and assemble data for negotiations with official bilateral and commercial creditors, develop a legal and regulatory framework for bank restructuring and privatization, and

assistance in establishing a domestic debt market. USAID assisted in drafting a Privatization Agency Law, which passed the Parliament in October 1996, and assisted the GOBH's multi-ethnic privatization expert team. USAID also advised the GOBH on drafting key privatization legislation and conducted training on privatization for Federation and canton governments, state-owned enterprises, business associations, media and universities. Nearly 400 bankers (67% women) have been trained through twelve USAID seminars and on-the-job training. USAID advisors helped establish the Federation Banking Agency (FBA), including preparation of an organizational structure, strategic plan, a statute and rule book for the FBA Executive Board's operations and budgeting, and supervision inspection and licensing principles and procedures. USAID advisors have also completed an Enhanced Supervisory Review of two socially-owned banks. In five months, the U.S.-funded Bosnian Business Assistance Center (BBAC) has helped over 150 Bosnian companies (with combined potential employment of over 10,000 people) to re-start war-damaged production facilities, develop sound business strategies, improve financial management and implement Western accounting practices, create viable marketing plans, upgrade factory management, install management information software, prepare privatization plans and access in-country donor credit lines. Lastly, customs advisors have completed a training plan to spur the modernization and development of the Federation Customs Administration.

In the democracy area, American advisors played an important role in providing election-related assistance for the OSCE-administered national elections in September 1996. USAID supported voter education programs in Bosnia and among Bosnian refugees in Croatia. The American Bar Association (ABA), using SEED funds, has helped the Federation Constitutional Court and Supreme Court develop rules and procedures and assisted in the creation of a Federation-wide judges association dedicated to promoting independence of the judiciary. The ABA is also helping establish sister law school ties between the Sarajevo Law School and U.S. schools. Through USAID's fiscal federalism program, advisors are working with Zenica and Tuzla cantons and 5-6 municipalities in each canton to develop sound and transparent budgeting practices, including the separation of operational and capital budgets. Standard budget classification codes developed in the Ministry of Finance with the assistance of USG advisors are now being used by cantons and municipalities. With such assistance, the municipality of Maglaj became the first municipality to hold a public budget hearing in November 1996.

Nearly 100 Bosnian professionals have benefitted from U.S.-based training through USAID's participant training program, including a recent group of 50 Bosnian bankers, political party representatives, lawyers and tax officials. Trainees from the FY 1995 group have been putting their skills to work: nine were promoted shortly after their return from training, several have established or maintained business contacts in the United States, one used his experience to help draft major privatization legislation, one reconstructed his local government based on exposure to U.S. models, and one was a candidate for the Federation presidency in the September 1996 elections. Returned participants have trained an additional 300 Bosnian professionals.

Description: USAID's reconstruction assistance for Bosnia has three major components: economic revitalization programs to help jumpstart the economy, generate employment and provide balance of payments support; economic technical assistance programs to reinforce the economic recovery and ensure that command-economy structures are reformed rather than rebuilt; and democracy promotion programs to encourage development of strong, enduring democratic institutions and processes.

Key economic revitalization activities include the Municipal Infrastructure and Services (MIS) program and the Bosnia Reconstruction Finance Facility (BRFF). The MIS program supports the return of former residents to war-damaged towns and villages by reconstructing infrastructure systems and selected community facilities. The program focuses on whole communities by restoring electric power, water, sanitation, roads, schools and other public services and facilities. Local builders carry out construction and local labor, materials and equipment are used to the maximum extent possible in order to generate greater local economy ability. The program is financed through balance-of-payments grants to the Federation Government which are placed in a separate account and disbursed, upon written concurrence of the USG, to the MIS contractor. The BRFF program provides balance-of-payments

support and liquidity to the economy through the provision of loans to commercially viable enterprises. Dollar disbursements under the program are used to purchase Deutsche Marks (DM), an official currency in Bosnia and the preferred medium of exchange. The DM are deposited into a separate account, jointly controlled by USAID and the GoBH, for on-lending to viable private sector enterprises. The program is implemented by an On-lending Management Unit (OMU), under contract to USAID and staffed by a team of U.S. bankers, accountants, and Bosnian staff, housed at the National Bank of Bosnia Herzegovina. The OMU has responsibility for assessing the enterprise applications for credit and recommending credit decisions to USAID. Twenty-three Bosnian commercial banks are acting as agents, bringing the loan applications of their clients to the OMU. These two programs form the cornerstone of USAID's reconstruction assistance in Bosnia.

Economic technical assistance activities include a variety of advisory services to the Government and the financial and enterprise sectors. Macroeconomic advisory services promote the successful operation of USAID balance-of-payments assistance programs and assist the GOBH in managing and tracking large balance-of-payments inflows from all donors to ensure consistency with Bosnia's macroeconomic program. USAID's commercial bank training activity is closely coordinated with the BRFF program. Staff from the BRFF agent banks are trained in a variety of skill areas, with a focus on risk assessment, loan structuring and operational procedures allowing Bosnian bankers and banks to take on a larger role in the BRFF program. Through a bank supervision activity, USAID helps strengthen the on- and off-site supervision capabilities of the newly created Federation Banking Agency, and assist the FBA in developing and implementing new policies and procedures for licensing banks and dealing with problem banks. The enterprise recovery and revitalization program assists businesses with the development of loan applications and business plans and provides consulting services to Bosnian firms to help them re-start or strengthen operations and develop their comparative advantage. Customs administration assistance, provided in close partnership with the European Union, offers training for Bosnia Herzegovina's customs officials within the Federation Customs Administration and strengthens the legal environment for implementation of the February 1995 Customs Law. USAID's privatization program trains Federation and canton officials in privatization strategies and enterprise preparation, aims to establish the legal foundation allowing privatization to occur, increases public awareness and participation in the privatization process, and inventories assets to determine the universe of enterprises which might be privatized.

Democracy assistance is focused in the following areas: election and political party development, independent media, civic society and nongovernmental organizations development, governance, and rule of law. Election-related programs include: targeted support for the Organization for Security and Cooperation in Europe (OSCE) which will administer municipal elections in Bosnia in 1997; training and material support to strengthen local-level political party organizations; and voter education programs. Our media programs provide support for independent television and radio stations in improving station management, business practices, and programming, as well as training aimed at improving the TVIN network. USAID's Office of Transition Initiatives assists in the development of independent radio and print media. NGO development programs include seed money and institution-building support for advocacy-oriented indigenous NGOs which represent citizen views to the government as well as civic initiatives and projects which involve communities working together. In the governance area, SEED-funded projects support strengthening of intergovernmental relationships between Bosnia's Federation institutions, and cantonal and municipal budgeting and financial management systems. Activities focus on helping make government procedures more transparent and parliament more accessible to citizens. Rule of law programs include support to newly-formed Federation and national-level courts, particularly canton courts, as well as support for lawyers' and judges associations

A participant training program which provides U.S.-based training in a wide variety of democracy and economic restructuring areas is a key activity reinforcing the entire program.

Host Country and Other Donors: USAID's BRFF program was designed to be complementary to the World Bank's $30 million emergency Revolving Line of Credit. The MIS program was designed to target small-scale basic economic infrastructure, leaving larger projects to the World Bank and the European Union. MIS projects are selected based on priority needs identified under the World Bank's reconstruction program and by the GOBH. USAID's economic advisors actively coordinate with the IMF and World Bank, often serving as a critical source of continuity and information for the numerous IMF and World Bank teams coming into and out of Bosnia. USAID has coordinated closely with the World Bank in establishing conditionality in the banking sector. USAID chairs the Industry Task Force, one of 11 donor coordination task forces organized by the World Bank and European Union. In this role, USAID contractors have developed a donor activity inventory to avoid the potential for duplication and facilitate coordination.

Donor coordination is also important in the democracy area. USAID is working with the Soros Foundation, the BBC and the Office of the United Nations High Representative in efforts to support the TVIN network (also called the Open Broadcast Network). USAID also coordinates with the European Union on support for independent media. In terms of political party development, USAID works with the German political party foundations along with the Organization for Security and Cooperation in Europe (OSCE). In the governance area, USAID is coordinating closely with the World Bank, which is planning a new local government assistance program, as well as a budgeting/public expenditures project at the municipality and canton levels. The Soros Law Center is a locus of activity for rule of law programs in Bosnia, and the ABA works in close coordination with the Center in implementing USAID-funded rule of law activities.

Beneficiaries: Because of the broad nature of this objective, the beneficiaries include all residents of Bosnia and Herzegovina. More specifically, the BRFF program benefits enterprise recipients of BRFF loans, the commercial banking sector, workers for whom jobs are created (often women and demobilized soldiers), and the State of Bosnia and Herzegovina which receives the balance-of-payments benefit. The MIS program is expected to benefit about 100,000 displaced families through repaired basic utility and other community services. Economic technical assistance programs directly benefit the Ministry of Finance, the Central Bank, the Federation Banking Agency, customs service, business associations, local business consulting firms, private entrepreneurs and privatizing firms. Democracy assistance directly benefits political parties, voters, civic groups, Parliament, independent television, radio and newspapers, and the audiences of independent media outlets.

Principal Contractors, Grantees, or Agencies: USAID implements activities under this Strategic Objective through private American and local companies such as the Ralph M. Parsons Company and local construction firms; through U.S. and local consulting firms such as Development Alternatives, Inc., the Recovery Group, Price Waterhouse and KPMG/Barents Group; through U.S.-based and local NGOs and PVOs, such as the International City/County Management Association, the International Foundation for Electoral Systems and the International Rescue Committee; and through other USG agencies such as The Department of Treasury and the U.S. Information Agency.

Major Results Indicators: Due to the special nature of this program, baselines and annual targets have not been established. Illustrative indicators include the following.

Real GDP growth.
Unemployment rate.
Number of jobs created through USAID programs.
Number of BRFF "agent" banks taking on own lending.
Number of residents provided with repaired infrastructure and restored services.
Foreign exchange reserves measured in months of imports.
Financial system providing financing to private entrepreneurs.
Private sector investment in industry.
Number of local NGOs promoting citizen concerns.

Public confidence in the courts.
Self-generated revenue of cantons and municipalities.
Opposition viewpoints expressed in print and broadcast media.
Political party platforms are communicated to citizens and reflect citizen input.

BULGARIA

FY 1998 Assistance to Central Europe Request $25,000.000

Introduction.

The successful transition of Bulgaria from a communist to a democratic society is very important to U.S. political, economic, and security interests. Success in establishing democracy and a free market economy in Bulgaria will help to ensure a stable Balkan region and build a peaceful, democratic Europe that assures security at a lower cost to U.S. citizens. Such success can demonstrate to other reformers further East that democracy and economic prosperity can be built from the rubble of failed communism. A peaceful, stable and prosperous Bulgaria can serve as a model for its neighbors, some of whom remain dogged by ethnic tension and social unrest.

During the early years of post-Communist Bulgaria, the Government of Bulgaria (GOB) undertook a number of political and democratic reforms, updating over 200 laws in the first few years after Bulgaria's 1989 political changes. Along with other donors, the United States Government (USG) broadly assisted the GOB to establish the underpinnings of a free market economy, helping with initial measures for liberalized pricing structures, expanded trade measures, right to private property, land restitution and liberal laws on privatization, and a legal framework for competition and foreign investment.

The Development Challenge.

In September 1994, Bulgaria reached agreement with commercial bank creditors on debt and debt service reduction to reduce gross external debt by some seventeen percent; the up front cost of the buy-back option of the debt agreement was funded by foreign currency reserves as well as loans from the International Monetary Fund (IMF) and World Bank. A third rescheduling of official obligations with the Paris Club also was completed in 1994, easing the country's external liquidity problem. However, in the following two years Bulgaria's economy has deteriorated substantially, as loss-making state-owned enterprises consumed an ever-greater proportion of the budget. Internal debt has risen dramatically. Fed by credit from state-owned banks, the downward trend has accelerated since the Spring of 1996; by late 1996 the country's currency had depreciated more than 80% against the dollar from 65 at the beginning of the year, to more than 400 at the close. Despite intense efforts on the part of the multilateral financial institutions to help reverse the economic slide, Bulgaria's leaders have neither implemented agreements with the IMF and World Bank nor reached a consensus on macroeconomic policies. As foreign exchange drains from the system, it is possible that Bulgaria may become the first country to default on its Brady Bonds. International financial institutions continue to stand ready to provide substantial assistance, but supportive national policies are neither articulated nor implemented. Rapid, comprehensive privatization, which could significantly reduce economic imbalances, is not being pursued aggressively.

Unevenness in reform implementation has always characterized Bulgaria's post-Communist transition. Since 1992, change has been all too slow in critical economic areas, e.g., public services pricing (education and health), industrial and agricultural privatization, and banking sector supervision and restructuring. Hesitancy led to a re-evaluation of the USG program thrust. Even in the current crisis atmosphere, the central government's commitment to increase the pace of reforms remains unclear. Nevertheless, the Government of the Bulgarian Socialist Party has demonstrated some resolve to continue support for cash and mass privatization. To help optimize the impact of our assistance, the USG has targeted assistance to local level partners such as reform-minded municipalities and non-governmental groups, and to support of reforms at the central level which assist private sector initiatives where impact is probable. On an interim basis, USAID has temporarily increased allocations to social sector programs, both to assist Bulgaria cope with the pervasive effects of many mass layoffs

from the work force and (possibly) to help key organizations cope with severe, localized shortages of essential medicines and medical equipment.

USAID expects that, over time, Bulgaria will put in place the institutional and other resources to continue its own transition. Although present plans are to phase out Support for East European Democracy (SEED) Act assistance during the next several years, USAID will monitor this target given current macroeconomic performance.

Other Donors.

Collaborating with other donors has enabled USAID/Bulgaria to leverage more funds for USAID-related activities. The IMF, World Bank, European Bank for Reconstruction and Development Bank, Organization for Economic Cooperation and Development, and the European Union work in the areas of macroeconomic policy, bank restructuring, budget development and tax policy. Programs supporting Bulgaria's Mass Privatization Program (MPP) by the Assistance Program of the European Union (EU PHARE) and the French government complement USAID's efforts in helping the GOB implement the MPP. The Dutch government has indicated a strong interest in developing a program to further strengthen the capacity of local governments. EU PHARE and the Swiss government have been instrumental in providing assistance effectively supplementing USAID's environmental and humanitarian activities in Bulgaria.

FY 1998 Program.

It is expected that the humanitarian crisis will have passed, so that the Bulgaria program will continue to focus upon private sector growth in a free enterprise system and grassroots democracy, the fundamental forces driving the transition process. These areas will continue to be supported by limited work to restructure the social safety net system to one appropriate to a free market. Under private sector growth, direct provision of debt and equity finance and technical assistance to small and medium enterprises will continue to lead the program. Supporting initiatives in the legal and regulatory environment, technical skills transfer and financial sector restructuring will supplement the main effort. In grass roots democracy-building, the program focus will continue to be on local governance and building popular participation in public policy decision-making.

Strategic Goal: Economic Restructuring

The Bulgarian economy is falling farther and farther behind its Eastern European competitors in the competition for foreign private investment and international markets. Although the private sector now contributes more than 40% to the GDP, this is largely due to the collapse of the public sector. While per capita incomes increased slightly in 1995, a sharp decline occurred in 1996, led by a collapse in public sector financial institutions. Key laws related to finance and banking, the environment, non-governmental organizations (NGOs) and social programs have not been passed by the GOB. Private foreign investment is severely hampered by bureaucratic lethargy or opposition and endemic corruption. Massive bad debt, incompetence and venality in the banking sector and slow progress in privatizing costly and inefficient state-owned enterprises certainly constrain new investment. Bulgaria's industrial capital stock is all but worn out. However, with strong USAID and other donor support, leaders are emerging on the national level, and some local government leaders have emerged as catalysts both for local privatization and more general private sector reform. Broad public support and a few well-placed, progressive leaders have underpinned good progress on mass (national) and municipal privatization programs, both programs where USAID played a critical role. The Bulgarian Securities and Stock Exchange Commission, appointed in early 1996, is in the process of developing the legal and regulatory framework for emerging domestic capital markets. With legal support from American Bar Association's Central and East European Law Initiative (ABA/CEELI), the Central Depository for Securities was established in September 1996 as the centerpiece of the fledgling capital market, which will be boosted in 1997 by shares of 1,050 enterprises, varying proportions of which are to be sold to the

public under the MPP. These initiatives have been seminal in sustaining national-level progress towards creating free markets. After FY 1997, USAID will tightly focus economic restructuring efforts upon increasing growth of private firms in a competitive environment, which involves specific technical assistance as well as policy-related work in the area of corporate governance.

- Strategic Objective: Increased growth of private firms in a competitive environment

Strategic Goal: Democratic Transition

USAID's programs are designed to help build Bulgaria's democracy through improved popular participation in decision-making and strengthened local government. The successful conduct of several elections (including a regional-first presidential primary where the incumbent was not the victor), and the growth of the private sector are good first steps for acceptance of democratic principles. The Democracy Network Program (DNP) develops grass roots organizations' abilities to facilitate popular participation in public policy-making and improve the enabling legal and regulatory environment for them. Through the Local Government Initiative (LGI), USAID seeks to build local government's ability to carry forward the process of decentralization by: (a) increasing the membership and organizational capacity of municipal associations, especially strengthening their abilities to lobby the central government; (b) increasing local governments' responsiveness to citizenry; (c) building successful models for civic participation; and (d) improving the quality of municipal services. Smaller efforts seek to assist the growth of a professional media, as well as key capacities within the judiciary. USAID/Bulgaria currently serves as one of the pilot missions for agency grass roots programming. The focus will continue to be on non-governmental groups and local government, to enhance participatory democracy.

- Strategic Objective: Increased, better informed citizens' participation in public policy decision-making

- Strategic Objective: More effective and accountable local government

Strategic Goal: Social Stabilization

The dismantling of the centrally planned economy, the very high rate of inflation and financial collapse have undermined severely the living standards of the Bulgarian population since 1989. The government appears committed to changing public insurance practices and introducing new services, with recent legislative steps in social insurance and pending, major health and environmental laws before Parliament. The USG program has targeted high impact activities to demonstrate new ways of delivering services or perform important social functions. The USG has assisted the GOB to put in place nationwide market-oriented procedures and organizational modes to guide local and regional labor offices, assist national and local governments and social partners cope with massive layoffs from the work force, and also help organized labor to improve work place industrial relations. USAID/Bulgaria is also participating in a multilateral effort to develop and implement a viable strategy for social insurance reform. USAID's support will focus on strengthening actuarial forecasting to ensure reliable projections of individual revenues and expenditures.

- Strategic Objective: Improved fiscal sustainability of social benefits and services

Cross Cutting and Special Initiatives.

On an interim basis, USAID is engaged in contingency planning for a possible, very limited program targeted through NGOs, to assist Bulgaria cope with severe, localized shortages of essential medicines and medical equipment. The shortages, which may be life-threatening, are one outcome of the very sharp decline in local purchasing power.

On a continuing basis, the American University in Bulgaria is providing a U.S.-style liberal arts education for students throughout the region; through parallel financing of the Global Environmental Fund, USAID and the GOB work to preserve the nation's rich biodiversity for all the world's citizens; and USAID's training activity provides cross-cutting training in the U.S. and the region.

Bulgaria
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	*Total*
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	8,270,000	--	--	--	8,270,000
Financial Reform	--	--	--	--	--
Energy	--	--	--	--	--
Citizens' Participation	--	2,000,000	--	--	2,000,000
Legal Systems	--	--	--	--	--
Local Government	--	4,200,000	--	--	4,200,000
Crises	--	--	--	--	--
Social Benefits	--	--	500,000	--	500,000
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	10,030,000	10,030,000
TOTAL	8,270,000	6,200,000	500,000	10,030,000	25,000,000

*Support for East European Democracy (SEED) Act funds

USAID Representative: John Tennant

ACTIVITY DATA SHEET

PROGRAM: BULGARIA
TITLE: Private Enterprise, 180-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $8,270,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased growth of private firms in a competitive environment.

Background: The transition to a market-oriented economy in Bulgaria has been slow. Notably, all initial steps for a comprehensive, national voucher or "mass" privatization program have been implemented, and market privatization has been pushed strongly by the GOB during 1996. Many larger enterprises attempt to operate as oligopolies; privatization's effects upon this behavior will be mixed. Increased competition and competitiveness are viewed by USAID as keys to rational private sector growth. Firm level assistance must strengthen private firms' competitiveness, while policy, legal and regulatory environment assistance must work to strengthen competition in the system (and thus also competitiveness among firms), helping to create a more level and transparent playing field. The lack of an environmentally sound framework for private sector growth further contributes to investor uncertainty. Finally, access to capital is a key constraint affecting all enterprises, but particularly small and medium enterprises (SMEs). Financial resources in the form of debt and equity funds must be made available to the emerging private sector, even in the absence of an efficient and well functioning domestic banking sector, if private enterprises are to continue to grow and expand on a sound basis.

USAID Role and Achievements to Date: USAID's strongest advantage, vis-a-vis other donors, is its well-established preference for and track record in working directly with the private sector. While most donors have suffered from the frequent changes of governments and the heavy bureaucratic burden of having to work through government ministries and institutions, USAID for several years has delivered well-targeted and cost efficient assistance to SMEs in urban as well as rural areas. The marketing of the firm level assistance has been established as a strategic team effort of all USAID-financed business assistance providers; it is targeted at assisting firms or entrepreneurs selected on the basis of their potential to grow and compete in a market environment. A diagnostic process also provides a link to Bulgarian consulting firms in order to more effectively market, target and deliver services. In order to deliver services expeditiously and efficiently to SMEs, USAID/Bulgaria has developed the Firm Level Assistance Group (FLAG) which is comprised of seven leading organizations delivering operations-level (production, marketing, audit/accounting, corporate finance) assistance, as well as training. The results have been laudable. For example, as a result of a recent FLAG intervention, the food processing firm "Agrita" adopted new technologies and imported equipment from the U.S. which fueled an eight-fold increase in its production and processing of sweet corn in 1996. Another example is the KEN-4 meat processing company which received technical assistance through Volunteers in Overseas Cooperative Assistance (VOCA) and sent managers to the U.S. for training under Agricultural Cooperatives Development International (ACDI). Subsequent to training, Ken-4 improved the quality of its product, diversified and sharply increased sales. As a result, it attracted funding from CARESBAC-Bulgaria which as an equity partner has helped support investment in the construction of a new modern meat processing plant which will begin operation in early 1997.

In the absence of an efficient and well-functioning financial sector, USAID addresses the private sector's debt and equity capital needs through the Bulgarian American Enterprise Fund (BAEF) and CARESBAC. For the longer term, USAID/Bulgaria is assessing the prospects to support the development of construction, trade and mortgage finance facilities, as well as the creation of credit cooperatives targeting the needs of predominantly rural borrowers, including farmers and their associations which have received technical support under the FLAG program.

As a result of the technical assistance delivered to SMEs, and due to the wave of newly privatized companies, USAID/Sofia initiated work in enterprise restructuring focused principally on the area of corporate governance. As the number of private sector firms continues to swell in the wake of the mass and cash privatization schemes, companies will be increasingly accountable to shareholders. As such, companies must develop and refine their management, administration, and operations, which includes their corporate governance practices and procedures. Assisting corporations in this regard is a necessary successor to the work in capital markets development.

At the policy, legal and regulatory level, assistance is being provided to business associations both as a means of improving membership services and as a means of developing them into sustainable reform advocates which also promote, along with policy think tanks, reviews of policies, laws and regulations. Under strategic objective (SO) 1.3, USAID recently launched a new initiative called the Implementing Policy Change (IPC) Program. Under IPC, a long-term resident advisor will work with government, the private sector, private voluntary organizations (PVOs) and NGOs to formulate a policy agenda for SMEs. Three conferences have already been sponsored, with senior Bulgarian officials including the president-elect in attendance, and resulted in a draft SME paper which will influence the parliamentary discussions on the final text of the Law on SMEs.

The drafting and implementation of key laws which foster competition and private sector growth are also critical to the reform process. In conjunction with the IPC agenda, U.S. consultants will help to draft needed legislation and policies, supplementing well-established programs of ABA/CEELI and the Institute for Reform in the Informal Sector (IRIS). In the past year, the IRIS Center helped draft a much needed Collateral Law which was adopted in the fall of 1996. IRIS is now working to establish a collateral registry which is critical for borrowers and lenders. USAID has helped train the implementors of the Bankruptcy Law, such as judges and trustees, and the law is being implemented. The U.S. Treasury Department has been promoting the equitable and transparent implementation and administration of taxes. Currently, Treasury is working with the Ministry of Finance to completely reorganize local tax departments to cut costs and increase collections.

In order to facilitate organizational communication, an electronic network was established and now a web page is being developed to further enhance cooperation among the various elements of USAID's private-sector program. An expanded network for countries in the region is also being developed which will focus initially on USAID-sponsored associations and think tanks, but will also have links into the existing local area network. Ultimately, these computer links will help local producers to procure factor inputs more easily, and to tap foreign markets to which they currently do not have access.

Description: The recently completed SME strategy for Bulgaria, which is facilitating integration of private sector programs, forms the basis for much of SO 1.3 which focuses on three key intermediate results: (1) increased debt and equity funding for private firms; (2) strengthening of private firms' business operations; and (3) key laws, policies and regulations which foster competition and private-sector growth. The marketing of firm-level assistance was formally established as a team effort comprising all assistance providers. Under this SO, USAID is assisting the most promising high growth firms in the private sector, which currently employs approximately 30% of the work force and accounts for more than 40% of the GDP

Host Country and Other Donors: Bulgarian host country contributions to USAID-funded private sector development programs are limited to municipal support to the Peace Corps Business Development Centers and cooperation with the planned municipal economic development agencies. Most other major donors in Bulgaria also have programs to support enterprise growth, but must work through government agencies. The World Bank currently has two credit lines: (1) Private Investment and Export Finance, which covers private projects in all fields but agriculture; and, (2) the Agricultural Development project, which is intended for private sector agricultural projects. World Bank funds for these programs are intermediated primarily by eligible private banks. The European Union, which operates through governmental institutions only, has two programs - one for financial support (two

credit lines have already been launched) and one for structural support and consultancy, under which business centers are established to support the SMEs, and independent consultants at the Ministry of Industry propose policy and legislative changes. German assistance is concentrated on staff and management training, direct consulting services to selected enterprises, and assistance to the chambers of commerce. Germany also has a project for the establishment of a development bank. The United Nations Development Program (UNDP) is providing support to the modernization of the intellectual property system in the country.

Beneficiaries: The direct and primary beneficiary is the private sector. All citizens are, in effect, secondary beneficiaries, as a result of the overall improvements in the economy, the increased availability of jobs, and the increased quality, quantity and availability of consumer goods.

Principal Contractors, Grantees, or Agencies: USAID implements activities through numerous intermediaries; GOB ministries and courts; U.S. and local associations; U.S. PVOs; U.S. and local universities; U.S. and local consultants; U.S. and local NGOs; other USG departments; local business centers and economic development offices.

Major Results Indicators:

	Baseline	Target
Percentage of GDP provided by private firms	7.2% (1989)	55% (2000)
Number of laws, policies or regulations implemented	1 (1990)	91 (2000)

ACTIVITY DATA SHEET

PROGRAM: BULGARIA
TITLE: Citizens' Participation, 180-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,000,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased, better informed citizens' participation in public policy decision-making. This will be accomplished by building the capacity of NGOs in playing a key role in facilitating popular participation in public policy decision-making. The objective is to develop grass roots organizations and the enabling legal regulatory environment for them, as well as promote information sharing and improve the credibility of information available through the media.

Background: Bulgaria's initial steps in the transition to democracy and a free market economy were impressive. By 1990 - 1991, Bulgaria's first democratically elected parliament in 50 years adopted a democratic constitution guaranteeing rights to individuals and passed many economic reforms. However, a highly centralized political and economic structure remains as a holdover of the past, discouraging citizen involvement and creating a sense of powerlessness. Political party machinery, like the central government itself, is highly centralized. The media, with new freedoms and difficult challenges, is highly influenced by partisan politics and lacks professionalism and ethics. NGOs and professional associations are growing in strength and number, and they hold a key to empowering people to work together. However, there is no national law which legitimizes or regulates NGOs, which continue to operate under a loosely-interpreted clause of the basic Family Law. Furthermore, popular receptiveness to this "third sector" is cautious, as voluntarism was construed quite negatively under the Communist regime. Given the difficult operating environment for this emerging sector, the NGO community is still quite small and fragile for the most part, with a few well-heeled exceptions.

USAID Role and Achievements to Date: USAID programs to date have promoted free and fair elections, citizens involvement, and political accountability and transparency. USAID/Bulgaria serves as a pilot program for the agency's efforts to strongly emphasize grassroots development. Prominently, the DNP provides a broad range of assistance (technical assistance, training and grants) to indigenous NGOs to strengthen participatory democracy. To date, the DNP has issued 18 grants and delivered over 20 training sessions in various areas, e.g., Project Management, Proposal Writing, Grant Management, Governance and Media Relations. The Bulgarian Association for Fair Elections and Civil Rights (BAFECR), has become a model election-monitoring organization and is assisting similar organizations in Central Europe and the world. Its non-election period activities focus on increasing citizens' awareness of and interest in the democratic process and on empowering local leaders and transferring organizational skills. The International Republican Institute (IRI) program has supported the development of a multiparty political system. Together with BAFECR, IRI guided the Bulgarian opposition parties in the conceptualization and organization of a highly successful presidential primary vote. The ABA/CEELI program has helped develop the first independent NGO for training and support of the legal profession in Bulgaria.

Description: Public participation will be increased through: (1) strengthening capacity of NGOs to provide a voice for individuals working together, supported through grants, technical assistance and training; (2) strengthening linkages between local organizations and local government through supporting activities that demonstrate that individuals can make a difference for their community; (3) increasing the public's access to fair and reliable information through a more professional and responsible media; and (4) seeking means to support legislative reform (especially for NGOs) and providing training in implementation of supportive legislation.

Host Country and Other Donors: EU PHARE promotes strengthening the Bulgarian "third sector" through its democracy program, administrated by the Civil Society Development Foundation. The

European Union and USAID are committed to support grass roots organizations' activities in drafting new media law/regulations. The British Know How Fund, Charities Aid Fund, as well as the Open Society Fund are complementing their efforts in providing funds, technical assistance and training to indigenous organizations advocating democratic changes in Bulgaria.

Beneficiaries: Indigenous grass roots organizations and, more generally, the Bulgarian populace will benefit from these activities at the community level.

Principal Contractors, Grantees, or Agencies: USAID implements activities through U.S.-based NGOs, Bulgarian local government, and indigenous NGOs including The Institute for Sustainable Communities, the National Forum Foundation, and the International Center for Not-For-Profit Law.

Major Results Indicators:

	Baseline	Target
Increased rate of voter turn-out	55% (1995)	60% (2000)
Projects involving partnerships	5 (1994)	50 (2000)
USG-assisted community-level information systems	1 (1990)	60 (2000)
Increased public credibility	0 (1996)	25% (2000)

ACTIVITY DATA SHEET

PROGRAM: BULGARIA
TITLE: Local Government, 180-S002.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $4,200,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: More effective and accountable local government. This will be achieved by supporting the transition to transparent and accountable governance and increased decentralization and local autonomy through: building the capacity of local officials to better (more effectively and responsibly) manage municipal resources and be responsive to citizen needs and demands; facilitating local economic development as a means of empowering citizens as well as supporting the emergence of market forces; supporting associations of municipalities so that they better serve their members and begin to lobby effectively at the national level.

Background: More than 50 years of monolithic, undemocratic rule has left Bulgaria with a highly centralized framework of governance. Great progress towards free elections has not been paralleled by increased governmental ability to respond to the needs of the people. There is only limited decentralization of central government authority at the regional level. U.S. assistance to date has revealed that building the capacity and citizen involvement in local governments is crucial to support the efforts of reform-minded, innovative local officials who are striving to make government more responsive to the people.

USAID Role and Achievements to Date: In 1995, the LGI was launched in 10 change-oriented municipalities, to accelerate and concentrate USAID assistance for strengthening both the capacity and accountability of local governance. The LGI also facilitated formation of several regional associations and a national association of reform mayors, helping them to overcome strong barriers to working together and sharing information, and to take the first steps at creating a unified voice for local government. The association has already demonstrated its importance by providing inputs to the drafting of amendments to the local government law.

USAID's efforts have led to results such as adoption of municipal plans with clear development priorities; development and strengthening of municipal associations and the Foundation for Local Government Reform (FLGR) in supporting local self-government; development of joint support from the Swiss, German, British and Dutch governments for the FLGR's programs which bring together municipal governments, municipal associations, and citizens groups; establishing model financial and administrative systems; assisting in the institutionalization of transparent and open bidding processes (for municipal development sites) in three municipalities and disseminating the process to several dozen others; and establishing a municipal data exchange network facilitating communications among the municipalities. The activities will increase the capacities of local governments and local government associations to represent themselves on a national level, to act independently, to manage their own affairs, and to meet the needs and demands of their citizens.

Description: Local governments are being strengthened through: (1) capacity building by implementing LGI municipal development plans with the newly-elected local government officials; (2) further developing public participation and involving the citizenry in improving the quality of municipal services; (3) increasing the membership and organizational capacity of municipal associations, especially to lobby the central government; and (4) institutionalizing training in local public administration. Parallel national efforts are required as well, such as training provided to central government ministries (as sustainable decentralization cannot occur without support and legislation from this level), improving the legislative framework, and replicating principles and experience gained in decentralized government.

Host Country and Other Donors: The British Know How Fund is providing assistance to the municipal administration in several cities in the country, following the demand-driven approach. The focus is on the establishment of a Municipal Development (Investment) fund, tourism, housing development and agriculture. A resident advisor is working at the Ministry of Regional Development and Construction coordinating the assistance. At the specific request of the Bourgas municipality experts from Netherlands are reviewing the legislation on solid waste. The Dutch plan to further work at the local level following an initial needs assessment, and the Swiss have a program much like elements of ours with different municipalities. USAID and other donors are jointly building the capacity of municipal associations, particularly their continuing efforts to pursue legislative changes supporting decentralization and strengthening of local government.

Beneficiaries: The LGI will directly benefit the people and the local officials of the 10 target municipalities. The rest of the populace will benefit through replication of successful models developed in the target municipalities as well as through the strengthening of democracy at the local level.

Principle Contractors, Grantees, or Agencies: USAID implements activities through U.S. and local organizations, including The Urban Institute, The International City Managers' Association, Chemonics, KPMG, and other private firms and NGOs.

Major Results Indicators:

	Baseline	Target
Proportion of budget over which targeted municipalities have discretionary control	0% (1995)	30% (2000)
Law on municipal finance adopted	None (1995)	Adopted (1998)
Improved processing time for land transfer permits	3 months (1995)	50% reduction (1998)

ACTIVITY DATA SHEET

PROGRAM: BULGARIA
TITLE: Social Benefits, 180-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $500,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Improved fiscal sustainability of social benefits and services. This will be achieved by strengthening the capacity to manage the human dimension of the transition to democracy and a market economy and to help achieve sustainable development of social benefits and services.

Background: Since the dismantling of the centrally planned economy in 1989, the very high rate of inflation and the absence of a modern legal framework undermined severely the living standards of the population. The existing social benefit system is critically in need of reform, as the system is inefficient, regressive and too costly under current budget realities. Bulgaria is struggling to achieve greater sustainability, changing administrative practices, and seeks to improve services to better reach those in need. Prominent among recent improvements has been the establishment of the National Social Security Institute (NSSI) and movement of social insurance funds off-budget.

USAID Role and Achievements to Date: With USAID's support, three health programs have been completed in Bulgaria to improve capacity to deal with cardio-vascular diseases, pediatric trauma and ophthalmic care. Up-to-date coding practices are laying the basis for movement towards broad reform in hospital finance. As jobs-for-all policies were relinquished, the U.S. was able to help the GOB put in place effective regional employment services nationwide, and an early intervention mechanism was developed for quick response to mass layoffs. A community approach to the work force needs of socially disadvantaged groups is being put into practice. USAID programs have also improved worker access to social benefits and services through collective bargaining.

Description: USAID is focusing on the following activity areas in FY 1998 and beyond: support for social insurance reform, continuing to improve dislocated worker programs, and helping strengthen community capacity to deal with issues generated by unemployment.

Host Country and Other Donors: The World Bank and NSSI are implementing an investment loan incorporating USAID-funded technical assistance, keyed to supporting social insurance reform. EU PHARE provides assistance and commodities for the preparation and establishment of an automation system for the social assistance system. UNDP/International Labor Organization supports social insurance staff at the central and the regional levels, the British Know How Fund finances advisors to the NSSI, and other European donors provide social insurance assistance. Good working relations have been established with the Bulgarian Ministry of Labor and Social Welfare and the GOB has been successful in submitting important social legislation to Parliament.

Beneficiaries: Unemployed, ethnic minorities and other disadvantaged groups of the population, pensioners.

Principal Contractors, Grantees, or Agencies: USAID implements activities through the U.S. Department of Health and Human Services, the U.S. Department of Labor, the 3M Corporation and the Free Trade Union Institute of AFL-CIO.

Major Results Indicators:

	Baseline	Target
Integrated fiscal information system in place	None (1996)	Operational (1998)
Actuarial capacity increased	None (1996)	Operational (2000)
Number of municipalities directly affected by hospital budgetary innovations	1 (1995)	50 (2000)

CROATIA

FY 1998 Assistance to Central Europe Request: $24,000,000

Introduction.

From 1943 to 1991 Croatia was one of six constituent republics of the Socialist Federal Republic of Yugoslavia. In June 1991, Croatia declared independence from Yugoslavia, and shortly thereafter war erupted in portions of Croatia with large ethnic Serb populations. During the war, nearly a third of Croatian territory -- including the so-called Krajina and much of Slavonia -- was temporarily incorporated into the self-proclaimed Republic Serbska. In 1995, Croatian armed forces successfully regained control of Western Slavonia and the Krajina. A U.S.-brokered agreement, signed at Erdut in November 1995, brought an end to the war in Croatia by providing for the peaceful reintegration to Croatia of the last remaining piece of Serb-occupied territory in Eastern Slavonia. The Erdut Agreement was an essential precursor to successful negotiation of the Dayton Peace Accords. Under the agreement, a United Nations Transitional Administration for Eastern Slavonia (UNTAES) was established to administer Eastern Slavonia for an initial period of 12 months, beginning in January 1996. In November 1996 the United Nations (UN) Security Council extended the UNTAES mandate through July 17, 1997 with an option for a continuing UN presence through January 1998. Eastern Slavonia is a bellwether for the viability of multi-ethnic society in Croatia and the region and a potential flash point for renewed hostilities and destabilizing population movements. U.S. assistance to Croatia is needed to facilitate successful completion of the UN mandate in Eastern Slavonia and full implementation of the terms of the Erdut Agreement, including support for protection of civil and human rights of all affected populations. In the aftermath of the war, Croatia has entered a critical phase in the transition to an open democratic society. U.S. assistance to Croatia supports two U.S. foreign policy goals: promoting regional peace in the independent republics of former Yugoslavia, and fostering development of stable, market oriented democratic societies in Central and Eastern Europe.

The Development Challenge.

The development challenge in Croatia is twofold: (1) to resolve outstanding issues arising from the war among the former republics of Yugoslavia (i.e., resettlement of displaced persons and refugees, peaceful reintegration of formerly occupied territories, and reconstruction of damaged infrastructure and the economy), and (2) to complete the transition to an open democratic society with a sustainable market-based economy. The Government of Croatia was a signatory to the Dayton Accords and remains an essential partner for implementing the peace plan to ensure long term stability in the region. Successful economic and democratic transition is essential for Croatia to become a full partner to the process of European integration and maintain close relations with the United States.

Reintegration of Eastern Slavonia, including official transfer of authority over the region to the Government of Croatia (GOC) and resettlement and reintegration of all affected populations, is the principal outstanding issue remaining from the war. Since the beginning of 1996, Eastern Slavonia has been under the control of UNTAES. In November 1996, the UN Security Council extended the UNTAES mandate through July 1997 with an option for a continued UN presence in the area through January 1998. Successful completion of the UNTAES mandate and full implementation of the terms of the Erdut Agreement will entail organizing and conducting free and fair local elections in the area prior to UNTAES departure, and resettlement and reintegration of up to 250,000 displaced persons and refugees affected by the terms of the Agreement. Beyond UNTAES, the challenge in the formerly occupied territories is to create social, political and economic conditions to restore and sustain the multi-ethnic composition of pre-war society.

While the process of economic transition is well-advanced in Croatia, substantial progress is needed in democratic reform, as well as some aspects of economic reform, between now and the year 2000 to enable Croatia to succeed in becoming a full partner to the process of European integration,

including possible entry into the European Union, the Partnership for Peace, and eventually NATO. Croatia's uncertain commitment to a free and independent media and the need to establish a transparent legal and institutional framework to support representative multi-party democracy at the national and local levels are the two principal challenges to a successful democratic transition in Croatia. With local, regional and national elections scheduled in 1997, the next two years including FY 1998 will be critical for shaping the nature of democracy and civil society in Croatia for years to come. Despite apparent obstacles, this period presents important opportunities for sustained USAID engagement to pay major dividends in the future.

Other Donors.

The key development partners in Eastern Slavonia are the UN, the European Union, Norway, and Belgium. The United Nations High Commissioner for Refugees (UNHCR) and the Federation of the Red Cross provide important support for reintegration and resettlement of war-affected populations. The principal development partners for economic restructuring are the IMF, the World Bank, and the European Bank for Reconstruction and Development. The British Know How Fund is also active in the area of financial sector development. Other donor support for democratic transition in Croatia has been very limited to date. The Open Society Institute (Soros Foundation) is an important supporter of independent media. Croatia became a member of the Council of Europe in November 1996, and it is anticipated that the EU, through the PHARE program, and other bilateral donors such as Germany, Sweden, and Norway will establish more active programs to support democratic and economic transition in Croatia.

FY 1998 Program.

USAID's strategic plan for Croatia for the four year period 1996 through 1999 comprises four strategic objectives in the three core assistance areas. In the core area of social stabilization, USAID in FY 1998 will focus efforts on completing the process of resettling and reintegrating populations affected by the Erdut Agreement. This strategic objective will remain the highest program priority through FY 1998. As the process of resettlement is completed, greater emphasis will be placed on establishing effective mechanisms for monitoring and safeguarding civil and human rights of resettled populations. To foster long-term stability in the whole of reintegrated Slavonia and other formerly occupied territories, USAID will continue to support regionally-based small credit, equity finance, and small/medium-scale private business development activities to promote economic revitalization and growth. In the core assistance area of democratic transition, USAID will focus resources on two strategic objectives: increased, better-informed citizens' participation in public decision making with emphasis on independent media, and improved local governance. In the core assistance area of economic restructuring, USAID will continue to support a tightly focused portfolio of activities to foster development of a competitive, private financial sector, the overall goal of which is to increase transparency in the financial markets and create conditions for broader public participation in the benefits of economic restructuring.

The proposed FY 1998 budget level constitutes a substantial increase in funding for the Croatia program. More than two thirds of the proposed budget will be directed to the ongoing process of reintegration of Eastern Slavonia. USAID support of this process is a fraction of the cost of reconstruction, but will enable the US to continue to play an important leadership role in support of peaceful reintegration of populations, respect for human and civil rights, and restoration of mult-ethnic society in the formerly occupied areas of Croatia. The departure of UNTAES from Eastern Slavonia in 1997 and the elimination of internal borders mark the next 12 to 24 months as a critical juncture for the overall success of the operation. In the areas of economic and democratic transition, funds are needed to continue to promote systemic and sustainable change and lay the foundation for phase down of the program and inclusion of Croatia in the first group of Southern European SEED Program graduations.

Strategic Goal: Social Stabilization

Since early 1996, Eastern Slavonia, including the city of Vukovar, has been under the control of the UN Transitional Administration for Eastern Slavonia (UNTAES). As of the end of 1996, UNTAES has made substantial progress in demilitarizing the area and preparing for a peaceful transfer of authority to Croatia some time in 1997. Under the terms of the Erdut agreement, local elections must precede UNTAES' departure. All parties to the agreement are committed to ensuring the right of displaced and refugee populations with legal claim to Croatian citizenship to return to their homes of origin or resettle voluntarily in other parts of Croatia. Elections are scheduled for spring 1997 with transfer of authority expected later in the year. Despite progress to date, inter-ethnic tensions in the region remain high, and the area remains a potentially unstable flash point. A recent assessment by UNTAES estimated the cost of reconstruction in Eastern Slavonia at over $1.0 billion.

The process of peacefully reintegrating populations affected by the Erdut Agreement will take years to accomplish. Fulfillment of the UNTAES mandate to conduct local elections and transfer authority to the GOC by no later than mid-January 1998 is the crucial first step. The UNTAES mission constitutes a major diplomatic and financial investment by the USG and other donors, the ultimate success of which will be judged by what occurs after UNTAES departs. Restoring and sustaining the multi-ethnic composition of pre-war society in the region remains an important U.S. policy objective. Beyond UNTAES, successful reintegration and reconciliation of affected populations will depend on the capacity of the regional economy to create sustainable income and employment opportunities to accommodate resettled civilian populations, effective monitoring and protection of human and civil rights of all affected populations (particularly minority Serb populations), and reconstruction and rehabilitation of housing and infrastructure to enable displaced persons and refugees to return to their homes of origin or resettle permanently and voluntarily in other parts of Croatia. The window of opportunity for ensuring success after UNTAES' departure is limited. Timing will be crucial. Rapid and sustainable progress in each of these three areas is needed to develop and sustain the momentum of stability.

Needs associated with reintegrating populations affected by the Erdut agreement go well beyond Eastern Slavonia to encompass all of the former UN protected areas of Croatia including Western Slavonia and the so-called Krajina. Many of the current resident Serbs of Eastern Slavonia come from other parts of Croatia where war damage was severe and where little has been done to prepare for substantial population returns. Return of displaced Croats to their homes of origin in Eastern Slavonia will require that displaced Serbs vacate Croat homes of origin. This process will be disruptive and stressful in the extreme. If progress is slow in coming, impatience for quick remedies and the desire for revenge could result in violence and human rights violations against minority populations. While some degree of gridlock is inevitable, the likelihood of inter-ethnic tensions and hostilities can be mitigated by provisions to accommodate affected populations and establish effective human rights monitoring mechanisms.

- Strategic Objective: The Peaceful Reintegration of populations affected by the Erdut Agreement

Strategic Goal: Democratic Transition

Despite the existence of many aspects of democracy (e.g., constitutional guarantees of freedom of speech, freedom of press, and multi-party elections), the process of transition in Croatia to an open, participatory democratic society remains conspicuously incomplete. The principal threat to democratic transition is the concentration of power in the executive branch of the Croatian national government. The years between now and 2000 will constitute a watershed in Croatia's post-war democratic evolution.

Since independence in 1991, the Croatian Democratic Union (HDZ) has been the best organized and well financed political party in Croatia. With a strong majority in Parliament, the HDZ has used its advantage to consolidate its hold on power and stifle opposition efforts to share power. Efforts by the HDZ in the Croatian Parliament to amend elections laws in its favor and to pass new restrictive legislation affecting the press, non-governmental organizations, and the right of association have raised serious concerns about the future of open, democratic society in Croatia.

Notwithstanding HDZ's dominance, pluralism in Croatia has increased since 1991. Results of national and local elections in 1995 provided strong evidence that post-war Croatian society was prepared to support a more active multi-party democracy, including power sharing between the ruling and opposition parties. At the national level, the HDZ failed in its stated objective to gain a two-thirds majority in Parliament that would have given it wide latitude to wield power virtually unchecked. At the local level, voters in 27 cities, including Zagreb, elected opposition city council majorities and mayors. Voters from another dozen cities chose to support power sharing between an opposition majority on the city council and an HDZ mayor. Strong public protests in Zagreb in early 1996 over the ruling party's veto of a series of opposition mayoral candidates and more recently against moves to close down a popular independent radio station in the city are further evidence of a growing demand for more open democratic society in Croatia.

Support for independent media in Croatia is crucial to long-term prospects for representative democracy. The easy flow of information typical of mature democracies does not yet exist in Croatia. While opposing opinion is openly expressed, it has little platform from which to be heard. There are insufficient independent media outlets to counter television and other electronic media over which the government maintains monopolistic control. Press freedom is expected to remain precarious at least through 1998, when a new parliament will be seated. Until then, Croatian NGOs and newspapers, radio stations and other independent media outlets must assume a defensive posture, preserving the space available to them and pushing the envelope where possible. USAID will continue to provide technical assistance, training and other support to strengthen independent media and promote greater professionalization.

To offset the dominance of the ruling party at the national level, support is needed to foster the development of sustainable political parties and non-governmental organizations (NGOs) to respond to citizens' growing social, economic and political demands. Strengthened capacity of opposition parties to organize enduring coalitions and offer more meaningful platforms will enhance their viability as alternatives for national leadership and exert a moderating influence on legislation.

Below the national level, city governments in Croatia are generally receptive to innovation and willing to make changes in favor of participatory democracy. In contrast to cities in other CEE countries, Croatian cities are already endowed with a legal framework granting them considerable autonomy. These factors and the existence of multi-party democracy at the local level provide an opportunity to foster democratic transition through support for improved, more responsive, local governance. Of particular importance is to establish mechanisms to open government processes to input from citizens and citizens groups to push city governments to be more responsive and accountable to their constituents' needs.

- Strategic Objective: Increased, better informed citizens' participation
- Strategic Objective: More Accountable and Responsive Local Governance

Strategic Goal: Economic Restructuring

Accelerated economic growth is critical to improve post-war living standards and enhance Croatia's ability to serve as a stabilizing influence in the region. To achieve sustainable growth, Croatia needs to attract private investment from both domestic and foreign sources, complete the transition to a

market economy including privatization of socially-owned enterprises, establish a sustainable system of public finance to sustain long-term macroeconomic stability, and create a conducive environment for the growth and development of private enterprises.

Of equal importance to economic expansion is that economic growth take place under conditions that encourage and facilitate broad participation of the population in the benefits of restructuring. Since independence in 1991, there have been growing concerns among many Croatians that a well-financed and politically well-connected elite have garnered a disproportionate share of the benefits of economic restructuring. An under-developed financial sector and particularly the lack of transparency and effective regulation in the financial markets has contributed to the concentration of wealth. Potential investors (including Croatians with capital outside of Croatia) not privy to the arcane and confusing workings of the domestic financial system, have been reluctant to invest due to lack of confidence in the system. At the same time, competition over the limited funds available for financing private sector development has excluded the less well-connected and further led to increased concentration of wealth.

The Croatian financial sector suffers from lack of investor confidence in the formal banking system, severe domestic illiquidity, and under-developed capital markets. Lack of confidence in the banking system is the result of inherent weaknesses in the state-controlled system inherited from the former Yugoslavia, absence of a transparent legal and regulatory framework to govern operations, and lack of basic institutional infrastructure to regulate and supervise financial institutions to ensure sound management practices and protect investors. Domestic illiquidity is the result of unresolved public finance issues left over from the break-up of the former Yugoslavia. For example, the total nominal value of government paper issued to Croatian banks against liabilities resulting from the seizure of private foreign exchange assets by Belgrade and excessive losses accumulated by "socially-owned" enterprises is currently estimated at $2.1 billion. This constitutes more than 40% of total assets in the banking system. The inability of commercial banks to convert these non-marketable government securities to cash constitutes a huge drag on the economy and severely constrains banks' ability to make funds available to finance private sector-led growth. Domestic illiquidity has also been exacerbated by the general economic decline resulting from the war and the imposition of restrictive monetary policy.

USAID has selected the financial sector as the priority economic restructuring assistance area based on potential for influencing government and private sector investment to achieve a wide range of sustainable outcomes and affect a broad class of beneficiaries. USAID support will make the financial system more transparent and more accessible to a broader range of the Croatian population and increase availability of financing through expanding capital markets. A well developed financial sector and capital market will also enhance Croatia's long term prospects for European integration.

- Strategic Objective: A More Competitive and Market-responsive Private Financial Sector

Cross-cutting and Special Initiatives.

In FY 1998 the only remaining cross-cutting program receiving funding is the Audit, Evaluation and Project Support (AEPS) Project. Support under this project will be used to maintain regular program and project monitoring and evaluation systems including close-out audits and evaluations. USAID financial support for the American International Health Alliance is scheduled to end in FY 1997. Participant training has been incorporated into each of the strategic objectives.

CROATIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	--	--	--	--	--
Financial Reform	3,000,000	--	--	--	3,000,000
Energy	--	--	--	--	--
Citizens' Participation	--	6,000,000	--	--	6,000,000
Legal Systems	--	--	--	--	--
Local Government	--	4,000,000	--	--	4,000,000
Crises	--	--	10,000,000	--	10,000,000
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	1,000,000	1,000,000
TOTAL	3,000,000	10,000,000	10,000,000	1,000,000	24,000,000

*Support for East European Democracy (SEED) Act funds

USAID Representative: Charles R. Aanenson

ACTIVITY DATA SHEET

PROGRAM: CROATIA
TITLE: More Competitive, Market-responsive Private Financial Sector, 180-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1997: $3,000,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: More competitive and market-responsive private financial sector.

Background: Croatia needs to attract private domestic and foreign investment in order to achieve sustainable growth. Development and modernization of the financial sector is essential to establishing a solid foundation for a modern market economy which welcomes and facilitates the broad participation of the population.

USAID Role and Achievements to Date: USAID assistance has resulted in a number of financial sector developments. Six Treasury-bill auctions have been successfully conducted and the Ministry of Finance has established a public debt control system. Banking supervision/examination capacity has been established and Croatian examiners have improved their skills in on- and off-site procedures. Two banks have been placed into the bank rehabilitation program. The Zagreb Stock Exchange has established membership rules, and the Croatian Securities Commission (CROSEC) has been formed.
Description: USAID is providing training and technical assistance to the National Bank of Croatia to establish a Bank Supervision Unit and to the Bank Rehabilitation Agency to restructure large regional banks. A resident Treasury Advisor is working with the Ministry of Finance to assist in development of a government securities market and establish a public debt control system. Technical assistance and training has been provided to assist development of the Croatian Securities Commission, the Central Registry and other financial sector institutions. ABA/CEELI is providing technical assistance to improve legal/regulatory framework affecting financial transactions.

Host Country and Other Donors: USAID is coordinating with the World Bank, Ministry of Finance, Central Bank. and the British Know How Fund.

Beneficiaries: Beneficiaries of this strategic objective include CROSEC, the Ministry of Finance, National Bank of Croatia, Zagreb Stock Exchange, Varazdin OTC Market; and the Croatian financial community.

Principal Contractors, Grantees, or Agencies: U.S. Treasury Dept; KPMG/Barents Group, Financial Services Volunteer Corps; ABA/CEELI. Carana/Recovery Group; World Learning

Major Results Indicators:

	Baseline	Target
Interest rate spread between deposits and loans declines	19% (1996)	10% (1999)
Share of assets in private banks increase	48%	60%
Gov. Debt Securities issued domestically	0 (1995)	2.5 billion kuna
Ratio of Household deposits to GDP	18%	21%
Bankruptcy law implemented	No (1995)	Yes (1997)
% of non-performing bank assets identified and reduced	8% known (1995)	15% (1999)
% of banks examined annually	10% (1995)	100% (1999)
Companies with securities officially registered with the Stock Exchange	1 (1995)	14 (1999)
Capital markets laws and CROSEC regulations in place	No (1995)	Yes (1998)

ACTIVITY DATA SHEET

PROGRAM: CROATIA
TITLE: Increased, better informed Citizens' Participation, 180-SO02.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1997: $6,000,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Foster transition to sustainable democracy.

Background: The next two years will be critical for determining the long term nature of democracy and civil society in Croatia. Independent media, durable political parties to respond to a broad range of citizens' concerns, and more active involvement of NGOs and other citizens groups is needed to enable Croatia to complete transition to an open democratic society.

USAID Role and Achievements to Date: USAID has helped strengthen the University of Zagreb Journalist Faculty, trained over 100 journalists and helped establish a Press Club. USAID has also assisted in the development of a coalition of labor unions. USAID assistance to political parties is helping make them more responsive to constituents' concerns as well as helping strengthen coalitions among parties. Finally, several Croatian NGOs are becoming financially self-sustaining as a result of USAID support.

Description: The National Democratic Institute (NDI) is providing training and technical assistance to political parties to enhance multi-party democracy in Croatia and support voter education in Eastern Slavonia. The Free Trade Union Institute is working with Croatian trade unions to improve advocacy skills. The International Research and Exchange Board (IREX) is providing training, technical assistance to support independent media and the institutional development of independent journalists' associations. ABA/CEELI is supporting the Croatia Judges Association. The Urban Institute is working to develop links between local governments and NGOs.

Host Country and Other Donors: In supporting political pluralism, USAID is coordinating with Holland, Norway, the Open Society Foundation, and the European Union.

Beneficiaries: Beneficiaries of this strategic objective include: the Croatia Journalists Association, University of Zagreb Journalism Department, independent media practitioners; political parties, trade unions, and NGOs.

Principal Contractors, Grantees, or Agencies: IREX, NDI, the Free Trade Union Institute, the Croatia Journalists Association, ABA/CEELI, the Urban Institute, America's Development Foundation, International Rescue Committee, and Delphi/Star International..

Major Results Indicators:*

	Baseline	Target
More active citizen participation in civil society (rated on scale -2 through +2)	0 (1997)	+1.0 (1999)
More Effective NGO advocacy on five key issues (independent media, reintegration, privatization, democracy and women's rights) (rated on scale -2 through +2)	0 (1997)	+1.0 (1999)
Increased responsiveness of political parties to constituents	Low	Average/high
Increased balance in media reporting	Low	Average/high
Increased media professionalism	Low	High
Freedom house rating on democracy and media	Partly Free	Partly Free/Free

* Baseline and targets are drawn from independent survey data collected during program period

ACTIVITY DATA SHEET

PROGRAM: CROATIA
TITLE AND NUMBER: Local Government, 180-S002.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1997: $4,000,000 SEED Act.
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: More Accountable and Responsive Local Governance.

Background: Croatian cities are electorally more pluralistic and open than the national government. Cities are often seen by the national government as outside its control, where opposition politicians can gain a foothold. USAID will assist city governments to achieve a greater degree of political and economic independence from the national government. Our program will be anchored to the five cities of Zagreb, Rijeka, Osijek, Split, and Varazdin. Cities are relatively more likely than the central government to embrace innovative procedures such as open public hearings on local government priorities.

USAID Role and Achievements to Date: USAID assistance is helping improve the competency of local government, as well as its transparency and accountability to citizens. The program is relatively new, but is already achieving progress. Five cities are introducing democratic practices for budget formulation and service delivery. Three cities are jointly approaching economic development and solid waste management. Two cities preparing to finish their incomplete housing privatization of 1992.

Description: This activity contributes directly to two high-profile initiatives undertaken by American diplomacy in Croatia: the peaceful reintegration of former UN Sector East into Croatia proper, and the increased prevalence of pluralistic democracy at all levels of governance. As city governments are the primary training ground for the next generation of political leaders, USAID is working with cities to establish routine use of democratic practices, modern municipal finance, private sector approaches to housing, and the peaceful reintegration of eastern Slavonia.

Host Country and Other Donors: The activity works with the city governments, rather than with the national Croatian government. The EBRD is considering financing major investments in public infrastructure in two of the cooperating cities.

Beneficiaries: Approximately two million persons will directly benefit from improved city services and housing management.

Principal Contractors, Grantees, or Agencies: Urban Institute Consortium

Major Results Indicators:

	Baseline	Target
Citizens view city government as responsive and accountable to their needs	2 (1996)	12 (1999)
Number of cities where city councils and executives conduct joint review of operating and investment budgets and involve citizens in the process	0 (1996)	10 (1999)
Number of cities using public hearings or other reviews of adequacy of city services	0 (1996)	10 (1999)
Number of Slavonian cities implementing a joint approach to economic development	0 (1996)	5 (1999)

ACTIVITY DATA SHEET

PROGRAM: CROATIA
TITLE: Reintegration of Populations Affected by the Erdut Agreement 180-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1997: $10,000,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1998

Purpose: Peaceful resettlement and reintegration of populations affected by the Erdut Agreement

Background: Eastern Slavonia was the scene of fierce fighting between Croatia and rebel Serbs at the outset of the war in 1991 and was occupied by rebel Serbs for nearly five years. Under the terms of the Erdut Agreement, the territory will be peacefully reintegrated into Croatia by no later than January 1998 after a 12-24 month period of UN Administration. The reintegration process will affect up to 250,000 displaced persons and refugees. Successful completion of the UNTAES mandate and full implementation of the terms of the Erdut Agreement are essential to long-term viability of multi-ethnic society in Croatia and the region.

USAID Role and Achievements to Date: USAID is playing a major role in catalyzing other donor efforts in economic revitalization. USAID seeks to foster investment in the multiethnic future of local governments in Sector East by both Croatian Croats and Serbs through technical assistance to ensure the provision of essential services and direct the emergence of the new management structures. USAID programs are helping resolve obstacles to a timely, peaceful transfer of population and authority through operation of a legal clinic to advise and assist the remaining and returning populations on such matters as identity papers, voter registration, and property rights. USAID grantees are actively monitoring human rights issues and assisting Croatians returning home to Western Slavonia and the Krajina. Finally, USAID is assisting returning populations with micro-loans to re-start their businesses.

Description: USG resources for reintegration of affected populations will continue to be concentrated in three areas: economic revitalization, human and civil rights protection, and humanitarian assistance for economic security. USAID support for economic revitalization includes equity finance and micro-loan programs and a small/medium-scale private business development project. USAID economic revitalization projects operate in the Slavonia region (i.e., East and West) and may be extended in 1997 and 1998 as appropriate into the Krajina. Legal assistance to populations includes a civil rights project and a human rights nongovernmental organization (NGO) umbrella project.

Host Country and Other Donors: USAID is coordinating with UNTAES, Norway, Belgium, and the European Union in the implementation of this strategic objective.

Beneficiaries: Because of the broad nature of this SO, beneficiaries include the 250,000 current and former residents of East Slavonia.

Principal Contractors, Grantees, or Agencies: America's Development Foundation. American Bar Association/Central and East European Law Initiative, Opportunity International, Small Enterprise Assistance Fund, World Learning, International Rescue Committee and Catholic Relief Services.

Major Results Indicators:

	Baseline	Target
Number of displaced persons in Croatia	240,000 (1995)	24,000 (1999)
Economic output in affected areas as % of pre-war output	100% (1991)	75% (1999)
Level of employment in Slavonia region	63% (1995)	70% (1999)

Number of new businesses created in Slavon	0 (1995)	200 (1999)
Human and civil rights monitored and safeguarded safeguarded	*Significant qualitative improvement**	
Number of NGOs addressing problems of civil society in Eastern Slavonia	0 (1995)	30 (1999)

*As documented in annual State Department Human Rights Report

CYPRUS

FY 1997 ESF Request: $15,000,000

Introduction.

Cyprus continues to feel the strain of inter-ethnic conflict, distrust and misunderstanding. The divided island of Greek and Turkish Cypriots could be a flash point for regional problems.Approximately 200,000 Cypriots, almost one-third of the total Cypriot population, were displaced during the July 1974 coup and Turkish military intervention. The U.S. Government has continued to provide funds which, over the years, have shifted in emphasis from relief to long-term reconstruction and development activities. The United Nations High Commission for Refugees (UNHCR) and the Fulbright Commission have acted as the implementing agencies for the U.S. program through a series of program grants. UNHCR and the Fulbright Commission have the ability to work with both Greek and Turkish Cypriots and are well positioned to promote bicommunal cooperation.

The Development Challenge.

Both the Greek and Turkish communities on Cyprus confront varying economic problems: the GDP per capita on the Greek Cypriot side has risen to over $13,000; while on the Turkish Cypriot side it has stagnated at around $3,000. The Government of Cyprus has a total external debt of $2.4 billion in 1993. USAID assistance helps to address some economic constraints, but the main focus is directed at underpinning our efforts to facilitate a political solution on the island.

Other Donors.

After 1974, emergency humanitarian assistance was provided to both Greek and Turkish Cypriots by the International Committee of the Red Cross and by the United Nations High Commissioner for Refugees (UNHCR) with contributions from the United States and other countries. In 1974, the top five ODA donors to Cyprus provided $41 million in assistance with the United States share equal to 53%. Subsequently, donors other than the U.S. have discontinued assistance. The US is the only major donor still active in Cyprus and provides the only financing to the UNHCR program.

Cross-cutting and Special Initiatives.

Working through UNHCR and the U.S. Information Service (USIS), USAID funding promotes activities which encourage participation from representatives of both communities. This bicommunal approach is designed to demonstrate the positive, substantive results of cooperation. Further, the linkages established between individuals and groups from a variety of sectors will contribute to: (1) increasing the pressure on each side's leadership to compromise on an equitable solution or (2) at least, providing opportunities for contacts and increasing the number of stakeholders in a solution.

The Bicommunal Development Project implemented through the UNHCR and the Cyprus Red Cross includes agricultural activities such as forestry and pest control, environmental programs improving air and water quality, health components which build infrastructure to support prevention and treatment of illnesses, and sewage treatment and rehabilitation of areas near the dividing line.

The Scholarship Project implemented through USIS and the Cyprus Fulbright Commission offers U.S. scholarships for undergraduate and graduate degrees, and short-term professional training and bicommunal training in conflict resolution and business management.

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CYPRUS
FY 1998 PROGRAM SUMMARY

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
--	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	15,000,000 a/	15,000,000
TOTAL	--	--	--	15,000,000 a/	15,000,000

a) Economic Support Fund

Director, Office of European Country Affairs: David Cowles

GEORGIA

FY 1998 Assistance to the NIS Request: $41,900,000

Introduction.

The emergence of a democratic, prosperous and independent Georgia is in the United States' long-term interest. Buoyed by a free and fair presidential election and the end of internal armed conflict, Georgia has consolidated democratic rule and taken significant steps to build a market-oriented economy. As a strategically located free-market democracy, Georgia has the potential to become a major stabilizing force in the Caucasus Region. The country already plays a pivotal regional transportation role because of its ports and rail systems. Humanitarian aid and other goods are transported to Armenia and Azerbaijan through Georgia, while the nation's pipelines carry critical energy resources from Central Asia and Russia. Much of the vast oil resource of the Caspian Sea area is expected to be exported through Georgia. The United States also has distinct humanitarian concerns in Georgia. Although Georgia's ethnic conflicts have subsided, large numbers of internally displaced persons (IDPs) remain.

The Development Challenge.

Georgia has a population of 5.2 million in an area the size of West Virginia. Over the past several years, Georgia's economic and political stability has been severely hampered by internal conflicts (the Abkhazian revolt and South Ossetian separatist movement) and the disruption of regional trade caused by the break-up of the former Soviet Union. The fighting has ceased, a sense of optimism prevails, and Georgia's political and economic situation has begun to stabilize. Corruption continues, although progress has been made to reduce overt lawlessness. President Eduard Shevardnadze, the internationally respected former Soviet Foreign Minister and one of the most reformist leaders in the former USSR, has strong support of the recently elected pro-reform legislature.

After a late start following independence, Georgia has made great strides in macroeconomic stabilization. Georgia successfully negotiated a one-year $112 million Stand-By Arrangement with the International Monetary Fund (IMF). The program calls for reducing inflation through tight financial policies, removal of restrictions in the financial system, and liberalization of prices, commerce, and foreign trade. Results are already evident. Inflation was down to two and a half percent a month during the first half of 1995 (from over 60% a month in 1994). Georgia has maintained a stable exchange rate since the end of 1994, first with the "coupon" and now with its new currency. The fiscal deficit was reduced from approximately 19% of GDP in 1994, to six percent in 1995. While expenditures have been cut through the elimination of subsidies and government downsizing, growth in revenue collections has been disappointing.

Another brake on economic progress is Georgia's $1 billion debt burden, mainly the result of purchases of natural gas from abroad. This total is among the highest of the former Soviet republics in terms of the ratio of total debt to the value of exports. The Government of Georgia (GOG) is expected to get some relief on external arrears and debt servicing in negotiations with its international creditors.

Since 1992, the bulk of USAID assistance to Georgia has been in the form of emergency humanitarian assistance. USAID is gradually shifting its emphasis toward economic and social sector restructuring and democratization to meet the changing nature of the development challenge in Georgia. Given its late start down the reform path, Georgia's successful transition to free-market democracy will require donor assistance well beyond the year 2000.

USAID has been the largest bilateral donor, providing more than half of the country's emergency needs, and assisting over 750,000 Georgians since 1992. Human suffering has been reduced substantially. During the same period USAID assistance has financed the purchase of heavy oil for electricity generation and winter heating. Over 100,000 displaced persons have received non-food assistance

and over 35,000 supplemental food packages. In an effort to help heal the scars of war, more than 100 female victims of the Abkhazia conflict and their families have received assistance.

USAID has also financed humanitarian assistance activities of international organizations. One such activity was the UNICEF program to control diphtheria through the provision of vaccines to immunize those children and adults most at risk. The Caucasus Logistics Advisory Unit (CLAU - under the World Food Program) made possible the timely and efficient delivery of humanitarian assistance with its management of the rail, port, and communications network throughout the Caucasus. The CLAU operation, U.S. Center for Disease Control, and PVO programs --all financed by USAID-- helped to build GOG and local NGO capacity to manage and respond to humanitarian emergencies. Georgia's government and the NGO community will require further capacity strengthening to assure the efficient and effective delivery of social services and assistance.

Personnel exchanges, training, and other USAID technical assistance concentrate on economic restructuring, energy sector reform, and democratic governance. USAID-financed economic and legal advisors work with the Ministers of government, chairmen of key Parliamentary committees, and the President's Office (the State Chancery) to construct the legal and economic policy framework which will facilitate Georgia's progress toward becoming a full fledged democratic, market oriented economy. Such advisory assistance also helps the government meet IMF requirements and negotiate with the IMF and World Bank (IBRD) for stabilization and sector loan programs to address critical distortions and imbalances in the economy.

In concert with other donors, USAID's advice contributed to the reduction of Georgia's budget deficit, largely by proposing major cuts in expenditures. Most government subsidies for goods and services have been reduced and most subsidies to state enterprises eliminated. The civil service has been reduced by 30%. In adopting a new Central Bank law, the GOG has taken initial steps to increase the liquidity of state-owned and commercial banks. Under the privatization program, approximately 70% of identified small firms and 80% of medium-to-large enterprises have been privatized. However, despite the initial progress on policy reform, assistance is still required to help the GOG establish the necessary laws, codes, and regulations that encourage investment and private sector growth, and that regulate business in an open, competitive market.

In the energy sphere, USAID technical advice was instrumental in the GOG's decision to restructure the electric power sector and to create a national regulatory body. USAID advisors assisted in drafting the decree that was issued in May 1996 to reform the power sector. In the oil & gas sector, at the request of the GOG, USAID advisors provided legal advice relating to exclusive oil transit rights which cleared the way for a new agreement with the Azerbaijan International Operating Company (AIOC) and to the preparation of the presidential decree that created the Georgian International Oil Corporation (GIOC). They also provided legal advice to the GOG and GIOC which enabled the signing of the pipeline transport deal with the AIOC and the Government of Azerbaijan. The agreement was recently ratified by the Georgian Parliament.

Despite this progress, the oil and gas sector in Georgia faces many difficulties. For example, although the GIOC is an independent entity, other oil and gas enterprises (such as SAKOIL, SAKGAS, etc.) were recently subsumed into a massive State Fuel and Energy Corporation, which also includes the state power utility, Sakenergo. It was a move which is counter to the need for greater decentralization in the energy sector. Additionally, the GOG is receiving numerous oil and gas exploration, production, and development proposals. The GOG will need to evaluate all such proposals carefully to ensure that they are conducive to the future commercial development of the sector.

The people of Georgia have an excellent opportunity to build a prosperous, democratic society grounded in the rule of law if the country develops its external markets quickly and effectively, and harnesses its skilled labor force, underutilized agricultural resources and industrial capacity. Furthermore, if Georgia can attract outside investment it should be able to compete effectively in the

international marketplace. Political stability is a prerequisite. The Government must seek expertise in law, commerce, finance, public administration, and social welfare to achieve sustainable growth in economic and political development. To sustain economic reforms, Georgia must reestablish external markets, reduce balance of trade deficits through export-led growth, and attract new technology as a result of increasing foreign investment. The agricultural sector appears to offer the most immediate opportunities to achieve these requirements. Georgia's leaders must strive to create an enabling environment for economic and political growth that promotes rather than controls business. With USAID assistance, Georgia is aggressively pursuing accession to the World Trade Organization so as to become a competitive producer and exporter to global markets. The Shevardnadze Administration gives every indication that it intends to move swiftly to implement bold economic reforms.

USAID assistance in the area of democratic governance is relatively recent. Georgia's November 1995 election process --supported with USAID-funded technical assistance-- was declared free and fair by international observers. This was a major achievement in a country just emerging from protracted civil conflict. The USAID-funded Parliamentary Human Rights Foundation, in 1995, installed an Internet link in the Georgian Parliament to give that body access to western legal resources, including those of the United Nations and the World Bank. Internet access has provided an indispensable resource for Georgians involved in reforming the country's legal infrastructure. Additional hookups for the Supreme Court, Executive Office, Constitutional Court, universities, and non-governmental organizations should help accelerate reforms and broaden the base of effective reformers.

Other Donors.

Major donors include the International Monetary Fund, the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development and the European Union. Bilateral donors include Germany, Great Britain, Netherlands and Italy.

FY 1998 Program.

Strategic Goal: Economic Restructuring

The newly established Center for Economic Policy Analysis and Reform (CEPAR) will work directly with the Minister of Economy and the President's chief advisor for economic reform. The staff of the Center will work with the government and the international financial institutions (IFIs) to monitor the performance of the economy and to identify policy and institutional constraints which impede private sector growth. CEPAR will also identify opportunities for market-driven development. On the basis of consultations with government, parliament, and private businesses, CEPAR will conduct applied economic analyses to identify key policy options. CEPAR's medium term work program strongly focuses on Georgia's accession to the World Trade Organization and helping the GOG to launch the anti-monopoly service which was authorized by law in 1996. Legal assistance will be available through CEPAR to Georgian institutions and policy makers responsible for organizing, drafting, and enacting economic laws to stimulate private sector growth and exports. CEPAR's role will complement other legal work performed under USAID democracy objectives as commercial law and civic codes are integrated into Georgia's new Civil Code.

USAID will continue to assist in national budget formulation, including a review and implementation process. Expected results would be an improved and transparent system of annual budgeting and revenue and expenditure reporting which will lead to greater efficiency in the targeting of public expenditure and a reduction in the budget deficit. In FY 1997, the U.S. Treasury and USAID will initiate a debt management program and help establish a financial market for Georgian Treasury bills. Such a program will help the GOG to finance its budget deficit in a non-inflationary manner and provide monetary policy instruments to the National Bank of Georgia (NBG).

USAID has developed a comprehensive program to make the National Bank of Georgia the common platform of an electronic, real time payment system for both domestic and intentional transactions of the NBG and all commercial banks. The system will be fully integrated with the NBG's electronic accounting system. Hardware, software and technical assistance will be provided to the NBG for this effort while commercial banks finance their own connection to the NBG platform. USAID is also financing an NBG and commercial banker's training program featuring short courses and advisory assistance in credit analysis, asset and liability management, banking operations and international accounting standards. To help stimulate the demand for credit, the International Executive Service Corps will identify and assist clients in the preparation of viable investment and business plans. USAID, through a grantee, will provide technical assistance to farmers' unions in the areas of business management and member services, especially targeting qualifying farmers' unions to receive loans under a new Eurasia SME credit facility. A program of support for private agribusiness investment and development will also be initiated.

In response to the Trans-Caucasus Enterprise Fund earmark, USAID is establishing two finance programs intended to support private sector development and growth. The first is a private investment fund partially guaranteed by the Overseas Private Investment Corporation. The second is a small enterprise lending program, which reports directly to USAID. Activities intended to promote trade and investment are also planned for FY 1998, as part of the Partnership for Freedom initiative.

In energy, USAID's priorities are: (a) to create a climate that will attract private sector participation and ownership, with subsequent improvements in the management of resources and provision of services; and (b) to improve the efficiency of the sector in economic terms, with subsequent increases in capital and operating resources. USAID resources will be used in several key ways. First, activities will support the restructuring and organization of corporate enterprises in the electric power and oil and gas subsectors, including legislative and regulatory reform to promote private sector participation. Second, assistance will be used to strengthen the commercial operations of newly-created energy sector entities, including the introduction of improved metering and collections systems and the adoption of international accounting standards. Third, other activities will mobilize private/public financing for selected energy projects to rehabilitate the energy infrastructure and to reinforce the reform process. The European Union, the World Bank, and the European Bank for Reconstruction and Development are also expected to make other significant contributions to the energy sector.

- Strategic Objective: Increased soundness of fiscal policies and fiscal management practices
- Strategic Objective: Accelerated development and growth of private enterprises
- Strategic Objective: A more competitive and market-responsive private financial sector
- Strategic Objective: A more economically sustainable energy sector

Strategic Goal: Democratic Transition

Progress in democratic political processes is further along in Georgia than elsewhere in the Caucasus. The parliament is one of the most progressive in the former Soviet Union. There is a perceptible strong will in the political leadership, in the media and among civic groups to advance and protect the new democracy, to establish a transparent system of public administration and the rule of law. The International Foundation for Electoral Systems (IFES) and the National Democratic Institute program to get out the vote and train election monitors from government and the NGO community fully demonstrated its value in successive local elections in the countryside. Since the November 1995 presidential elections, further progress has been evident. With the assistance of the German Government, a new Civil Code is being drafted. The committee system in Parliament, which includes efficient procedures for the conduct of legislative business, approaches the standards and practices used by parliaments in western democracies. Some 50 NGOs, with an interest in public policy, are

making their impact felt on the national scene. Each of these has benefitted in some way from the assistance offered by the Institute of Soviet-American Relations (ISAR/ITIC) NGO Center funded by USAID. Independent media agencies and broadcasters are numerous and reasonably free from attempts of manipulation by government. USAID also has been instrumental in helping to establish approximately half of the independent TV stations in the country, and will continue to build on this success.

The legacy of Soviet law continues to be a barrier in legal and judicial reform. The general public harbors a deep distrust of judicial process and the activities of prosecutors whose powerful role is unchanged. In FY 1997, the Department of Justice will initiate a program to improve the efficiency, effectiveness and fairness of criminal justice procedures while USAID will provide assistance in judicial training and continuing legal education with the Georgian Young Lawyers Association.

The authorities and responsibilities of municipal government are not well established --and, as a result-- the basic infrastructure of local communities are deteriorating. USAID will continue to focus on the basic pre-conditions for a responsible municipal government program through training of parliamentarians, appointed municipal officials and other government and civic society representatives, and through efforts to establish an association of mayors which can objectively represent the capabilities and aspirations of municipalities.

- Strategic Objective: Increased, better-informed citizens' participation in political and economic decision-making
- Strategic Objective: Legal systems that better support democratic processes and market reforms
- Strategic Objective: More effective, responsive, and accountable local government

Strategic Goal: Social Stabilization

The USAID humanitarian program includes the financing of basic commodities such as fuel and food and, in concert with other donors, is strengthening the capacity of the Georgian government and local NGOs/PVOs to target and deliver assistance more effectively to those citizens who are most at risk. Through sub-grants, PVOS/NGOs implement "bridging" activities which promote self-reliance and stimulate economic recovery at the local community level. Future activities will include financing for rural and urban projects promoting income generation and enterprise development. In addition, USAID in cooperation with the World Bank, the Georgian Government and local NGOs, will continue a pilot Social Investment Fund scheme. Together, these efforts will help speed USAID's reorientation away from emergency humanitarian assistance and pave the way for the country's transition to a market economy. Humanitarian programs, however, will continue at reduced levels for the most vulnerable segments of the Georgian society.

- Strategic Objective: Reduced human suffering and crisis impact

Cross-cutting and Special Initiatives

USAID funds a cross-cutting training program which offers learning opportunities for Armenians, mainly in the United States, in a number of sectors which support the strategic objectives of the USAID program. In those instances where activities implemented by other agencies do not directly support USAID's objectives, they are included as special initiatives.

GEORGIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	1,800,000	--	--	--	1,800,000
Private Enterprise	10,300,000	--	--	--	10,300,000
Financial Reform	3,400,000	--	--	--	3,400,000
Energy	5,900,000	--	--	--	5,900,000
Citizens' Participation	--	3,400,000	--	--	3,400,000
Legal Systems	--	700,000	--	--	700,000
Local Government	--	2,000,000	--	--	2,000,000
Crises	--	--	9,400,000	--	9,400,000
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	5,000,000	5,000,000
TOTAL	21,400,000	6,100,000	9,400,000	5,000,000	41,900,000

*FREEDOM Support Act (FSA) Funds

USAID Representative: Geraldine Donnelly

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Fiscal Reform, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,800,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased soundness of fiscal policies and fiscal management practices.

Background: Georgia has passed a national budget law but work is only beginning to develop the procedures, norms, regulations and calendar to fully implement the law across all national ministries and in coordination with the Parliament. The IMF is doing parallel work to establish a Treasury, which will consolidate in one account the revenue receipts and expenditures for the entire government. Georgia faces a major problem to develop a national budget system to apportion revenues between federal and regional levels; however the powers and responsibilities of local government units have yet to be defined in a local government law or delineated in the national budget law. Furthermore, the first local government elections will occur in 1997. Existing tax laws require strengthening to broaden the tax base and, as required by the IMF, to provide greater authority to the State Tax Service (STS) to collect taxes. While no USAID financed assistance is planned for the tax collection area, USAID proposes to finance a U.S. Treasury debt management advisor to work on establishing a Treasuries market for GOG securities, namely T-bills. Such a market, following a published schedule of auctions open to the public, and with timely settlements, would both serve as the first rudimentary capital market and as a non-inflationary means to help finance the GOG's still significant consolidated budget deficit.

USAID Role and Achievements to Date: USAID assists the government to improve national budgeting and expenditure systems, to reduce deficit spending, and improve government development programs. A US Treasury team has assessed Georgia's fiscal policies and, during 1996-97, will concentrate on national budget and debt management and securities market issues.

Description: USAID assistance to the Ministry of Finance concentrates on developing modern, streamlined, effective national budget functions: schedule for budgetary action; formulation process; review process (executive and parliamentary branches); and budget execution process, including controls. Laws to explain these new procedures will be developed in parallel. A federal budget system will include regional autonomy for both revenue generation and budgetary expenditures which will be consistent with the expected division of federal and municipal power in the newly elected government. The longer range goal will be to assist the government to develop a computerized financial management system that incorporates new executive budget and treasury functions, including federal and regional apportionments. U.S. Treasury debt management advisors will perform an assessment in early 1997 of the prospects for setting up a T-bill market and auction in Georgia and, if favorable, field an resident advisor to launch the program in the same year. A first year target would be to finance about 5% of the GOG's budget deficit through public auctions of 30, 60 and 91 days T-bills.

Host Country and Other Donors: USAID assistance in budget formulation augments the IMF assistance to develop a national treasury and to establish a Treasury securities market.

Beneficiaries: The national budgeting law will benefit all citizens who will know for the first time how their government allocates tax revenues for public expenditures. A Treasury Securities market will help the government to partially finance the budget deficit in a non-inflationary manner.

Principal Contractors, Grantees or Agencies: US Treasury.

Major Results Indicators:

	Baseline	Target
Fiscal balance as percent of GDP, excluding grants	-7.5% (1995)	-3.3% (1999)
% of GOG budget deficit financed by government securities	less than 1%	12% (1999)

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Private Enterprise, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $10,300,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Accelerated development and growth of private enterprise.

Background: Georgia's current macroeconomic policies, legal-regulatory framework, and corresponding institutions are inadequate to fully support the country's transition to a market economy. Institutions with responsibility for economic policy, and commercial laws and regulations must develop their capacities to conduct policy analysis and formulation based on valid economic information and sound analysis. Private enterprise growth is stymied because corruption persists and personal relationships take precedence over competition in the market place. New laws, codes and procedures are urgently required to encourage and regulate business in an open, competitive market.

USAID Role and Achievements to Date: USAID technical advisors guided the government through its negotiation with the IMF and the IBRD to acquire credit to conduct the macroeconomic policy adjustments and structural reforms which have put Georgia on the road to a market economy. USAID economic policy and legal assistance works with Georgia's national leaders to develop economic policies, laws and regulations to establish the market environment for private sector, particularly export-driven, growth and the absorption of new technology. In 1996, USAID financed advisors led the donor community to provide technical assistance to Georgia in its initial efforts to gain accession to the WTO.

Description: The Center for Economic Policy Analysis and Reform (CEPAR) conducts applied economic analyses to identify key policy options but is most strongly focussed on mobilizing technical assistance to help Georgia gain accession to the WTO and providing legal expertise on the formation and operations of the newly legislated anti-monopoly service. The CEPAR will continue to support policy-makers and key national leaders in the formulation of economic reforms required to achieve an enabling environment for private sector growth and identify opportunities for market-driven development. CEPAR will continue to establish the analytical capacity in economic and legislative institutions to produce an integrated policy framework designed to accelerate the growth of private enterprise. CEPAR's role will continue to complement other legal work performed under USAID democracy objectives as new commercial law and civic codes are integrated into Georgia's new Civil Code. USAID-funded non-government organizations will identify and assist clients to prepare viable investment and business plans. USAID will encourage private agricultural sector investment and provide technical assistance to private farmers' unions and other producer groups to improve association organization, management and services to their membership. The private investment fund implemented through OPIC and the small enterprise lending program will also support private sector development.

Host Country and Other Donors: The CEPAR provides an operational adjunct to the Minister of Economy, key parliamentary leaders, and the Presidents chief advisor for economic reform.

Beneficiaries: The governments economic policies, commercial laws and regulations and reformed institutions will set the stage for new investments and the rapid import of new technology which in turn will reemploy Georgia's skilled labor force in manufacturing and agriculture.

Principal Contractors, Grantees or Agencies: USAID activities are implemented by a contract to the US firm, Chemonics International, and PVO grants such as the International Executive Service Corps, VOCA and the Eurasia Foundation.

Major Results Indicators:

	Baseline	Target
Private sector share of employment (%)	28% (1995)	75% (1999)
Private sector share of GDP (%)	74% (1995)	85% (1999)
Foreign direct investment (US$ Millions)	$6m (1995)	$75m (1999)

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Financial Reform, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,400,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more competitive and market-responsive private financial sector.

Background: Successful economic recovery will depend in large part on an increased capacity to mobilize savings and the capacity of commercial banks to serve as efficient financial intermediaries between savers and investors. The formation of a viable banking sector currently is hindered by: (1) the absence of a modern electronic payments system (EPS) to conduct timely financial transactions; (2) managers untrained in modern portfolio management; (3) a regulatory environment that discourages lending to the private sector; and (4) financial institutions that are either lacking or do not respond to market forces. The development of market-oriented capital markets will attract domestic and foreign investment, resulting in workers being retrained according to market needs. Presently, the private sector has virtually no access to credit at affordable rates. Savings mobilization, commercial lending and foreign transactions will not be possible until Georgia's commercial banks operate like their western counterparts. The commercial banking sector should be opened to outside capital with appropriate guarantees for repatriation of profits and protection against arbitrary capital market controls.

USAID Role and Achievements to Date: USAID technical assistance has helped Georgian entrepreneurs develop small and medium enterprises and create new products and services.

Description: USAID supports implementation of electronic payments and accounting systems that will permit real time financial transactions to take place among domestic banks and between the central bank and its seven regional clearing branches as well as international transactions from the NBG platform provided to commercial banks. USAID is providing the on-site project manager to coordinate the installation of hardware and software and to supervise required technical training. USAID will also provide short-term technical assistance to train commercial bank managers and officers. The focus of this training will be credit analysis, portfolio management, asset and liability management, international accounting standards, and internal audit. In addition, USAID will work with IMF and World Bank Advisors to improve bank supervision though on the job training with U.S. State agencies and the Federal Reserve.

Host Country and Other Donors: The development of the electronic payments and accounting systems is a cooperative effort among USAID, World Bank and the IMF.

Beneficiaries: USAID will assist Georgia to create the backbone of a modern financial sector both to facilitate the mobilization of domestic savings and to attract foreign investment. In the long term, several million Georgians will benefit from financial sector development and reforms.

Principal Contractors, Grantees or Agencies: USAID's investments in the electronic payments system are directly managed by USAID and the KPMG Barents Group managers bankers training.

Major Results Indicators:*

Financial sector assets as percent of GDP
Spread between deposit & borrowing rates (%)
Level of deposits in commercial banks (index)

* Baseline and target data will be developed during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Energy, 110-S001.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $5,900,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: A more economically sustainable energy sector.

Background: Georgia's energy situation is severe. Energy supplies are intermittent at best, and prolonged blackouts are commonplace. The shortages of electric power and oil, gas, and coal have accelerated the rate of economic decline that started in 1989 with the beginning of the breakdown of the former Soviet Union. The continuing shortage of energy threatens political security, stagnates the transition to a market economy, and endangers public health. The energy sector has been weakened by: (1) the dissolution of the Former Soviet union and its energy trading relationships; (2) civil disturbances that led to disruption of the energy and fuel supply networks; and (3) historically low energy prices and low collection rates that have both fostered excessive energy use and resulted in insufficient revenues to cover energy maintenance and investment needs, as well as cover the costs of imported fuel. While the Georgian energy sector begins to emerge from the crisis mode of operation that characterized 1992-1995, it must continue an important phase of reorganizing itself in order to provide improved energy services to the economy in a more sustainable fashion.

USAID Role and Achievements to Date: USAID's emphasis is two-fold: (a) to create a climate that will attract private sector participation and ownership, with subsequent improvements in the management of resources and provision of services; and (b) to improve the energy sector efficiency in economic terms, with subsequent increases in capital and operating resources. USAID technical assistance in the electric power and oil & gas subsectors has been pivotal in achieving the progress to date. In the electric power sector, USAID's technical assistance was instrumental in the GOG's decision to restructure the electric power sector and to create a national regulatory body. USAID advisors assisted in drafting the decree that was issued in May 1996 to reform the power sector. However, despite this progress, much work is still needed to implement the reforms and solidify them so that they cannot be easily reversed. In the oil & gas sector, USAID contributed to the following successful developments:

1) Advised the GOG that a claim of exclusive oil transit rights did not appear to be legally enforceable, and cleared the way for the new arrangement with the Azerbaijan International Operating Company;

2) Assisted in the preparation of a presidential decree that created the Georgian International Oil Corporation (GIOC), with control of sufficient pipeline and right-of-way assets to make it the legal counterpart to the AIOC; and

3) Provided advice to the GOG and GIOC that allowed the pipeline transport deal with the AIOC and the GOAZ to come to closure and be signed. The agreement was recently ratified by the Georgian Parliament.

Despite this progress, the oil & gas sector in Georgia faces many difficulties. For example, while GIOC is an independent entity, the other oil & gas enterprises (SAKOIL, SAKGAS, etc.) were recently subsumed into a massive State Fuel and Energy Corporation, which also includes the state power utility, Sakenergo, a move counter to the need for greater decentralization in the energy sector. Additionally, the GOG is being bombarded with a variety of oil & gas exploration, production, and development proposals which the GOG will need to carefully evaluate to ensure that they are conducive to the future commercial development of the sector.

Description: While initial USAID assistance to the energy sector involved the provision of critical equipment and fuel supplies, USAID assistance is now focused on the systemic economic reform of the sector. Energy sector reform is an essential and critical input to Georgia's transition to a market economy. The two energy subsectors having the greatest impact on the Georgian economy are: the electric power subsector, which is vital to residential uses and to industrial productivity and; the geo-strategic oil subsector which is linked to the development of oil reserves in the Caspian Sea and exports to the region and outside the region. USAID resources will be used to support the restructuring and establishment of public-private corporations in the electric power, oil and gas subsectors. Our assistance to bring about legislative and regulatory reform is focussed upon promoting private sector participation in the sector. Our assistance will strengthen the commercial operations of newly-created sector businesses with the introduction of improved metering and collection systems and the adoption of international accounting standards. Our assistance will also mobilize private/public financing to reinforce the reform process, to undertake selected new energy projects and to rehabilitate the existing energy infrastructure. Assistance is channeled through three institutional contractors: one provides technical assistance in support of energy sector restructuring and privatization, including legislative and regulatory reform; another provides technical assistance and commodity support to facilitate restructuring and privatization as well as energy supply system rehabilitation; and the third is providing short term training in all activity areas.

Host Country and Other Donors: The European Union has undertaken a series of comprehensive assessments in the areas of tariff structure, accounting, billing, and metering practices while the World Bank is conducting a $45 million loan appraisal of maintenance and rehabilitation work in the areas of electric generation, transmission, and distribution. USAID complemented World Bank activities with a pre-loan analysis of the Inguiri Hydroelectric Station. The European Bank for Reconstruction and Development approved an $18.1 million loan to the local power company to rehabilitate the Rioni hydro station and improve operations and water treatment at the major thermal station.

Beneficiaries: Approximately 1.3 million residential and commercial consumers of electricity.

Principal Contractors, Grantees, or Agencies: Three institutional contractors: Hagler Bailly (restructuring and privatization); Burns and Roe (rehabilitation of power systems); and the U.S. Energy Association (training in all energy areas).

Major Results Indicators:*

Number of independent regulated utilities with meaningful financial statements
% of independent regulated utilities with sufficient current earnings and profits to sustain operations, by sub-sector
Energy consumption per unit of national economic production
Number of independent power producers
State-owned enterprises fully divested by sub-sector
% changes in recovery of cost of production by utility

*Indicators will be refined, and baseline and target data will be developed, during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Citizens' Participation, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,400,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Increased better-informed citizens' participation in political and economic decision-making.

Background: Like other countries emerging from the shadow of communist rule, Georgia is struggling to consolidate nascent democratic institutions and practices. Civil society is weak and fragmented: political pluralism, independent media, and indigenous non-governmental organizations (NGOs) need to be developed and strengthened for democracy to survive, and for a market-economy to flourish.

USAID Role and Achievements to Date: USAID-funded activities in the area of independent media led to the establishment of the first independent television network in Georgia. Internews, with USAID and USIS funding, worked to train and develop independent media outlets and implementors in Tbilisi and outlying regional cities. A series of Internews' sponsored conferences prompted seven of the country's strongest independent television stations to agree to form Georgia's first independent television network. The network is expected to serve as a nation-wide platform for objective news coverage and quality documentaries, as well as a coordinating unit for independent television journalists. Additionally, USAID activities supported the development of the country's first domestic election monitoring NGO, and continue to support the strengthening of this indigenous organization. The National Democratic Institute (NDI), with USAID funding, provided substantive consultation, training and resources to a coalition of Georgian NGOs interested in developing a domestic monitoring organization. With NDI's assistance, this domestic monitoring organization, the Georgian Fair Election Society (FES), trained and deployed more than 1,500 domestic monitors for the November 1995 election.

Description: USAID contractors and grantees work with independent television stations, political parties, parliamentarians, and indigenous NGOs to foster the growth of civil society and grassroots democratic reform efforts in Georgia. NDI provides training to political parties and factions, both inside and outside the current parliament, on building organizational capabilities, operating as effective parliamentary factions inside the legislature, upgrading parliamentary skills, strengthening party-constituency linkages, and building substantive political platforms. As requested by the Georgian Parliament, a program for restructuring and retraining of parliamentary staff began in FY 1996. ISAR (formerly the Institute on Soviet-American Relations) and the Eurasia Foundation provides assistance to indigenous democratically-oriented (non-humanitarian assistance) NGOs, working to improve management and communications capacity, and working to strengthen these organizations' ability to participate effectively in the development of democratic legislative and social reform. Also, activities will focus on improving inter-NGO coordination and developing effective strategies for communicating NGO interests/positions to the press and the general public. By working with Georgian independent television journalists, USAID provides limited but critical equipment assistance, and training programs to bolster journalists' capacity to produce quality news reports on political developments. Media assistance also focuses on developing media associations and networks, providing training in management, advertising, and journalists' rights and responsibilities. Similar activities will continue in FY 1998, and evolve based on the changing needs and growth of Georgian civil society.

Host Country and Other Donors: The above activities are coordinated with other USAID activities, such as the Eurasia Foundation, as well as with the U.S. Information Service (USIS). Additionally, USAID's efforts are coordinated with international donors, including the United Nation's Development Programme, the European Union, and the Organization for Security and Cooperation in Europe (OSCE). The Georgian Parliament, and various Georgian NGOs are integrally involved in these efforts.

Beneficiaries: USAID-funded activities seek to benefit individuals and organizations actively involved in civic participation and democratic reform efforts, as well as the population at large over time, in encouraging further and deeper citizen participation in the country's transition to a democratic market-oriented state.

Principal Contractors, Grantees, or Agencies: Current grantees include Internews, NDI and ISAR. Additional grantees and contractors will be identified as assistance is expanded in this area.

Major Results Indicators:*

Number of NGOs working actively on public policy issues
Increase in % of citizens who listen to, watch, or read independent news

*Baseline and target data will be developed during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Legal Systems, 110-S002.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $700,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Legal systems that better support democratic processes and market reforms.

Background: Georgia inherited a Soviet legal infrastructure that presents substantial obstacles in the country's evolution toward a market-oriented society based on the rule of law. Georgia's legislative infrastructure, judicial structure, and overall legal system all require assistance in reform, reconstruction and retraining.

USAID Role and Achievements to Date: A USAID-funded constitutional law expert was extremely influential in the development of Georgia's new constitution. Specifically, his advice and cautions regarding an explicit separation of powers are positively reflected in what has been called the most solidly democratic constitution of all the former Soviet republics. USAID has also funded Georgian drafters of the country's Civil Code to travel to the Netherlands to participate in USAID-funded conferences which provided European and U.S. drafting expertise.

Description: USAID contractors and grantees began work in FY 1996 with legal institutions, such as the Parliament, Constitutional Court, Ministry of Justice, Procuracy and Executive Office, on legislative and institutional reform and restructuring. In addition, USAID sponsored assistance in the retraining of the country's judges, lawyers and parliamentarians in international legal norms, as well as work at the grassroots level with indigenous bar associations and legal advocacy non-governmental organizations, and the dissemination of legal information to the general population. These activities will continue in FY 1998, and evolve based on the changing needs and growth of Georgia's legal infrastructure.

Host Country and Other Donors: These programs are coordinated with other USAID-funded activities, particularly commercial law reform, with the economic restructuring activities of the Center for Economic Policy and Research (CEPAR) and international donors, including the United Nation's Development Programme, the European Union, and Germany's GTZ legal consultants.

Beneficiaries: These efforts seek to benefit Georgia's legal institutions and legal advocates in transition to a governmental system based on the rule of law and market principles, and, thus, will benefit the people of Georgia who rely on these institutions, both governmental and non-governmental, to support and protect their individual and property rights in accordance with the constitution and internationally recognized human rights statutes.

Principal Contractors, Grantees, or Agencies: The American Bar Association's Central and East European Law Initiative (ABA/CEELI) and ARD/Cheechi are the current grantees. Additional implementors will be determined, as appropriate.

Major Results Indicators:*

	Baseline	Target
Increased % of the population knows/understands basic civil & economic rights & restrictions		
Membership in World Trade Organization attained	No (1996)	Yes (1998)

*Indicators will be finalized, and baseline and target data will be developed, during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Local Government, 110-S002.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: More effective, responsive, and accountable local government.

Background: In the period following Georgia's independence in 1991, municipal officials were faced with major transition challenges. The de facto devolution of responsibility to local governments for many functions previously carried out by the national government, in combination with declining central budgets and shortage of skilled personnel, left local authorities increasingly isolated from the center and unable to halt the degradation of municipal services. Local and municipal governments need assistance in developing greater administrative capacity and efficiency, as well as developing a rational intra-governmental administrative and financial system.

USAID Role and Achievements to Date: USAID held off on local government assistance in order to benefit from an extensive World Bank assessment, as well as to develop a dialogue with the Government of Georgia on the scope of decentralization (i.e., the question of local elections and municipal taxing authority), prior to beginning activities in this area. FY 1996 was the first year for USAID funding of such assistance. Several key municipal officials and parliamentarians responsible for municipal and local government reform attended a Eastern European and NIS training symposium in Bulgaria to gain first handle knowledge of programs, reforms and systems.

Description: USAID contractor/grantees will work with senior municipal staff, to provide training in key technical areas, e.g., taxation, city management, and budgeting, in selected cities. Contractor/grantees will also work to develop a mayors' municipal association, which aids in the dissemination of lessons learned and best practices among municipal officials and helps to create an effective mechanism for lobbying the central government on issues of concern to local governments.

Host Country and Other Donors: USAID coordinates it's efforts with World Bank activities and the European Union which is working with the Government of Georgia on civil service reform at the central government level.

Beneficiaries: This effort seeks to benefit Georgian citizens in a few targeted cities. However, the number of beneficiaries can grow through an evolving network of municipal/mayors' association. Georgian citizens can also benefit from more transparent, effective and efficient local governments with the capacity to provide municipal services which insure a higher standard of living.

Principal Contractors, Grantees, or Agencies: USAID funded AED - Training and Exchange project and other grantees being determined.

Major Results Indicators:*

Increase in the % of citizens who think local government is responsive to needs
Percent of citizens who think local government provides effective services

*Indicators will be finalized, and baseline and target data will be developed, during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Crises, 110-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $9,400,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Reduced human suffering in Georgia.

Background: The economic crisis and associated collapse of the social safety net coupled with internal conflicts, left Georgia's most vulnerable populations without viable means of support. Until economic conditions improve and internally displaced persons (IDPs) are repatriated, employment and household income will continue to decline, increasing the size of the vulnerable population. Currently the Georgian government does not have the resources to provide adequate support and benefits to those in need, specifically IDPs, which necessitates continuing international assistance in the short term. As international resources available for humanitarian assistance decrease, it becomes increasingly important to better target aid to those who are most in need. At the same time, the government must become increasingly responsible for managing its vulnerable population, particularly refugees and internally displaced persons.

USAID Role and Achievements to Date: Since 1993, USAID has provided humanitarian assistance through U.S. non-governmental organizations (NGOs) and international organizations to assist Georgia's vulnerable population, particularly IDPs. This assistance met critical and immediate needs over the past three years for supplemental food, non-food household items, pharmaceuticals, medical services, water and sanitation facilities, some basic agricultural inputs, and heavy oil for emergency energy needs. Together with the International Office of Migration (IOM), USAID and a USAID funded PVO, Save the Children, assisted the Government of Georgia (GOG) establish its Coordination Bureau for International Humanitarian Assistance (CBIHA) which was later turned over to the GOG to manage. The CBIHA monthly report is still the primary source of quantitative data used by assistance agencies, NGOs and GOG ministries to target and coordinate humanitarian aid.

Description: USAID provides humanitarian assistance in the form of food, pharmaceuticals, water and sanitation rehabilitation, and heavy oil for emergency energy needs. USAID-funded NGOs are also implementing bridging activities in micro-enterprise development, income generation, provision of inputs and technical assistance in agriculture, and reactivation of light industry in vulnerable communities. In order to refine the targeting of humanitarian assistance, USAID co-financed a major national assessment of vulnerability in partnership with the UN's Department of Humanitarian Affairs (UNDHA), European Community Humanitarian Organization (ECHO) and CBIHA and funded the team leader of the assessment. Household data on income, nutrition and health status was collected to establish country-specific vulnerability criteria for identification of humanitarian aid beneficiaries. While USAID continues to fund IOM to carry out capacity building within the GOG in the areas of emergency management and coordination of humanitarian aid, USAID has initiated a Social Investment Pilot project to allow NGOs to develop and implement projects which are critically needed in their local communities.

Host Country and Other Donors: Humanitarian assistance are provided in partnership with UNDHA, EU/ECHO and better targeted by CBIHA. USAID works closely with IOM, the UN High Commission for Refugees, UN Development Program and MRR on migration issues. Other assistance is provided by the European Union, the World Food Program, and the UN Children's Fund.

Beneficiaries: The estimated vulnerable population is expected to drop from 700,000 to 500,000 with improved targeting methods. Of this number, USAID activities benefit some 200,000 persons, both IDPs and non-IDPs, through bridging activities such as income generation and direct humanitarian assistance. Food assistance is provided to 185,000 vulnerable people in western Georgia.

Pharmaceutical assistance provided coverage for over 429,000 women and children in Tbilisi. Water, sanitation and other rehabilitation efforts targeted over 6,000 IDPs living in Western Georgia. Provision of heavy fuel oil for emergency energy benefits most of the population.

Principle Contractors, Grantees, or Agencies: USAID funds humanitarian assistance through U.S. PVOs and international multilateral organizations, including Save the Children Federation, International Rescue Committee, United Methodist Committee on Relief, International Orthodox Christian Charities, International Federation of the Red Cross, UN World Food Program and other UN agencies.

Major Results Indicators:*

Number and % of vulnerable populations decreases
Numbers of people who have improved access to basic services (e.g., food, shelter, clean water, etc)
Number of people with increased personal income due to USAID income generation activities

* Baseline and target data will be developed during the next planning period.

HUNGARY

FY 1998 Assistance to Central Europe Request: $7,000,000

Introduction:

United States political, security, and economic interests continue to be served best by an active foreign assistance program in support of Hungary's efforts to transform itself into a democratic, open market society. Hungary enjoys excellent relations with the United States, and participates actively in U.S.-led security initiatives, including the Organization for Security and Cooperation in Europe, and the North Atlantic Treaty Organization (NATO) Partnership for Peace Program. Seven countries share borders with Hungary, including Serbia, Croatia, and Ukraine. At considerable cost to its economy, Hungary collaborated fully in United Nations (UN) sanctions against Serbia-Montenegro The Hungarian Government (GOH) has actively supported UN and NATO peacekeeping efforts in Bosnia-Herzegovina, and -- as a major front-line State -- continues to provide a vital staging and support base for American and other IFOR troops serving in Bosnia. Over 3,000 U.S. support troops are currently stationed in southern Hungary, and a representative number of Hungarian support troops are also serving alongside NATO partners in Bosnia.

Hungary has moved purposefully to establish a free market economy. A sound, broad legal and regulatory framework is in place, ensuring international corporate accounting standards as well as laws on bankruptcy and liquidation. A five-year program to bring 470 Hungarian laws into harmony with European Union standards was initiated in 1995 and is proceeding on schedule. Foreign capital is encouraged by a liberal foreign investment regime. The economic transition process has led to strong growth in new businesses. Small enterprises are playing an increasingly important role and now account for nearly one-third of Hungary's gross domestic product (GDP). Hungary leads the rest of Central Europe in privatizing State-owned assets, and its private sector is now reported to account for at least 70% of GDP. Liberalization of product, service, and capital markets, as well as deregulation of economic activities have largely been completed. Most consumer and producer price controls have been removed. Tariffs and import restrictions have been reduced significantly, and the bulk of trade (63%) is with European Union members and other Western partners. In October 1996, Standard and Poor followed another American credit rating agency, Duff and Phelps, in upgrading Hungary to investment rating level (BBB-), in response to the Government's ambitious debt repayment schedule.

By almost any standard, Hungary is a democratic country. The country has a fully democratic and representative political system based on free and fair elections. In March 1990, Hungary's first national parliamentary elections were held and were generally considered to be free and fair. The first post-communist era democratic government was formed in May 1990. In 1994, new elections resulted in the Socialist Party's (MSZP) regaining an absolute majority of seats (54%), replacing the previous center-right coalition. The MSZP has governed in coalition with the Free Democrats (SZDSZ), and has honored its platform commitment to free market restructuring and Hungary's integration into Western European economic and political institutions. Adjustment to democratic government has been rapid. Freedom House scoring (based on a scale of 1 to 7, with "1" representing the highest level of freedom,) is a good indicator of how far Hungary has come: with regard to political rights, Hungary's rating progressed from a "5" in 1988-89 to the highest democracy rating by 1993-94. With respect to civil liberties, Hungary rose from a "4" in 1988-89 to "2" in 1990-91.

The Development Challenge.

Hungary's continuing transition from command to market economy has entailed numerous structural changes and resulted in largely privatizing the economy. The results, at the macro-level, became more pronounced in late 1995 and augur well for eventual economic recovery as this trend continues. In early 1995, the Hungarian Government embarked on a tough stabilization program, aimed at curbing

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the current account and budget deficits, as well as reaffirming the Socialist-Free Democrat coalition's commitment to privatization. This austerity program has shown encouraging results. GDP growth is modest, but current account and budget deficits continue to decline, and private direct foreign investment reached an unprecedented level of $13 billion by the close of 1995 (with $15 billion anticipated by December 1996). Hungary remains Central Europe's most favored recipient of foreign private investment, with the United States the single most important source, providing an estimated 40% of the total.

The "twin deficits" (in the balance of payments current account and fiscal account) are un-sustainable, but progress is being made. Traditionally large trade imbalances have been reduced, although imports continue to exceed exports. The fiscal deficit declined from 7.5% of GDP in 1994 to 6.6% in 1995 and the current account deficit of the Balance of Payments declined from 9.5% of GDP in 1994 to 5.6% in 1995. With a public debt to GDP ratio of 0.71 at the end of 1995, Hungary's growth prospects may be compromised unless the process of expansion continues to be accompanied by steady reduction in the level of gross external debt to approximately 60% of GDP.

While revenue from some late-1995 privatizations helped to reduce the debt, Hungary remains the single most heavily indebted country in Europe. Macroeconomic policy adjustments, taken in March 1995 to prevent further deterioration in the current account, appear to have succeeded. The Government plans on financing future current account deficits through foreign direct investment and increased exports, so as to avoid further increases in external debt.

Progress has not been achieved without considerable hardship and sacrifice. For most Hungarians, living standards have continued to decline since 1989. Health, education and social infrastructure -- heavily dependent on dwindling central budget allocations -- have deteriorated; employment and inflation have persisted at high levels; and the gap between rich and poor continues to increase. Unemployment and inflation rates remain high, officially estimated at 11% and 23% respectively, while real wages continue to fall by about 7% annually (in all cases actual rates may be higher than officially recorded). Efforts to overhaul central budget outlays, in order to bring them within the four percent of GDP level stipulated by the International Monetary Fund (IMF), are likely to continue effecting declining living standards for an increasingly large number of Hungarians. In 1994, it was estimated that one-quarter of the entire population were living at or below the poverty line. A 1995 World Bank study suggests that this number may now be even larger, with children, dependent mothers, and pensioners among the most vulnerable. A 1996 American Embassy analysis of health data also noted record low fertility and exceptionally high mortality rates -- the worst since World War II -- which had "accelerated since the fall of Communism...[and which] will have a significant impact on...the Hungarian economy in the next century." Early in 1996, after heated cabinet discussions over further social welfare and health program cuts, Finance Minister Bokros offered his resignation for a second time and it was accepted. His successor remains committed to austerity reforms, however, and the Government is pressing ahead with IMF-backed stabilization policies.

With the major structures of a functioning democracy in place at the macro level, continuing efforts are needed to promote democracy to the grass roots level. Many Hungarians are uncertain and skeptical as to how the new system provides for social welfare support (taken for granted for 40 years). To make Hungary a truly Western style democracy, continuing efforts are also needed to strengthen its civil society through improvements in the media and non-government organizational (NGO) structures.

Most local governments have yet to become effective and accessible, and need to foster the involvement of a rapidly growing NGO sector in community affairs, both as forum for day-to-day citizen participation and as effective partners working in the interest of local populations. Although most local government officials are competent and well motivated, many do not have access to the technical expertise associated with modern management. Management systems are generally incomplete, and cooperation with the new, burgeoning NGO community is often untested or less than enthusiastic.

Other Donors.

SEED-funded USAID obligations for Hungary over 1990-96 amount to $240 million, primarily in the form of technical assistance and Congressional-earmarked capitalization of the Hungarian-American Enterprise Fund ($70 million).

Since 1990 the European Union's (EU) Phare program has committed approximately $637 million in assistance to Hungary through technical assistance programs and loans. EU/Phare planned assistance to Hungary for 1995-1999 is estimated at $553 million. Enterprise development (including privatization), agriculture, and environmental projects account for over half of EU/Phare commitments.

The British Know How Fund has committed approximately $45 million in grant-funded assistance to Hungary over the same period. Although there is no fixed annual budget for Hungary, approximately $6.5 million is programmed annually. Assistance is mainly provided through grant support to individual projects supporting economic restructuring.

The German Government has, since 1990, provided approximately $71 million in assistance to Hungary through its bilateral assistance program. The emphasis of the German assistance program is on support to small and medium-sized enterprises -- about 40% of a $14 million-a-year grant program.

Since 1991 the European Bank for Reconstruction and Development (EBRD) has approved approximately $1 billion in public and private sector loans for 35 investment projects in Hungary which, in terms of lending magnitude, is second only to EBRD loans to the Russian Federation.

The World Bank has committed approximately $1.7 billion in loans since 1986. An additional 10 loans totalling approximately $950 million are currently under preparation. The Bank has focussed on supporting Hungary's efforts to create a market-oriented competitive economy more conducive to private sector development.

Cumulative Japanese grant assistance since 1990 totals approximately $15 million, and is directed primarily to environmental protection, agriculture, industrial and productivity development, health care, and cultural activities.

FY 1998 Program.

The SEED program will assist Hungary in instituting more sound fiscal policies and fiscal management practices; creating a more competitive and market-responsive private financial sector; improving the performance of private small and medium enterprises; creating an economically sustainable, restructured energy sector; and creating an environment where better informed citizens increase their participation in decision-making at the local level. In so doing, USAID will have assisted Hungary in its national transformation to a democratic society, a market-oriented and private sector-led economy, integrated into key international systems and Western institutions.

The 1998 Program has two general thrusts: support for the remaining activities aimed at macro-level issues such as fiscal and financial reform; and enhancing Hungary's ability to carry out the last stage of full democratic and economic transition: bringing both the responsibilities and benefits of the country's transformation to a level closer to the average Hungarian family and community -- in business, in government, and in non-governmental associations. Current budget plans propose FY 1998 as the final year of funding. However, macroeconomic analysis suggests that Hungary may require further assistance in the economic restructuring area. This need will be assessed during the next year.

Strategic Goal: Economic Stabilization and Transformation

Hungary has become the region's leader in privatization. Only 30% of the 1,857 State-owned enterprises (SOEs) in 1990 remained in state hands at the end of 1995. Cumulative direct foreign private investment since 1989 is estimated at $15 billion (foremost in the region, both in absolute and relative terms) and value added generated by the private sector is now close to 70% of total GDP, compared with scarcely 20% six years ago.

This outstanding performance resulted from the convergence of exceptional political commitment on the part of both post-1989 Hungarian administrations and a highly flexible, collaborative, and well targeted U.S. privatization assistance package (totalling more than $20 million in advisory services).

With early SEED/USAID assistance, Hungary's State Privatization Agency (SPA) became a respected and trusted organization. Early USG assistance also enabled the SPA to proceed to the second step and with a second stage of SEED assistance, write tender offers, evaluate environmental liabilities, find buyers, evaluate bids, and structure and negotiate deals. During the period September 1993 to July 1995, the SPA, with direct USAID input, sold 42 enterprises and closed 20 postponement, bankruptcy and liquidation transactions. The total value of these operations amounted to some $620 million: $241 million in sales proceeds and $379 million in new capital subscribed.

In late 1992, the privatization effort for the less profitable smaller firms and agriculture enterprises began to lag amid growing concern that undercapitalized Hungarian investors were unable to compete with foreign capital in the contest for the remaining stock of viable State-owned enterprises. SEED-funded assistance helped to develop a wider range of financing and management methodologies. In addition, USAID assisted Hungary in drafting Employee Stock Ownership Plans (ESOPs) enabling ESOP legislation which soon became the third ESOP law on the books in the world, after the United States and the United Kingdom. By the end of 1995, approximately 200 companies employing over 75,000 people had been privatized through ESOP plans.

In 1994, USAID also provided assistance to assist the then State Asset Holding Company (AVRt), and later known as the State Privatization and Property Company (APVRt), in working on politically or technically complicated privatization projects, such as companies producing national treasures (ceramics, for example) and companies producing in strategic areas. APVRt and KPMG completed the privatization of VIDEOVOX in January 1996. Hungary's APVRt is now fully qualified to complete on its own virtually any of the privatization actions that remain to be undertaken.

As a result of these successes, USAID considers this privatization Strategic Objective fully achieved and has closed it as an ongoing Strategic Objective. The last of important privatization activities, banking and energy, are critical to other strategic objectives and will be continued under other strategic objectives discussed below.

- Strategic Objective: Increased Soundness of Fiscal Policies and Fiscal Management practices

Large and general government deficits over a protracted period have destabilized the Hungarian economy. Domestic imbalances stemming from debt-financed government spending have spilled over into the external sector, creating large, unsustainable balance of payments deficits. Government recourse to the banking system to finance substantial government spending in excess of revenues compromises the Central Bank's ability to pursue coherent monetary policies and reduces financing availability at reasonable interest rates for increased private investment.

Cross-Cutting and Special Initiatives

USAID/Hungary is utilizing 3 discreet activities to provide support for the strategic objectives in the form of activity monitoring, evaluation, and training. Over 200 Hungarians have been brought to the United States for training (usually short-term), in addition to which a number of Parliamentarians and high-level Government officials have been enabled to visit American communities, in order to see local government and modern production and marketing operations at first hand.

HUNGARY
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	1,750,000	--	--	--	1,750,000
Private Enterprise	1,150,000	--	--	--	1,150,000
Financial Reform	1,350,000	--	--	--	1,350,000
Energy	--	--	--	--	--
Citizens' Participation	--	1,750,000	--	--	1,750,000
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	1,000,000	1,000,000
TOTAL	4,250,000	1,750,000	--	1,000,000	7,000,000

*Support for East European Democracy (SEED) Act funds

USAID Representative: Thomas F. Cornell

ACTIVITY DATA SHEET

PROGRAM: Hungary
TITLE: Fiscal Reform, 180-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,750,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Increased Soundness Of Fiscal Policies And Fiscal Management Practices

Background: Sound fiscal policies and fiscal management practices are the necessary underpinnings of Hungary's efforts to achieve a dynamic private sector economy.

Large general government deficits during 1991-1994 were identified as a principal reason for progressive destabilization of macroeconomic financial structures in the Hungarian economy. By 1993 domestic imbalances had spilled over to the external sector, resulting in unprecedented pressure on the balance of payments and the exchange rate. Official inflation figures rose from 21.1% in 1993 to 28.3% in 1995. During the period 1992-1994, the general government deficit averaged more than 7% of GDP. In 1993, total spending by Hungarians was 9% higher than incomes. The current account deficit of the Balance of Payments rose to the equivalent of 9.5 percent of GDP as exports declined and imports soared. Gross household savings declined from about 15% of GDP in 1991 to less than 8% of GDP in 1993. The stock of external debt rose 32% in 199 -1994, from 59% of GDP in 1992 to 69% of GDP in 1994. During the same two-year period debt service rose from 39% of exports of goods and non-factor services to 61%. Arrears, however, have not accumulated (as is often the case for countries with this magnitude of debt servicing burden).

The intrinsic causes of these imbalances have been political, bureaucratic, economic and technical. For political reasons the authorities sought to minimize hardship and other disruptions inherent in the change from a central command economy to one characterized by democracy and open markets. This has included maintaining an implicit social contract regarding health services and social security.

While Hungary appears as a moderately well-off middle income country in contrast to its neighbors, the loss of preferential COMECON trading arrangements and reduction in output wrought by dislocation and reorganization in the transition from predominately State to private ownership and management has very adversely affected household incomes and consumption patterns. Problems such as wide-spread unemployment did not exist before 1990.

The challenge facing the GOH is how to sustain needed fiscal reforms without compromising or stopping progress on economic restructuring or delaying economic recovery and expansion.

USAID Role and Achievement to Date: A major priority for the GOH is pension reform. USAID/Hungary assistance has been vital to the development of a reform framework and legislative options. Several USAID/Hungary activities have improved management practices in the health sector. An environmental economics program has demonstrated how different ministries can collaborate to achieve defined social goals more cost effectively.

Description: USAID/Hungary supports the GOH's global strategy for addressing fiscal reform. This strategy is based on the three principal elements of responsible fiscal management: more efficient budget and program management; improved revenue generation; and rationalization of the role of government.

USAID/Budapest is working with the GOH and other donor partners in developing effective, cost-efficient ways to strengthen the institutional underpinnings of sound fiscal policy-making and

financial management. In addition to structural adjustment lending and balance of payments support, the IMF and the World Bank have provided important technical assistance to Hungary in tax administration, revenue forecasting, treasury/debt management, expenditure management, pensions administration and health sector reform. Complementary USAID assistance has been provided in many of these fields, particularly through SEED-financed U.S. Treasury assistance programs. USAID will continue to coordinate assistance efforts with those of the IMF and the World Bank to support the GOH's determination to improve fiscal policy and fiscal management practices, through technical assistance in budget and program management, improved revenue generation, and rationalization of the role of government.

Host Country and Other Donors: International Monetary Fund, World Bank, EU-Phare.

Beneficiaries: Every citizen is directly affected by how government manages fiscal policies. Thus, USAID's ultimate beneficiaries are the Hungarian people, who will enjoy higher quality government services delivered in cost effective ways that are expected to require a diminished tax burden over time. Principal intermediate beneficiaries are the Ministries of Welfare and Finance. Other key intermediate beneficiaries include the National Health Insurance Fund, National Pension Insurance Fund, and the Ministry of Environment.

Principal Contractors, Grantees, or Agencies: U.S. Treasury Department, U.S. Dept. of Health & Human Resources (USHHR), Financial Services Volunteer Corp. (FSVC), SOLON (health financing consultants), Center for International Private Enterprise (CIPE), and the Joint International Commission on Accreditation.

Major Results Indicators:*

	Baseline 1992	Target 1999
Planned/actual budget deficit (actual as % of planned differential)	182.5%	6%
Tax audits	296,000	400,000
Tax returns	7,500,000	9,400,000
Government expenditures (as % of GDP)	54.2%	45%

* These and indicators shown in following Activity Data sheets are illustrative and still under review. USAID/Budapest is in the continuing process of developing measurable country-specific indicators and targets, to be completed in 1997.

ACTIVITY DATA SHEET

PROGRAM: Hungary
TITLE: Private Enterprise, 180-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,150,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Improved Performance of Small and Medium Sized Enterprises (SMEs).

Background: The SME sector is of critical importance to the Hungarian economy. Some 50% of all jobs in Hungary are SME-generated and SME contributions to GDP approach 50%. SMEs also account for 30% of industrial exports. 97% of all SMEs are microenterprises with fewer than 11 employees. Positive SME growth has declined in recent years, as the number of productive firms has itself declined. Accordingly, there is a pressing need to support small enterprises with growth potential so that they can contribute more to the national economy. This premise guides USAID/Hungary's SME Strategic Objective.

USAID Role and Achievements to Date: USAID/Hungary assisted in the establishment of five total quality management (TQM) centers which serve hundreds of small entrepreneurs. The TQM model has been adopted in the formal curricula of major Hungarian Universities. Some 115 Hungarian entrepreneurs have received short-term training in the U.S. and have been given the opportunity to meet American counterparts. One result has been the formation of several joint ventures.

USAID/Hungary has provided curriculum and training in risk and credit management to senior and middle-level bank managers of the National Savings Bank (OTP). Implementation of these new procedures paved the way for a new small business loan portfolio guarantee program which will increase the availability of loans to SMEs.

SEED-funded assistance enabled USAID to arrange short-term technical assistance by U.S. business professionals to over 200 Hungarian SMEs, enabling the latter to develop business plans and institute modern management and production techniques.

Description: USAID/Hungary assists Hungarian SMEs by addressing constraints in four principle fields: access to commercial banking services; access to market and technology information; more efficient business systems and practices; and a more rational tax structure.

USAID/Hungary's efforts to improve access to commercial banking services include helping SMEs to prepare better loan applications, training loan officers and other key bank personnel on how to be more responsive to customers' needs, and providing information about available financial services. Other donors have significant resources available for sector lending. USAID/Hungary uses its limited resources, and the proposed Credit Guaranty Fund, to work with banks and other donors in developing "packages" of financing and technical assistance, enabling select SMEs to demonstrate the financial viability of such lending. SMEs engaged in agriculture and agribusiness are specifically targeted, since these entrepreneurs traditionally had very limited access to credit.

USAID/Hungary's efforts to improve access to market technology include access to the Internet, as a multi-donor-sustained system of information flows to SMEs. USAID/Hungary introduced the Internet through a system of 35 Local Enterprise Agencies (LEAs) established to provide training and support to local enterprises. Small entrepreneurs thereby gained access to information and were able to promote the sale of their own products and services. The resulting networks will make information on market opportunities available over strategically located computerized databases. Appropriate

information is also available to banks and other lenders, to facilitate credit decision-making.

These efforts to improve business systems also support local organizations that help entrepreneurs acquire essential skills as, for example, in institutionalizing modern business and management instruction in universities and technical schools.

Host Country and Other Donors: To support Small and Medium Enterprises, USAID works with several other donors. The European Union's assistance program (EU-PHARE) provides credit resources for SMEs. Other donors providing significant bilateral assistance include Austria, Belgium, Finland, Italy, Ireland, Turkey, the Netherlands and the British Know How Fund.

Beneficiaries: It is estimated that there are about 800,000 SMEs in Hungary, of which about half are active. Although only a limited number receive direct assistance, a greater number eventually benefit when domestic services and resources become more available as the result of this assistance.

Principal Contractors, Grantees, or Agencies: KPMG-Barents, Center for International Private Enterprise, Volunteers in Overseas Cooperative Assistance, Agricultural Cooperative Development International, World Learning, State University of New York, Indiana University, Eastern Europe Real Property Foundation, International City and County Management Association, Urban Institute, The Center for International Private Enterprise, and the Share Participation Foundation.

Major Results Indicators:*

	Baseline 1991	Target 1999
Banking system credit to small enterprises	2.2% GDP	>2.5% GDP
Users of sponsored database facilities	-0-	20,300
Targeted firms with business plans	TBD	TBD
Taxable private-domestic business profits	-7.1% GDP	4.5% GDP

* These are illustrative indicators and are under continuing USAID/Budapest review.

ACTIVITY DATA SHEET

PROGRAM: Hungary
TITLE: Financial Reform, 180-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,350,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: A More Competitive and Market Responsive Private Financial Sector

Background: Modern, responsive financial systems embracing the banking system, the insurance industry, security and capital markets are necessary for efficiently and effectively channeling savings to the investment opportunities that propel and sustain economic growth. The financial sector in Hungary remains underdeveloped and unresponsive to the needs of a sustainable market economy.

Hungary's overall financial system is weak and its banking sector is dominated by poorly performing state-owned banks. Financial system supervisory institutions are in a start-up phase and not yet developed. The extent to which supervisory agencies can be genuinely independent is not yet established in Hungary. Inefficient banking system intermediation has resulted in inappropriate asset structures, high spreads and poor average operating performance. Average capitalization of banks is not adequate by international standards.

Of the 43 banks in Hungary in 1995, 22 were partially or wholly foreign owned. These 22 banks controlled just 21% of banking assets, yet accounted for 44% of the corporate lending market. The large state-owned banks have difficulty competing in the financial market place despite expensive government attempts to restructure them in recent years.

In August 1996, the Economic Cabinet approved the new banking law which will merge the bank and stock exchange regulatory agencies. This development makes the job of banking supervision complex, because of the need to incorporate into the institution building task responsibilities related to the stock exchange.

USAID Role and Achievements to Date: Through USAID/Hungary assistance, a draft of the Financial Institution Law has been refined for submission to Parliament and is expected to be effective in 1997. A centralized Treasury Department in the Ministry of Finance is now fully operational.

On-site bank audits by the Hungarian State Banking Supervision Agency are now being done.

USAID/Hungary is assisting the Hungarian Bank Association sponsoring a new credit rating agency expected to be operational in 1997. In collaboration with U.S. Treasury advisors, substantial support has been provided to GOH agencies in bank restructuring and privatization. By the end of FY 1996, eight state-owned banks were wholly or partially privatized. Four additional banks are expected to be privatized by the end of 1998.

Description: USAID/Hungary is assisting Financial Market reform by addressing constraints in the areas of regulation and supervision and operational efficiency.

USAID/Hungary is assisting Hungary to improve financial regulation and supervision and operational efficiency through activities designed to referee the system in terms of its principal institutions: The Ministry of Finance, regulatory agencies, a credit rating agency, The Hungarian Bank Association, the Budapest Stock Exchange, Securities Clearance and Settlements Facility and similar institutions.

USAID/Hungary provides expert technical assistance to review draft legislation in this area (such as the proposed new Banking Law) and Bank Supervision rule-making capability. U.S. assistance in this area is a key element in assuring the outcome. U.S. Treasury advisors advise Hungarian government officials in bank restructuring preparations for bank privatizations and debt management. USAID/Hungary housing related assistance, including a loan guarantee program, encourages mortgage lending and reform policies affecting the housing finance market.

Host Country and Other Donors: Other major donors involved in this sector include the International Monetary Fund, EU-PHARE, the World Bank and the British Know How Fund.

Beneficiaries: The ultimate beneficiaries of activities under this Strategic Objective, are savers and investors and the institutions they do business with. Intermediate beneficiaries include the Ministry of Finance the three regulatory agencies, the credit rating agency and the Securities Clearance and Settlement Facility.

Principal Contractors, Grantees, or Agencies: U.S. Department of Treasury, Financial Service Volunteer Corps (FSVC), KPMG-Barents, First Washington Associates, EU/Phare, the British Know-How Fund, the Hungarian Banking Association, the Urban Institute, and the Center for International Private Enterprise.

Major Results Indicators:*

	Baseline 1991	Target 1999
Financial sector assets (as % of GDP)	93%	120%
On-site bank examinations/audits (yearly)	-0-	18
Return on invested capital (financial institution profits as % of GDP)	2.2%	4.5%

* These are illustrative indicators and are under continuing review by USAID/Budapest.

ACTIVITY DATA SHEET

PROGRAM: Hungary
TITLE: Citizens' Participation, 180-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1997: $1,750,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Better informed citizens increase their participation in decision-making at the local level.

Background: It is recognized that the consolidation of democracy depends in large measure on the ability to honor public expectations as, for example, in the government's ability to address problems such as unemployment, economic insecurity, social injustice, while completing difficult market-oriented reforms essential for longer-term prosperity. Successful consolidation also entails institutionalizing democratic processes and values, by demonstrating that these are indeed workable.

Broadening participation in governance decision-making, to include non-governmental organizations (NGOs) and public-private partnerships, serves to improve the quality of a country's governance, as well as to increase the likelihood that essential governance reforms are undertaken and sustained. Effective and sustained governance depends not only on increased political participation by the governed, but also increased transparency and accountability by those who govern.

USAID Role and Achievements to Date: USAID/Hungary consultants monitored elections, strengthened political parties, and helped to equip the library and executive offices of the Hungarian Parliament in the early years of the democratic transition. Visits of U.S. Congressional leaders to Hungary have provided opportunities for valuable dialogue on such critical issues as freedom of the press and protection of minority rights. The regionally financed Salzburg Seminars brought together political leaders and academics to discuss issues central to the democratization process. SEED-funded consultants advised Hungarian Government administrators and Parliamentarians on local government issues, the broadcast media bill, and the National and Ethnic Rights Bill.

SEED-funded environmental protection consultants have advised municipalities, enabling the latter to prioritize and manage solid waste and wastewater issues. Training has also been provided through SEED funding and USAID contractors to enable local governments to undertake more effective budget planning.

USAID/Hungary was directly involved in the framework analyses for an NGO law submitted to Parliament. In cooperation with the Ministry of Culture and Education, civil debates to discuss the NGO draft law took place in all 21 Hungarian counties. Over 90 grants have been provided to support the activities of local NGOs.

Over 30 local television station professionals from 13 Hungarian cities have been trained in local news production, business management, marketing, and advertising, as well as in the uses of the Internet and the World Wide Web in communicating with other stations to exchange resources and programs.

In 1995, twelve Hungarian mayors completed USAID/Hungary funded training programs to learn how American practices can be applied to representation and employment generation in the cities they manage. This was followed, in November 1996, by a two-week visit to various U.S. cities by fifteen senior Hungarian public administration officials, to see municipal government and NGO operations in action.

Description: USAID/Hungary is assisting local level democratic reform by improving access to useful information, by helping citizens become more active, and by helping local governments to operate more

effectively and to be more responsive to their citizens. Increased flows of useful information are occurring through strengthened local independent media and through developing mechanisms for local governments to provide citizens with increased access to information about local issues. A more active and responsive civil society is being achieved by fostering cooperation between local governments and NGOs to deliver key services, helping local governments and NGOs create mechanisms for collaborative decision-making, training NGOs to advocate for issues more effectively, NGO capacity-building, and assisting in the drafting of NGO-related policies, laws, and regulations.

USAID/Hungary efforts focus on fostering local government and NGO cooperation to deliver key services and improve the general management capacity of local governments. This includes developing and implementing improved financial administration at the local government level, and includes helping municipalities develop and institutionalize processes that generate annual capital budgets that integrate citizen inputs for establishing capital improvement priorities. These efforts extend to increased inter-local cooperation, which has improved the ability of county labor centers to respond to employment crises; assisted in the creation of mechanisms for dispute resolution, promoted changes in national level frameworks, to enhance the policy environment and diversify municipal revenue sources conducive to increasing the overall effectiveness of local governments.

To ensure that replication vehicles for models are institutionalized, USAID has contracted an Advocate for Civic and Municipal Innovation. This Advocate is developing a strong outreach capacity to make local governance innovations available countrywide, empower indigenous Hungarian associations and other institutions to develop the capacity to support outreach on a sustainable basis, and facilitating communication and coordination between and among relevant USAID/Hungary activities and other donors.

Host Country and Other Donors: Ongoing efforts in democracy building are coordinated with those of other donors, including EU/PHARE, British Know-How Fund, Organization for Economic Cooperation and Development (OECD), SIGMA, and the Soros Foundation.

Beneficiaries: This effort seeks to benefit local communities by ensuring greater participation and more useful information. Local governments and NGOs will be the intermediate beneficiaries.

Principal Contractors, Grantees, or Agencies: Environmental Protection Agency (EPA), Regional Environmental Center, United States Information Agency, United Way International, Local Environmental Management, Urban Institute, International Research and Exchanges Board (IREX), and International City Management Association (ICMA).

Major Results Indicators:*

	Baseline 1996	Target 1998
Voter turn-out for local initiatives	5%	50%
Public relations/media plans developed and initiated by local governments	30	500
NGOs engaged in advocacy-related activities	518 (1993)	650
Inter-local cooperative councils/fora established	20	500

* These are illustrative indicators and are continuing review by USAID/Budapest.

IRELAND

FY 1998 Economic Support Fund Request: $19,600,000

Introduction.

Years of strife and civil conflict have had a devastating effect on the social fabric and economy of Northern Ireland and the six counties of the Republic of Ireland which border Northern Ireland (Donegal, Sugo, Leitrim, Cavan, Monaghan, and Louth). Investment is inadequate, unemployment is high, and economic opportunity only a dream. These harsh conditions are self perpetuating and lead to distrust, inequity, and anger. The resulting unrest discourages investment and the cycle begins again. The unrest created by the 1996 "marching season" provides ample evidence of this. Economic assistance at the community level has been identified as the most effective means to break the cycle. Job growth has been the chief determinant of civic stability. The United States provides economic assistance to address these concerns through the International Fund for Ireland (the Fund).

The objectives of the Fund are to promote economic and social advancement; and to encourage contact, dialogue and reconciliation between Nationalists and Unionists throughout Ireland. The Fund seeks to reach these objectives by supporting and promoting social reconciliation through economic development in Ireland and Northern Ireland, with priority given to new investments that create jobs and reconstruct disadvantaged areas. The Fund has been very successful in encouraging communities to take ownership of projects which can benefit their areas. The jobs and social stability which result from the U.S. contribution to the Fund are a tangible expression of the U.S. policy of encouraging peace and reconciliation through economic progress.

The United States has contributed approximately $267,600,000 to the Fund since its inception in 1986.

The Development Challenge.

Northern Ireland and the bordering Irish counties have seen over 25 years of armed struggle. Long-standing lack of equal opportunity is key to the conflict. All major social and economic indicators continue to show that Catholics in Northern Ireland are more disadvantaged than Protestants. Northern Ireland has the highest unemployment rate in the United Kingdom. Despite some improvement in job growth, long-term unemployment remains severe. There have been improvements in the rate of reemployment for Catholics, however, Catholic males remain unemployed disproportionately compared with Protestant males. Inability to travel freely throughout the security zones compounds the difficulties for both groups in seeking employment. In addition, nationalists have been reluctant to seek employment in the security zones.

The Disadvantaged Areas Initiative continues to be a primary focus for the Fund, enabling its resources to be targeted at the areas of greatest need. Projects in support of the Initiative focus on community economic regeneration, community improvement, and border towns and villages with special emphasis on employment and business creation. Another area of great importance is the Fund's Communities Initiative, which is concerned with providing people in the most disadvantaged areas with the skills, resources and self-confidence to undertake the social and economic regeneration of their communities. Special emphasis in the Communities Initiative is on leadership potential, reconciliation and conflict resolution. The Fund views itself as a facility to catalyze and support economic, political and social initiatives aimed at permanent reconciliation among Catholic and Protestant communities. However, the recent set-back in the ongoing peace process in Northern Ireland brings added urgency to its work.

Other Donors.

The Fund's activities are financed through international contributions from the United States, the European Union, Canada, New Zealand, and Australia. Each of the donors sends a non-voting observer to all Board meetings. In 1996, the European Union was the largest donor to the Fund, providing approximately 50% of total donor funding.

FY 1998 Program.

The Fund's principal efforts are directed at reducing the economic hardships of unemployment and community infrastructure decay in order to reduce the economic differences that exacerbate social disruption along religious lines.

Cross-cutting and Special Initiative: Promoting Peace in Northern Ireland and the Republic of Ireland

It is at the local community level that real change has to take place in order to achieve increased employment, social progress and promote reconciliation between people from different cultural backgrounds. The Fund supports the active involvement of communities in shaping their own futures. The Fund will continue its emphasis on projects which support economic regeneration. The focus on disadvantaged areas will also continue.

The Fund is multilateral and non-partisan. It disburses funds in accordance with the economic and social policies and priorities of both the Irish and United Kingdom governments. Funding supports employment generation and investment promotion, with special emphasis on projects promoting communal reconciliation. As of September 1994 Fund-supported projects have created 23,787 jobs. Four hundred forty-one organizations have been assisted to promote social and economic development, involving over 5,700 community leaders.

IRELAND
FY 1998 PROGRAM SUMMARY

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Cross-cutting / Special Initiatives				19,,600,000a/	19,600,000
TOTAL				19,600,000 a/	19,600,000

a) Economic Support Fund

Director, Office of European Country Affairs: David Cowles

KAZAKSTAN

FY 1998 Assistance to the NIS Request $52,000,000

Introduction.

Kazakstan, the world's largest land-locked country, is resource-rich and offers considerable trade and investment opportunities. Of particular value are vast reserves of oil and natural gas, as well as gold, copper, and chromium. Lack of effective transport routes and relative isolation make it difficult for Kazakstan to access international markets. The government is publicly committed to building a democratic, market-based political, social and economic order. Considerable progress has been made in a number of areas since independence in 1991. The country's geographic location, combined with its mix of both Russian and Asian traditions, position it to play an important role in supporting a successful interaction between the two traditions. Kazaks represent the country's largest ethnic group, though they do not constitute a majority in a country with over 100 ethnic groups.

U.S. national interests in Kazakstan are both commercial and strategic. The country actively promotes Western trade, investment and economic support. The potential is enormous, especially in the energy sector. Foreign investment is already at levels higher than any other former Soviet republic including Russia, but continued progress in establishing a transparent, consistent legal and regulatory environment is needed to maintain and expand on this level of investment. Kazakstan's large size and geographical location makes it a key player in shaping the post-Soviet political and economic order in the large Eurasia landmass. Relations with Russia are vital, as are those with China, its other large neighbor; Kazakstan also interacts closely with the other Central Asian republics and, more indirectly, with both the Middle East and the Indian Subcontinent to the south. Kazakstan was one of four states in the former Soviet Union that possessed nuclear weapons on independence, but is now nuclear weapons free. An independent and prosperous Kazakstan which engages constructively on the international stage is an important factor in determining regional stability in a potentially volatile area of the world.

The Development Challenge.

Kazakstan, the largest recipient of U.S. assistance in Central Asia, has succeeded in arresting the economy's downward spiral and in establishing an increasingly sound macroeconomic policy framework. Inflation was reduced from 1,160% in 1994 to 60% in 1995; in 1996, the annual rate is expected to be about 30%. The fiscal deficit was cut from just under 7% of GDP in 1994 to 2.7% of GDP in 1995; in 1996, the anticipated deficit is estimated at 2.9%. On the monetary front, Kazakstan's strong reserve position helps keep the *Tenge* relatively stable. Also, the treasury bill market has expanded and the Central Bank is relying on increasingly sophisticated indirect monetary control. The Central Bank has asserted much needed control over the banking sector by establishing an effective bank supervision regime and enforcing capital requirements. More than 130 insolvent banks have been closed during the past several years, including one major bank that conventional wisdom had thought was "too big to fail".

The government has undertaken a number of steps to address key legal and regulatory reform issues and additional measures are planned. Recent reforms have been undertaken in the Foreign Investment Law, the Law on Petroleum, and the Law on Subsurface Utilization which should clarify and strengthen the rights of foreign investors. The government has also developed an ambitious legal reform agenda for developing the regulatory framework needed to clarify property ownership and transfer rights and the rights of parties to economic transactions. An inter-Ministerial working group is currently designing a comprehensive package of regulatory and legal reforms to introduce a two-tier private pension system intended to make private pension plans mandatory by 1998. The government also continues to move forward aggressively in its efforts to become a member of the World Trade Organization (WTO) and in July 1996 submitted its Memorandum of Foreign Trade Regime, the core negotiating

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document for WTO accession.

Kazakstan has made significant progress in small-scale and mass privatization, although there remains some concern that cash auctions have slowed considerably during the past few months. As a result, only about one-third of all state enterprises eligible for sales through cash auction have actually been sold off to the private sector. In addition, the privatization of "large-scale" enterprises," which represent a significant share of Kazakstan's productive assets, is proceeding slowly. Significant progress in large-scale privatization is needed to ensure that the economic reforms that have already taken place result in economic growth.

While the investment climate has improved, much remains to be done before Kazakstan will be able to attract the continued high levels of foreign investment it needs to substantially increase the standard of living for the majority of Kazakstani citizens. A number of important steps have been taken to promote a viable securities market, including strengthening of key market institutions such as stock exchanges, central depositories and basic ownership structures. USAID is working with the government to ensure private control of these structures and to streamline licensing requirements and transform private investment funds into investment companies.

Growth in the energy sector has not yet met expectations, although it is still regarded as a primary engine for future economic growth. Oil and gas development in particular are critical to the economic future of the region. Current oil production levels are still much lower than at independence in 1991. Recent agreement on a restructured consortium to construct an export pipeline for Caspian basin oil offers new promise for accelerating the rates of production and the volume at which Kazakstan's oil and gas reaches world markets. USAID continues to urge the government to establish an independent oil and gas regulatory agency, thereby allowing the government to play a facilitating rather than a controlling role. It would also eliminate the current confusion created by multiple government agencies with overlapping regulatory powers and authorities.

Power sector reform seems to be well underway with the December 1995 adoption of an independent regulatory commission for electricity; privatization of over 30% of the national generating capacity in 1996; and plans for establishing a competitive wholesale power market in 1997. USAID is working with the government on drafting implementing rules and regulations that would promote the independence of the commission and the operation of the wholesale power pool, with an eye toward furthering the privatization process and attracting foreign private investment in the power generation, transmission, and distribution subsectors. On a local level, Kazakstan ordered an end to general utility subsidies in 1996.

Agricultural performance has been disappointing in a number of respects. The grain harvest was better in 1996 than in 1995, but still much lower than 1994 figures. Kazakstan will still meet its own domestic requirements, but grain exports will be much reduced. Drought, inefficiencies in supply and distribution systems and a shortage of spare parts and fuel all contributed to the poor harvest. Areas in which the private sector plays an important role, such as the production, distribution and marketing of fruits and vegetables, have performed much better.

Kazakstan's population is relatively well educated, and its literacy rate is almost 98%. However, education systems are geared toward a central, command economy and basic understanding of how a market economy works is often lacking. State-organized systems for delivering social services have proven to be unsustainable. USAID has been instrumental in introducing reforms which help decentralize the health care system and strengthen primary health care. USAID also assisted in addressing major obstacles to the provision of quality drugs at affordable prices by promoting private pharmacies and helping to break up "pharmatsiya," the large public sector monopoly that previously controlled the marketing and sales of health-related supplies across Kazakstan. At this point, some 80% of all drugs are imported and distributed by private companies. The economic transition has proven to be especially difficult for vulnerable groups such as pensioners and large families headed

by women. Mechanisms for targeting assistance for vulnerable groups are now being established. For example, in 1996 a national program to target housing subsidies was introduced.

Individual human rights are by and large respected. There is a lively independent media and the non-governmental organization (NGO) sector is expanding rapidly. However, most Kazakstanis tend to focus on economic concerns and many people appear uninterested in the political process. An April 1995 referendum extended the president in office until 2000, and a new constitution, approved by referendum in August 1995, concentrates power in the presidency. The next presidential election is anticipated in 2000. USAID programs are assisting the new parliament as well as independent media and NGO development. Intergovernmental finance and other mechanisms to strengthen local government are being supported and will receive even greater attention in the future.

According to projections, the high level of technical assistance which currently characterizes the USAID/Central Asia program in Kazakstan should evolve into a combination of high level trade and investment promotion combined with partnership-type programs requiring less management attention and aimed at consolidating a long-term cooperative partnership relationship.

Other Donors.

Other donors are heavily engaged in Kazakstan, reflecting the country's reputation as one of the early reformers interested in working with international institutions to effect lasting change. A policy package supported by the IMF's Extended Fund Facility was negotiated with the IMF in July 1996, and the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB) and the World Bank all have active programs. The World Bank provides technical assistance for economic restructuring and loans in key areas related to oil development, urban transport, social protection, and finance and enterprise development. New projects in a number of areas covering land registration, financial sector adjustment, private sector support, irrigation and drainage, water supply, agricultural privatization, and treasury modernization are being prepared. EU-TACIS and bilateral donors such as Germany, Britain, and Japan provide additional aid, usually in the form of technical assistance and training. The UNDP recently sponsored a conference to examine social dimensions of the transition and the World Bank and other donors are focusing increasing attention on the importance of investing in human capital and in social sector development more generally. USAID works closely with these other organizations and in some instances their resources are able to supplement and provide wider support for programs pioneered by USAID-funded technical assistance teams.

FY 1998 Program.

USAID's strategy for helping Kazakstan achieve a democratic, market-based society focuses on three main areas: the economic, democratic, and social aspects of the transition process. Economic restructuring remains the single most significant part of the portfolio, with emphasis shifting over time from privatization (in which USAID funding is now being phased out, though the World Bank continues to lead the large-scale privatization effort) to broader legal and regulatory policy reforms. Under the Partnership for Freedom new programs will encourage economic growth and develop links between Kazakstanis and Americans.

The planned 1998 program anticipates a continued evolution of the USAID program in the area of economic restructuring. In the past few years, the USAID economic restructuring program in Kazakstan has gradually moved through a three-stage progression: (1) initial focus on short-term economic stabilization measures designed to help bring government spending and inflation under control; (2) support for privatization of small-and medium-sized enterprises; and (3) establishment of financial markets and development of an appropriate legal infrastructure for commercial activities. The first two stages of this process will be largely complete during FY1997. In FY1998, it is envisaged that the USAID program will continue to focus on the third stage by helping to deepen the now nascent financial sector through direct support to financial market institutions, further development of

commercial legal infrastructure, and further rationalization of intergovernmental financial relations.

Planned democratization programs include a mix of support for independent media, strengthening the parliament, and developing local NGOs, including legal and business associations, as an essential feature of a more open civil society. Concurrently, a local government program is being developed that will address social sector concerns while promoting more effective, accountable local governance.

Work in the social sectors is critical to sustaining support for a successful economic transition. Specifically, incentive-based market systems will be introduced to improve the efficiency and quality of health service delivery. The health system will be reoriented to emphasize cost effective primary health care over more costly hospital-based systems. Private housing ownership and maintenance will be promoted through the expansion of residential housing associations. Cost recovery programs for utilities and targeted housing and other social allowances will also be emphasized.

Finally, a continued training program is envisaged that cuts across all sectors. The program will place greater emphasis on cost-effective, in-country training programs that provide the technical skills needed to effectively implement policy change.

Strategic Goal: Economic Restructuring

Kazakstan's educated population, large natural resource base and relatively developed industrial infrastructure offer a number of advantages that should enable it to eventually compete effectively in world markets. Although the shift from a socialist system to a market-based economic system has at times been difficult, Kazakstan is well down the path toward fundamental, lasting change. As the Government's small- and mass-privatization programs, implemented with considerable assistance from USAID wind down, greater emphasis needs to be placed on deepening the capital markets and broadening the legal reforms needed to ensure that newly privatized firms grow and prosper.

USAID advisors played a central role in developing Kazakstan's new tax code that was introduced in July 1995. It has been described as perhaps the most modern and transparent code in the former Soviet Union. Considerable work is also being done to improve the budget planning and implementation process. Effective implementation of these new policies is needed in order to ensure their ultimate success. Key activities include providing technical advisors and training in modern tax administration procedures. Programs aimed at ensuring more rational and transparent ways to raise revenues and allocate funds among the various levels of government (national, oblast, local) is also planned.

Dealing with bureaucratic obstacles related to trade and investment concerns also figure prominently in the work being undertaken, with a view toward assuring the economic climate in Kazakstan is attractive to both local and foreign investors. Private economic actors must know the "rules of the game" at the outset, and potential new investors have to be sure beforehand that they can confidently analyze risks involved in a new venture. Also, greater transparency is essential to counter corruption and ensure a level playing field for all private sector actors. In this regard, USAID-supported work in introducing modern accounting standards, improving financial management and offering judicial training to those involved in administering commercial codes are important tools for addressing the crime and corruption issue.

The notion of financial markets was almost unknown during the Soviet era. In a market economy, strong financial markets are needed to ensure that capital is channeled into areas of highest economic return rather than being squandered on inefficient enterprises that contribute little to long-term growth. Initial USAID activity helped found Central Asia's first stock market in Almaty as well as an independent securities exchange commission to regulate it. Other steps underway include expanding the size and scope of the stock exchange and ensuring that Kazakstani counterparts are effectively equipped with the skills needed to manage a modern financial sector, including adoption of modern

Western accounting practices. As with fiscal and commercial environments, a strong financial sector is crucial for attracting the kind of trade and investment needed to ensure sustainable, long-term commercial relationships in the international marketplace. The Central Asian American Enterprise Fund provides loan and equity capital aimed at promoting private sector development.

Energy--including oil, gas, and electricity--is an obvious sector of focus for economic restructuring. Given U.S. Government interests in energy development and the fact that Kazakstan's own future growth hinges in large part on energy development, USAID has done considerable work in legal and regulatory reform over the past two years in the power subsector. Over the past year, this work has been extended to the petroleum industry as well. Effective implementation of the recently announced policy reforms in the power sector is needed to ensure ultimate success, and considerable further support for legal and regulatory reform in the petroleum sector is required. The latter includes establishment of an independent oil and gas regulatory agency; tax rules that support production sharing agreements; a simplified and rational licensing regime; and environmentally sustainable rules and regulations governing petroleum exploration, processing and transport.

- Strategic Objective: Increased soundness of fiscal policies and fiscal management practices
- Strategic Objective: Accelerated development and growth of private enterprises
- Strategic Objective: A more competitive and market-responsive private financial sector

Strategic Goal: Democratic Transition

There were a number of setbacks last year in terms of democracy building in Kazakstan, including the use of a referendum in place of a presidential election and the relatively sudden introduction of a new constitution that concentrates power in the office of the president. International observers have questioned some elements of the electoral process as it has been implemented in Kazakstan. More positive signs include a sensitivity to human rights, maintenance of a lively independent media and the expansion of a nascent NGO sector. The new parliament is getting organized and increasingly making its presence felt. Building democracy will be a long-term process in Kazakstan, requiring both commitment at the upper levels of government and active interest on the part of individuals and NGOs in helping to shape future development patterns.

The trend toward greater centralization of power underscores the importance of expanding the flow of information and ensuring that a variety of voices are heard. Growing emphasis has been placed on building and sustaining local NGOs as a way to ensure more grassroots involvement. Emphasis will now focus on developing NGO organizational skills, especially in the business and professional advocacy area. Assistance will also continue to be provided to independent radio stations and television networks, both to improve their professional programming skills and to ensure that they become sustainable, commercially viable business operations. Civic education, bar association development, and judicial reform also receive support. One grantee is currently doing a follow-up to last year's survey on voter attitudes. Another is helping to develop a bar association in Chymkent as part of a deliberate attempt to move assistance out of the capital. Central Asia's first national NGO coalition was also recently formed, in part as a result of USAID activity in this area.

Finally, local governments appear receptive to activities which support development of sustainable urban and social service delivery. The experience of other countries in Eastern Europe and the former Soviet Union for these types of interventions underscores the importance of initiating such programs to assure eventual improvement in other people's lives. USAID is actively working with other donors to achieve results in this area.

- Strategic Objective: Increased, better-informed citizens' participation in political and economic decision-making

- Strategic Objective: Demonstrate more effective, responsible and accountable local government

Strategic Goal: Social Stabilization

A recent external evaluation of the USAID-funded health reform program concluded that "there is a strong supporting relationship between the substantive reform of the health care system and the overall success of the transition to market oriented, democratic societies . . . Unless people believe that there is a continued commitment on the part of government to maintain the social safety net, the overall transition could falter."

USAID plans to take the next step in improving the sustainability of social services by developing technical assistance and training interventions based on the combined lessons learned from demonstrations in local self government and in the social sector (e.g., housing and health). USAID plans to work at both the national and the local level. USAID plans to continue to demonstrate that health and housing reform can be carried out in a cost-effective basis while improving quality and availability of services. These efforts will complement the activities undertaken in the local self government initiative.

The Mission will continue to support health financing schemes that contribute to long term financial sustainability. It will also continue to support decentralization of the health budget and to establish primary health care units such as family group practices. In the next two years, USAID will complete the introduction of health reform in the two pilot areas and will expand the pilot to selected regions. USAID will phase out external technical assistance while developing local capacity to continue the health reform agenda in Kazakstan. USAID recognizes that resources to improve the sustainability of social benefits are unlikely to be achieved by any single donor. Thus, USAID will actively continue to leverage resources of other donors, especially the World Bank, to replicate pilot interventions on a national basis.

One of the deepest inefficiencies in the Kazakstan health system is the imbalance between curative, hospital-based health system and primary health care. Already because of USAID efforts, there has been a dramatic percent increase in family group practices within the past year in the health reform sites. Today, approximately 56 such practices now have the legal status to operate as independent health care providers in Zhezkazgan. Last year there were none. However, technical assistance will be necessary to help these practices become financially and technically viable units within a market oriented economy. Consumers now can choose the group practice that they want to join, unlike under the old system in which the individuals were assigned to a particular hospital catchment area.

Based on USAID technical assistance, a case-based hospital payment system has been introduced in the pilot sites. As a result, there has been a 20% reduction in the average length of hospital stays. The savings to the local health budget due to the decreased length of hospital stay can be directed to primary health care facilities for preventive care. The new cost accounting data analysis system introduced by USAID advisors also resulted in payment to health facilities on a per case basis rather than on number of beds. This payment change has already improved the quality of care and resulted in budget savings at the national level.

Because of the breakup of the centralized pharmaceutical monopoly, private companies are now importing and distributing 80% of the pharmaceuticals in Kazakstan. It is reported that private retailers charge six percent lower than State-owned retail pharmacies for similar medical supplies. The housing allowance program also represented a breakthrough in demonstrating the effectiveness of targeted rather than general subsidies. In some cities, savings have been estimated at over 50%. Budget savings of as much as 30% are possible in some local communities as a result of USAID-supported approaches to targeted housing subsidies.

In the housing sector, USAID's promotion of homeowners associations has begun to demonstrate that families can take control over their own living conditions. With the support of local municipal officials, approximately 2,500 homeowner associations have been formed and are privatizing housing functions previously inadequately and expensively carried out by government.

Remaining activities under the Aral Sea initiative will focus on the negotiation and preparation of draft laws, decrees, and long-term agreements concerning regional water use and sharing.

- Strategic Objective: Improved sustainability of social benefits and services
- Strategic Objective: Reduced environmental risks to public health (CAR Regional)

Cross-cutting and Special Initiatives

Special initiatives related to medical partnerships, infectious disease control and family planning will continue to be shaped to improve the sustainability of the social sector and to support the health reform agenda. The medical partnerships activities are helping to improve health care protocols, management and clinical practices in Kazakstan.

Under the FY 1997 reproductive health earmark, the contraceptive social marketing program is employing market approaches to selling contraceptives. Fifty percent of the private pharmacies are now selling quality contraceptives. Abortion rates in Kazakstan have declined as modern contraceptives are more readily available in the market. The USAID-funded Kazakstan Demographic Health Survey undertaken in 1995, the first in the former Soviet Union, provides reliable data on the health status in Kazakstan for formalizing health policy and targeting interventions where they are most needed. Among other things, the survey indicated relatively low fertility rates; according to the survey, the Kazakstani women will give birth to an average of 2.5 children.

For infectious disease programs, Kazakstan is introducing more effective, efficient and cost-effective surveillance measures. New and modern immunization policies and schedules are being developed in ways that promote a more modern and efficient health care system in Kazakstan.

Also under cross-cutting programs, the NIS Exchanges and Training program continues to provide important support for reform-minded Kazakstanis to obtain specific training in a way that also exposes them first-hand to Western systems and methods. The training has proven to be especially effective in Kazakstan because it is usually linked to the larger technical assistance effort and because counterparts often come back with new ideas and views on how to do things differently back in Kazakstan. Given the country's historical isolation, this opportunity is all the more useful.

USAID provided U.S. short-term training for 164 officials in 1996, bringing the total for Kazakstan since 1994 to 646. Another 122 U.S. participants are planned for 1997; in-country training is also planned for 1,700 individuals. The training is essential to support the wider technical assistance effort and to achieve objectives in many areas, including tax policy, central banking operations, national budgeting, commercial law, accounting standards, and health reform. This effort benefits Kazakstanis at all levels by training qualified public officials who are able to establish laws and regulations that are transparent and foster the growth of markets and democratic governance.

In FY1998, training resources will be delivered as comprehensive "packages" that include U.S. short-term training as well as third country and in-country programs. Alumni Resources Centers have already been set up, allowing returning participants to utilize electronic communications, photocopying, and conference facilities. The in-country program provides for additional training through seminars and conferences, cost-effectively conducted by technical expertise already located in Central Asia.

The technical training provided has been instrumental in assisting the Government of Kazakstan in the implementation of its economic restructuring program. Focus will shift from preparing and persuading decision-makers to adopt policy changes toward greater emphasis on implementing the policies at regional and local levels. Training will continue to be coordinated closely with other donors in Kazakstan.

The Special Initiatives category also includes other U.S. agency activities that do not directly support USAID's strategic objectives, such as the U.S. State Department's Science Centers programs.

KAZAKSTAN
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	2,000,000	--	--	--	2,000,000
Private Enterprise	22,000,000	--	--	--	22,000,000
Financial Reform	4,000,000	--	--	--	4,000,000
Energy	--	--	--	--	--
Citizens' Participation	--	6,000,000	--	--	6,000,000
Legal Systems	--	--	--	--	--
Local Government	--	2,000,000	--	--	2,000,000
Crises	--	--	--	--	--
Social Benefits	--	--	4,000,000	--	4,000,000
Environmental Health	--	--	500,000	--	500,000
Cross-cutting / Special Initiatives	--	--	--	11,500,000	11,500,000
TOTAL	28,000,000	8,000,000	4,500,000	11,500,000	52,000,000

*FREEDOM Support Act (FSA) Funds

USAID Mission Director, Patricia K. Buckles

ACTIVITY DATA SHEET

PROGRAM: KAZAKSTAN
TITLE: Fiscal Reform, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased soundness of fiscal policies and fiscal management practices.

Background: The Soviet legacy ensured that newly independent states such as Kazakstan inherited an antiquated set of fiscal programs and policies. Complicated budget procedures lacked transparency. Similarly, little was known about modern approaches to tax collection and revenue generation. Progress in both areas is essential in order to ensure and sustain macroeconomic stability.

USAID Role and Achievements to Date: USAID-funded advisors made major contributions to the formulation of a new tax code, adopted in July 1995 and described by some outsiders as perhaps the most modern and transparent of any in the former Soviet Union. On the budgetary side, USAID-funded contractors and USAID-funded Treasury advisors are helping to introduce a new budget classification system, a national and local budget law, and a modern system for managing public external debt. Other USAID-funded advisors are working with Kazakstani counterparts to ensure a more efficient revenue collection system and to shape more rational and transparent budgetary processes. Now that a new tax code is in place, the focus is shifting to training and hands-on instruction in how to manage and implement the new system. Advisors work directly with counterparts to improve systems and to rationalize the expenditure and taxation authority among the various levels of government (national, oblast, local).

Description: In FY1998 USAID technical assistance in the fiscal area will concentrate mainly on further rationalization of the Government of Kazakstan's system of intergovernmental financial relations, with a view toward ensuring that various levels of government operate with greater efficiency in implementing their taxation and expenditure authority.

Host Country and Other Donors: Ongoing efforts in the fiscal arena are coordinated with those of other donors, including the World Bank, IMF and EU-TACIS. The World Bank is planning a major treasury modernization project which would involve technical advisors, training and equipment.

Beneficiaries: This effort seeks to benefit tax-paying Kazakstanis at all levels by ensuring greater transparency and a more rational revenue collection and budgetary expenditure process. Potential entrepreneurs will benefit as more comprehensible and transparent fiscal systems are adopted. Increased government revenues and a more rational system for allocating their use should also lead to more effective governance and greater macro-economic stability.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through two private U.S. firms and the U.S. Department of Treasury.

Major Results Indicators:

	Baseline	Target
Govt. deficit as % of GDP (accrued and cash basis)	5.2% (1995)	2.8% (1997)
Local govt. revenue as % of total	34% (1995)	42% (1997)
GOK maintains compliance with IFI conditions	Yes (1995)	Yes (1997)
Effective legal framework established	No (1995)	Yes (1997)

Avg. volume of all types of govt. securities during year	$89m (1995)	$200m (1997)

ACTIVITY DATA SHEET

PROGRAM: KAZAKSTAN
TITLE: *Private Enterprise, 110-S001.3*
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $22,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Improved, more sustainable private business operations.

Background: Kazakstan's economic future depends largely on its ability to stimulate a nascent private sector. Some of this will come through the privatization process, some as a result of entrepreneurs entering the marketplace to start or expand businesses. Already, outside private investment is higher in Kazakstan than in any other country in the former Soviet Union, in large part because of Kazakstan's enormous supplies of oil and other natural resources. Although the government is broadly supportive of economic reforms needed to foster private sector growth, problems often occur at lower levels, where there is a lack of understanding of market-based policies and procedures and a lack of technical competence that will be needed to implement them effectively. This lack of understanding is evident in the government's effort to attract foreign investment in its energy sector, among other areas.

USAID Role and Achievements to Date: Privatization represented the first phase of USAID economic restructuring work in Kazakstan. By early 1996, more than 6,000 enterprises valued at more than $49 million had been sold through cash auctions. A parallel program of mass privatization involving coupons has also made considerable progress, especially since August 1995. By the middle of February 1996, 22 coupon auctions for 1,712 companies had been held. By some accounts, nearly two-thirds of the industrial employment in Kazakstan now works for firms that are majority owned by the private sector. Since 1995, USAID has also supported the privatization of major energy sector assets, including more than 30 % of the national power generation capacity. It also helped establish an independent regulatory entity for electricity. More recently, USAID has focused greater attention on the policy and legal environment needed to sustain a supportive business environment. To promote competition, USAID advisors worked with the Anti-Monopoly Committee to successfully promulgate reforms that drastically reduced the number of companies subject to pricing and profitability controls. USAID advisors also helped force the breakup of many major holding companies and made sure that they were included in the mass privatization program. They also helped ensure an insurance regulatory framework which promotes competition and ensures foreign participation. Finally, the USAID-funded Central Asian American Enterprise Fund (CAAEF) is now a very visible presence and has already made a number of equity and loan investments in Kazakstan.

Private sector support represents by far the biggest USAID activity in Kazakstan. In the area of legal and regulatory reform, advisors are working in key areas including trade and investment, bankruptcy reform and general business law reform; a large training effort in all three areas is underway. The general business component targets constraints to business operations, including passage of legislation in such areas as contract law and property rights. The bankruptcy area is designed to help establish the rights of creditors and develop a framework for disposing of unproductive assets and channeling them toward more efficient economic uses. Many of these efforts are needed to maintain the momentum created by the privatization process and to expand opportunities for US trade and investment in Kazakstan. Continued advocacy for implementing legal reforms will also promote foreign investment in Kazakstan's all-important oil and gas industry and help develop the country's power sector. The CAAEF is available to help facilitate and promote this type of investment. People-to-people efforts and exchange programs such as those supported by the International Executive Service Corps (IESC) and the various farmer-to-farmer programs have proven to be excellent vehicles to identify potential investment opportunities and develop appropriate business plans.

Description: In FY1998, support for private enterprise reform will focus mainly on furthering commercial law development and related areas such as support for accounting reform at the enterprise level. Among other things, the support activities will assist Kazakstan in developing a financial sector that is more open and transparent and therefore less susceptible to corrupt practices.

Host Country and Other Donors: Ongoing efforts to strengthen private business operations are developed in conjunction with those of other donors, especially the World Bank, EBRD, and EU-TACIS. World Bank funds are being used to provide consultancy services. A World Bank-funded project on private enterprise support is now being developed. EBRD programs include a loan program comparable to that offered by the CAAEF. EU-TACIS also supports private sector development and has a special interest in the agricultural sector.

Beneficiaries: Specific beneficiaries include the hundreds of thousands of Kazakstanis who own shares in privatized government enterprises and stand to gain financially if these new firms are successful. Aspiring entrepreneurs stand to benefit from a transparent, stable and consistent legal environment. The entire population stands to gain from a more efficient market-based economic system that produces jobs and increases the availability of goods and services.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through several private U.S. firms as well as U.S. private voluntary organizations such IESC, Agricultural Cooperative Development International (ACDI), Volunteers in Overseas Cooperative Assistance (VOCA), the U.S. Energy Association (USEA), Harvard Institute of International Development (HIID) and Winrock. As noted, the CAAEF also makes an important contribution by expanding the amount of investment and equity capital available to Kazakstan's private sector.

Major Results Indicators:

	Baseline	Target
Share of GDP generated by private sector	24.5% (1995)	40.0% (1998)
Number of new laws and policies drafted with USAID assistance	0 (1995)	30 (1998)
GOK maintains adherence to IFI conditionality	Yes (1995)	Yes (1998)

ACTIVITY DATA SHEET

PROGRAM: KAZAKSTAN
TITLE: Financial Reform, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $4,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: A competitive private financial sector more responsive to a market-oriented economy.

Background: Success in privatization will be fleeting unless it is followed by development and expansion of a vibrant capital market to channel scarce investment resources into areas of highest economic return. A basic legal and institutional framework for market-based financial market development is now in place, but further skill and understanding is needed to ensure its effective operation and implementation.

USAID Role and Achievements to Date: The establishment of the Central Asia Stock Exchange (CASE) in Almaty represents one notable achievement, the formation of an Independent Securities Exchange Commission another. International corporate accounting standards were introduced in December 1995. Significant strides also have been made to tighten financial regulatory guidelines and to enhance monitoring capacity in the banking sector. Through October 1996, as a result of detailed bank examinations, more than 130 insolvent banks have had their licenses suspended. These actions, combined with sustained discipline by the Central Bank in managing the nation's currency, are beginning to lay a solid foundation for development of Kazakstan's financial sector.

Description: USAID's main role is to provide technical assistance and training to nascent institutions in the financial sector. Work often entails drafting and introducing new laws, procedures, and operating systems. Hands-on work and on-the-job training receives special emphasis. High level policy advice is accompanied by efforts to ensure that counterparts develop the capacity to undertake such research and analysis on their own. In FY1998, USAID will continue to promote financial sector development in the areas described above.

Host Country and Other Donors: USAID is the major foreign donor working in the financial sector, and the only one involved in the securities area. Work is coordinated closely with the World Bank. Training activities for private banks undertaken by both USAID and EU-TACIS are about to be merged into a single institution that should set the standard for banker training in Central Asia.

Beneficiaries: Immediate beneficiaries include professionals involved in securities market development such as private bankers, stock brokers, and government officials. Newly emerging entrepreneurs as well as a broad range of Kazakstani citizens should benefit by the extension of capital markets that channel scarce financial resources into more productive directions.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through several U.S. firms in cooperation with local counterparts at the National Bank, Ministry of Finance, Central Asia Stock Exchange, and National Securities Commission.

Major Results Indicators:

	Baseline	Target
Banks deposits as % of GDP	4.9% (1995)	7.0% (1998)
No. of financial services available	4 (1995)	25 (1998)
% of banks meeting capital adequacy requirements	66% (1995)	90% (1998)

% of firms using new accounting standards	0 (1995)	90% (1998)
Types of financial institutions	3 (1995)	9 (1998)
No. of companies listed on stock exchange	12 (1995)	80 (1998)

ACTIVITY DATA SHEET

PROGRAM: KAZAKSTAN
TITLE: Increased, better informed citizens' participation, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $6,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased citizens' participation in political and economic decision-making.

Background: There have been a number of setbacks on the road to democracy in Kazakstan. Parliament was disbanded in March 1995. President Nazarbayev's term in office was extended to 2000 by referendum and a new constitution, consolidating power in the presidency, was overwhelmingly approved by referendum in August 1995. Citizens are basically free to act and associate as they choose. However, it is understand that there are limits to dissent. Self-censorship, especially in terms of independent media, is prevalent. Against this backdrop, democracy assistance continues. The non-governmental organization (NGO) sector is thriving while growing independent media faces a variety of challenges, both financial and regulatory. Lawyers and judges are open to forming associations and a USAID activity is free to conduct a tracking poll on voter attitudes. Opportunities also exist to work with and support the new parliament.

Achievements to Date: Prior to 1990, there were no truly non-governmental organizations in Kazakstan. Several hundred now exist, though lack of funding and lack of organizational skills is a recurring problem. Through the end of November 1996, USAID-funded American organizations had provided 184 grants throughout Kazakstan to local NGOs representing a variety of interests, including human rights, the environment, rule of law, women's rights, agricultural development and market transition. In late 1996, 80 Kazakstani NGOs convened to form Central Asia's first national NGO coalition, with an activist organizational agenda emphasizing advocacy, information exchange, and skill-building training. One USAID-funded grantee is helping to strengthen independent media across the country (of the 48 independent television stations and 22 independent radio stations throughout Kazakstan, only eight and seven respectively are in Almaty). The Association of Independent Electronic Mass Media encourages television stations to share information and maintain a united front. Since a July 1995 conference involving 21 television cities in 14 cities, membership in the association has increased nearly ten fold, from seven to 68. The organization's main goal is to protect independent electronic media. USAID-supported monitoring groups made sure that inadequacies in Kazakstan's electoral processes have been documented and brought to public attention, in hopes of establishing dialogue with relevant government institutions and improving electoral processes in future. The new parliament is requesting a variety of assistance. With regard to rule of law, USAID is also helping a group of local attorneys in Chymkent form an association.

Description: USAID's current program focuses on democratic processes, especially those aimed at enhancing civic participation and education, the flow of information, ensuring transparency and accountability in government and dialogue between the government and non-governmental sectors. Parliamentary strengthening programs will also be considered. The local NGO sector receives special attention, in terms of improving the legal and regulatory environment they work in, in terms of introducing greater professionalism and new management skills, and in terms of effecting needed social change and providing needed services. The formation and effectiveness of a local bar association, a form of NGO, is being furthered because of its potential contribution to democratic, economic and social change.

Host Country and Other Donors: The United States is the major foreign donor working in the area of democratization in Kazakstan. Programs supported by the various USG agencies, including those of USAID and USIA, are closely coordinated.

Beneficiaries: Immediate beneficiaries include individuals directly associated with Kazakstan's NGO sector. Many more Kazakstanis will benefit through the public interest advocacy and social services provided as the NGO sector grows and expands. Tens of thousands of Kazakstanis also benefit from improved programming and management skills at the country's independent television stations. More broadly, all Kazakstanis stand to benefit from strengthened civil society and the introduction of more democratic norms and practices.

Principal Contractors, Grantees, or Agencies: Several USAID-funded American NGOs such as the National Democratic Institute (NDI), the American Bar Association/CEELI, Internews and the International Foundation for Election Systems (IFES) have played a role in promoting democracy in Kazakstan. Familiar American groups such as Goodwill Industries, Aid to Artisans, and the Citizens Network for Foreign Affairs also participate in local NGO development.

Major Results Indicators:

	Baseline	Target
No. of Advocacy NGOs	0 (1992)	220 (1999)
Cumulative # of open hearings or consultative processes addressing legislative/policy issues	0 (1992)	5 (1999)
No. of independent stations	13 (1994)	45 (1999)

ACTIVITY DATA SHEET

PROGRAM: KAZAKSTAN
TITLE: More effective, responsible, and accountable local government 110-S002.3
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,000,000 FREEDOM support Act
INITIAL OBLIGATION: FY 1998; **ESTIMATED COMPLETION DATE0:** FY 2003

Purpose: Demonstrate more effective, responsible, and accountable local government

Background: As Kazakstan struggles with decentralization and democracy, USAID actively seeks to promote these principles by demonstrating the benefits associated with effective, responsible, and accountable local government. There is an increasing body of knowledge on the importance of effective, responsible, and accountable local self government to the sustainability of social benefits and services. The central government has increasingly moved responsibility for social programs (notably housing, health and education) to local levels. However, the authority over resources as well as development of a professional civil service to administer these social programs has not necessarily followed. USAID has demonstrated by its sector specific work in the areas of housing and health the need to work at the local level for maximum effectiveness. USAID has initiated work in intergovernmental finance. The time is opportune to address generic issues relative to financing and administration of social benefits and services in addition to the more sector specific issues covered under Strategic Objective 3.2 (Improved sustainability of social services and benefits).

USAID Role and Achievements to Date: USAID has implemented the Municipal Finance and Management (MFM) Project in Central Asia as part of the Democratic Pluralism Initiatives (DPI) program from 1994 through 1996. Atyrau, Kazakstan was chosen as one of two municipalities in Central Asia (the other being Karakol, Kyrgyzstan) in which to implement the project. An end of project evaluation was conducted in October 1996 to better inform future directions in this area.

The evaluation concluded that many strides toward democracy building were made, especially when considering the short life cycle of the project. Those noted were: a long range development Strategy (LRDS) was created at the local level and taken to the national government to gain its support (in former Soviet times the local level would not have voiced local needs/concerns but rather would have only carried out orders from above). Second, the city's financial systems are now based on western accounting practices and information is much clearer and can contribute to controlling fraudulent activities. Third, citizen awareness, participation, and commitment to the future of Atyrau has been considerably enhanced.

Description: USAID believes the time is appropriate to expand the initiative begun in Atyrau to other oblasts and/or municipalities in Kazakstan. The inability of the central government to meet subsidy requirements at the local level will motivate policy makers to devolve key financial and other authorities to the local level. Building on lessons learned from the MFM project and in close collaboration with other donors USAID believes it will be able to assist the process efficiently and effectively. USAID funded training and technical assistance shall be directed to national as well as selected local levels to facilitate decentralization reforms.

USAID anticipates work directed toward development of the legal framework for operations of municipal and oblast government to ensure that the center cannot continue to exercise excessive authority over outlying areas and to encourage the national government to reward local initiative. Further, USAID will assist in the development of administrative capabilities at the local government level. Activities under this initiative will be closely coordinated with ongoing assistance in the development of local resource bases to guarantee a degree of fiscal independence to local government and the development of indigenous nongovernmental organizations, and development of programs of sustainable social services.

Key to this effort will be work done to improve municipal performance, for example, by continuing to help municipalities competitively contract out for services and supplies. Demonstration projects have already shown that substantial efficiencies and cost savings can be accomplished at the local level by supporting government anti-monopoly policies in this way.

Host Country and Other Donors: USAID will work closely with the various governmental entities involved in local government issues, including ministries, the presidential apparat, parliament, local level government officials and government employees. A number of other donors also support activities with a local government dimension, including the World Bank, Asian Development Bank, UNDP, SOROS, and EU TACIS.

Beneficiaries: Elected officials and government employees at the oblast and municipal level will benefit directly. Also, private citizens of Kazakstan, especially those classified as part of the "vulnerable group" (i.e., elderly pensioners, women, and children) will benefit from improvements in the social safety net and more targeted social services.

Principal Contractors, Grantees, or Agencies: To be determined. Mission plans to buy into existing assistance mechanisms or to competitively procure services depending on which will provide the best benefit to the US, cost and other factors considered.

Major Results Indicators:*

*This is a new strategic objective; indicators and targets will be finalized during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: KAZAKSTAN
TITLE: Improve the sustainability of social benefits and services, 110-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $4,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Improved sustainability of social benefits and services.

Background: The social sector in Kazakstan, which was previously funded and managed entirely by the government, continues to be severely strained as the country moves from a planned economy to a market-oriented one. A key determinant of the overall success and social sustainability of the reforms will be the ability of the government and the private sector to develop and administer efficient and cost-effective social services. Under this strategic objective, USAID has focused attention on the health and housing areas. USAID activity under other strategic objectives that is related includes work on pension reform. Significant progress has been made in these areas, and now this progress needs to be deepened to ensure sustainability of well targeted social benefits and services in a market economy. One strategy for deepening reform is coordinated work at the local level, as already demonstrated by specific activities in housing and health. Work in this area will thus be closely linked to a new initiative in local self government.

USAID Role and Achievements to Date: USAID has been a key player since 1993 in the reform of Kazakstan's health care system and housing sector. A recent external evaluation of the project concludes that "there is a strong supporting relationship between the substantive reform of health care systems and the overall success of the transition to market-oriented, democratic societies." The evaluation cites a number of significant achievements in only 24 months of implementation. These include introducing consumer choice in the selection of personal physicians, supporting numerous market-driven private payment experiments, and effectively managing the privatization of Kazakstan's pharmaceutical sector.

With regard to housing, USAID has played a supportive role in an extensive set of new policy directives aimed at advancing reform in the shelter sector. For example, the government adopted a policy to eliminate generalized subsidies for utilities, in combination with a housing allowance program introducing targeted housing subsidies. USAID-funded advisors helped with the establishment of 56 allowance centers (from a base of only one in 1995). The national government allowed almost complete flexibility in promoting condominium development and housing allowance programs to the municipalities.

Description: USAID plans to take the next step in improving the sustainability of social services by developing technical assistance and training interventions based on the combined lessons learned from demonstrations in local self government and in the social sectors (e.g., housing and health). USAID plans to work at both the national and local level in the areas of legal, regulatory, administrative, and technical reform. Assistance will be provided to both government and non-governmental organizations. In the health sector, one area of emphasis will be training and technical assistance for new retail pharmacists as well as assistance in establishing a revolving drug fund. USAID will continue work with the Health Insurance Fund to replicate the new payment system currently being tested in Dzezkazgan. USAID will also provide assistance to make the new family group practices both operationally and economically viable.

In the housing sector, emphasis shall be placed on creating umbrella associations to help private homeowners undertake responsibility for improving their own living conditions. Similarly, municipalities will be assisted in implementing housing allowance programs and taking steps to reduce the cost, and improve the effectiveness of housing and municipal services through privatization and competition.

Host Country and Other Donors: Various government ministries and other donors are involved in this crucial area, including the World Bank, WHO, UNDP, UNICEF, UNFPA, WHO and EU-TACIS.

Beneficiaries: Immediate beneficiaries include owners of newly privatized pharmacies, private practice physicians and their staffs, and new apartment owners. Ultimately all citizens of Kazakstan benefit, especially those in that segment of the population classified as vulnerable (e.g., elderly pensioners, women, children).

Principal Contractors, Grantees, or Agencies: Abt. Associates, Inc. is working in the health reform area. International City and County Managers Association is working in the housing sector.

Major Results Indicators:

	Baseline	Target
No. of cities with pilot housing allowance program	0 (1994)	9 (1997)
% of central budget allocated to primary health care	30% (1994)	50% (1999)
% of hospital and outpatient care reimbursed on incentive basis	0 (1994)	60% (1999)
Number of independent primary care practices	0 (1994)	150 (1998)
Increase in no. of private pharmacies	200 (1994)	1,200 (1998)
% market share of private pharmacies	12% (1994)	90% (1998)

ACTIVITY DATA SHEET

PROGRAM: KAZAKSTAN
TITLE: Environmental Health, 110-S003.3 (CAR Regional)
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1998

Purpose: Reduced environmental risks to public health.

Background: Following the period of Soviet central planning, a legacy of problems related to industrial pollution and environmental degradation remained. A prime illustration of such environmental degradation is the Aral Sea disaster zone, where several million people have been deprived of access to safe water and have experienced abnormally high rates of morbidity, non-specific diarrheas, and viral hepatitis. While much of USAID's early environmental efforts were focused on humanitarian assistance to the impacted Central Asian population, the challenge now is to focus on reform measures that will reduce levels of urban and industrial pollution in the region and to establish the policy and institutional framework to manage precious natural resources, including water.

USAID Role and Achievements to Date: USAID's Aral Sea program has provided safe drinking water for 1.1 million persons, improved the health/sanitation practices of 1.5 million persons, and already promoted significant policy changes needed for more efficient water use. The turnover to local officials of water treatment/transmission equipment combined with related training in Kazakstan, Turkmenistan and Uzbekistan are graphic demonstrations that USAID is one of the few donors delivering concrete results in the Aral Sea disaster zone.

In an effort to prevent the poor planning and resource utilization that lead up to issues like the Aral Sea disaster, all five republics have participated in seminars for regional water cooperation; are conducting analyses required for the introduction of water pricing; and have established short-term regional water sharing agreements. In Kazakstan, draft legislation is being prepared for establishing water user associations, a new national environmental law, and a pilot air pollution emissions program. While the first phase in developing a national environmental action plan in Kazakstan is now underway, legislation is now being prepared for establishing air pollution standards in Uzbekistan.

Description: USAID assistance appears critical for the Central Asians to maintain the needed focus on policy reform, including the introduction of rational water pricing schemes and regional agreements on water sharing and quality control among all the affected states in the Aral Sea basin. Additional emphasis is also being placed on the passage of reform legislation which would establish water user associations, waste management guidelines/requirements, and a pollution fines system. Strong coordination with other donors is essential as the Agency begins to phase down its own direct involvement. This coordination offers important opportunities for USAID to use its own field experience to leverage substantial resources and help shape the programs and policy agendas offered by other donors.

Host Country and Other Donors: The World Bank, United Nations Development Program, and EU-TACIS have been involved in these efforts. Major host country counterparts include the Interstate Council for the Aral Sea - Sustainable Development Commission, heads of state water agencies from each of the various republics, and various other ministries of each republic. In addition, there has been substantial collaboration with a wide range of other officials at the local and national levels.

Beneficiaries: This assistance seeks to benefit all Central Asia citizens by reducing serious environmental hazards which they encounter in their daily life.

Principal Contractors, Grantees, or Agencies: These organizations include CH2M-Hill Consortium, Harvard Institute for International Development, World Environmental Center, Moscow State University and ISAR Cooperative Agreement.

Major Results Indicators:

	Baseline	Target*
National water pricing strategies support policy changes at the local and national levels	0 (1994)	TBD
Critical watersheds subject to effective management and control policies/international treaties.	0 (1994)	TBD
Agricultural water management investments leveraged by other donors (bilateral and multilateral).	$0 (1995)	TBD

*Target data will be developed during the next planning period.

KYRGYZSTAN

FY 1998 Assistance to the NIS Request: $36,500,000

Introduction.

Kyrgyzstan was one of the earliest and most active reformers among the former Soviet Union. United States strategic interests in Kyrgyzstan are twofold. First, there is an interest to work with reformers in Kyrgyzstan to build and sustain a democratic and market-oriented country that could serve as an example to neighboring countries which seem less committed to these values. Second, a stable, independent Kyrgyzstan interacting positively on a wider international stage is important to maintaining stability in an area of the world where a number of international players, including Russia, China, Iran, the Middle East and the Indian Subcontinent, have displayed strategic interests of their own.

Kyrgyzstan remains the most open of the five countries of Central Asia in both economic and political terms. On the economic front, the transition, though difficult, has included some of the most far-reaching reforms in the former Soviet Union. Kyrgyzstan is well on the road to macroeconomic stabilization. After three years of sharply declining production, the Kyrgyz economy showed the first signs of recovery in 1995. GDP growth was estimated at one percent in 1995 and preliminary data points to a growth rate of 5% in 1996. Despite occasional setbacks, Kyrgyzstan is also the most democratic country in Central Asia. The press is relatively free and an active parliament helps ensure that key issues are discussed and brought before a wide audience before they are acted upon. Despite these positive developments, the most recent UNDP Human Development Plan for Kyrgyzstan underscores the difficulties faced by many Kyrgyz citizens in coping with the transition.

The Development Challenge.

Kyrgyzstan is a small country of 4.6 million people living in an area about the size of Nebraska. Despite considerable out-migration over the past several years, the country remains ethnically diverse. Ethnic Kyrgyz represent the majority population, but there are sizable communities of Russians, Uzbeks, Germans, Tatars, Uigers, and others. Only about seven percent of its 200,000 square kilometers is arable, with cotton, wheat, vegetables and other crops irrigated by the rivers flowing from the high mountain ranges. There are significant hydro and mineral resources which enhance the country's prospects for long-term economic success. However, Kyrgyzstan's geographic isolation, combined with the substantial investment costs in exploiting these resources makes short-term economic prospects more problematic.

Kyrgyzstan's major achievement since independence in 1991 has been to establish the basic framework for a market economy and to maintain a commendable degree of macroeconomic stability. In 1993 it became the first country in Central Asia to introduce its own currency. Since then, the Kyrgyz *som* has been relatively stable, maintaining its value well against the dollar and other freely tradable international currencies. Monthly inflation rates have been brought to within the low single digits and overall fiscal management has been among reasonably good. Foreign investment is strongly encouraged and the country's privatization is regarded as among the most ambitious of the former Soviet republics. Kyrgyzstan is classified as a lesser indebted lower income country by the World Bank.

Despite overall macroeconomic stability, the standard of living has fallen and the social costs have been high. The elimination of subsidies from Moscow, the disruption of existing trading systems, and the departure of many skilled technical and professional workers have exacerbated the economic dislocation. The industrial sector that Kyrgyzstan inherited was among the least efficient in the former Soviet Union. It included unproductive defense-related plants and other industrial establishments that simply cannot compete in the international marketplace. The economy is divided roughly equally among the agriculture, industry, and service sectors. According to official statistics, agricultural

performance was quite strong in 1996 and overall agricultural as well as industrial output appears to be rising. Trade patterns continue to be dominated by countries in the former Soviet Union, which still account for well over half of both imports and exports.

USAID-funded advisory groups have played an important role, both in the privatization process and in the overall economic restructuring effort. The mass privatization program is now complete. Central Asia's second stock exchange has been established in Bishkek and, despite a modest start, is positioning itself to play an important role in promoting the kind of capital market development needed to ensure that scarce financial resources are directed toward areas of highest economic return. A comprehensive tax code was passed in mid-1996, characterized by the basic principles of fairness, administrative simplicity and economic neutrality. Kyrgyzstan is the second NIS country (the other being Kazakstan) to have a comprehensive western-style tax code in place.

As the private sector begins to play an increasing role in the economy, more attention is being devoted to ensuring that appropriate legal and administrative structures are in place that promote private sector growth. Recent approval for an independent regulatory agency for energy and the planned breakup and privatization of the parastatal which previously exercised monopoly control over the same sector are important examples of the type of changes need to improve efficiencies and attract foreign investment. Also, a new law on economic enterprises was adopted in November 1996 and a new law on enterprise registration was adopted in September 1996, both of which should improve the business climate. Further changes in the policy and administrative environment are needed to consolidate and maintain Kyrgyzstan's reputation as a country which is committed to market reform, encourages entrepreneurial talent and is hospitable to private investment.

Although funding mechanisms and approaches may change, USAID will likely be working with development partners in Kyrgyzstan well into the next century. Kyrgyzstan's relative poverty, combined with its willingness to embrace reform, make it a strong candidate for continuing to receive FREEDOM Support Act (FSA) assistance.

Other Donors.

Kyrgyzstan's relative openness to economic reform has attracted a large number of foreign donors. Kyrgyzstan counterparts have demonstrated a commendable interest in ensuring that donor efforts are properly coordinated and that aid resources are stretched as far as possible. Kyrgyzstan continues to work successfully with the IMF under a three-year Extended Structural Adjustment Facility (ESAF). The Japanese and several European donors are active, including Germany (in agriculture, education, health and small enterprise development) and Switzerland (in agriculture and social services). The European Community has a wide-ranging technical assistance effort covering a number of areas, including communications, education, energy, environment and privatization. UN agencies such as UNDP have more modest programs.

Multilateral banks such as the Asian Development (ADB), World Bank, and European Bank for Reconstruction and Development (EBRD) are expanding their loan portfolios. In some instances such as health reform, activities are based in part on work undertaken by USAID-funded technical assistance teams that have been on the ground for some time. The World Bank's IDA program continues to focus on providing policy advice and technical assistance, balance of payments support and investment finance. As USAID's own resources decline, renewed efforts are being made to ensure greater coordination and, where possible, dialogue with other donors on using USAID's own past experience to extend pilot programs to a national level.

FY 1998 Program.

USAID's strategy in Kyrgyzstan emphasizes both economic and political reform, reflecting the belief that both issues must be addressed in order to build and sustain democracy and a market-based

economy. The largest share of technical assistance resources are devoted to the economic transition, though the composition of the program is changing. The Partnership for Freedom's new programs to encourage economic growth and develop links between Kyrgyzstanis and Americans will also begin in FY 1998.

The planned FY1998 program anticipates a continued evolution of USAID activity in the area of economic restructuring. In the past few years, the economic restructuring program has gradually moved through a three-stage progression: (1) primary focus on short-term economic stabilization measures designed to help bring government spending and inflation under control; (2) support for privatization of small- and medium-sized enterprises; and (3) establishment of financial markets and development of an appropriate legal infrastructure for commercial activities. The first two stages of this process will be completed during FY1997. In FY1998, it is envisaged that USAID will deepen its support to the third stage, in part by strengthening the now nascent financial sector through direct support to financial market institutions. Efforts will also continue in terms of further developing the legal and commercial infrastructure and further rationalizing Kyrgyzstan's system of intergovernmental finance.

Democratization programs will increasingly focus on developing the basic foundations for a civil society, strengthening parliament, promoting independent means of communication, and building indigenous non-government organizations (NGOs). Work in the area of effective, responsible and accountable local government is also envisaged. Social sector programs are closely tied to broader economic restructuring objectives, for example demonstrating the importance of health and housing reform in bringing about more sustainable approaches to health care and urban living conditions.

Strategic Goal: Economic Transition

Kyrgyzstan's future hinges in large part on completing its program of economic restructuring. Considerable progress has been made, particularly lowering inflation rates, maintaining currency stability, and establishing an overall level of macroeconomic stability that sets Kyrgyzstan apart from most of the other NIS countries. The country's privatization program is winding down. As this phase of the economic transition moves to completion, the emphasis is shifting toward ensuring a legal and regulatory environment that promotes private sector growth. Trade, investment, bankruptcy laws, financial sector development and land registration are all being emphasized.

Considerable progress has been made on the fiscal front. However, further work is needed to ensure that the macroeconomic progress achieved thus far is maintained. Many of the early successes are attributable to very tight short-term fiscal management policies, including a drastic reduction in subsidies for both failed enterprises and the social sector. While budgetary controls have been tight, revenue generation reforms have lagged behind. The introduction of the new tax code in August 1996 should help, resulting in a more rational and transparent approach to tax collections. This in turn needs to be followed by improvements in tax administration, including greater use of computers and the introduction of a taxpayer information system. At this point, implementation of the new tax code through more efficient tax administration is now the primary focus of USAID technical assistance in the tax reform area. Reforms in the revenue generation and budget allocation process among the various levels of government (national, oblast, local) are also needed.

The legal and regulatory environment is emerging as a key issue within Kyrgyzstan's reform program. Private economic actors must know the "rules of the game" beforehand, and investors must have assurance that their projects are protected by law. Some elements of a policy, legal and regulatory framework that support competition and private sector growth are already in place. Important work is now underway to train the judiciary and local attorneys about contract enforcement needs, with a view toward ensuring transparency, minimizing corruption, protecting the rights of entrepreneurs, and reducing arbitrary and unnecessary licenses and other bureaucratic red tape. Strengthening the independence of the judiciary is also important.

A legal and regulatory reform initiative began in November 1995. The emphasis is on clarifying and strengthening property ownership and the transfer of commercial transaction rights. Without such measures, newly privatized industries will flounder and new entrepreneurs are unlikely to enter the marketplace. Given Kyrgyzstan's isolation and lack of easily exploitable natural resources, its legal and regulatory environment will go a long way to determining prospects for future economic growth. USAID-funded advisors are also helping to support Kyrgyzstan's application to join the World Trade Organization (WTO). Kyrgyzstan's WTO application documents have been praised as a model for those of other NIS countries, and the application process itself provides an important impetus for engaging with Kyrgyzstan on a wide range of trade and investment issues.

USAID has already provided crucial support in several areas of legal and regulatory reform as well as in setting up a corporate governance framework for privatized enterprises. Land registration is the focus of a municipal development and management initiative being supported in conjunction with the World Bank. This pilot land registration effort is vital to help create a genuine real estate market, and to stimulate the secured transactions which are so vital to developing a viable banking system and capital market. With regard to energy, USAID advice on a draft energy law led to important modifications that called for an independent electrical utility regulatory agency and more private sector involvement, both of which are preconditions for proposed World Bank and Asian Development Bank electricity sector loans.

Systems need to be introduced to channel scarce capital into the areas of highest economic return. USAID provided policy advice, transmission of technical skills and training are all important parts of this effort to help develop the main institutions and features of an effective financial market, including the Kyrgyz Stock Exchange (KSE), National Securities Commission (NSC), private investment funds and private broker and dealer groups.

The KSE, which opened its doors and began trading in May 1995, represents an early success. Also, an Investment Funds Association was established in October 1995. Specifications for the clearing and settlement of transactions were established when the commercial bank "Maskat" was designated the clearing bank for KSE operations. A USAID-funded Treasury advisor is working on government securities and dealing with debt issues. In addition, the Central Asian American Enterprise Fund represents a vehicle for bringing badly needed capital to the emerging private sector in Kyrgyzstan.

Future goals including promoting a self-sufficient securities exchange with at least 30 companies trading on the main board; assistance for a variety of automated accounting, settlement and depository systems; assistance to the NSC to enforce securities law and regulations and to train staffers about regulations and various operations; and completion of a broker/dealer compliance manual. In time, the emergence of efficient capital markets should help attract foreign investment into the Kyrgyz economy.

Further work is needed to operationalize the independent regulatory agency for electricity; and to complete the unbundling and privatization of the Kyrgyz State Energy Holding Company (KSEHC). Similarly, Kyrgyzstan needs to enter into water sharing and energy trade agreements with neighboring Central Asia republics to sell hydroelectricity and secure winter heating and supplies of natural gas and coal. Such agreements will facilitate water management in the Aral Sea basin.

- Strategic Objective: Increased soundness of fiscal policies and fiscal management practices
- Strategic Objective: Accelerated development and growth of private enterprises
- Strategic Objective: A more competitive and market-responsive private financial sector

Strategic Goal: Democratic Transition

Ensuring that economic reform is accompanied by political reform lies at the heart of the ongoing U.S. Government dialogue with Kyrgyzstan as it moves to build its future. The role of an independent media, respect for human rights, an active non-governmental sector, rule of law, and widespread citizen participation in economic and political decision-making are all prominent features of this effort.

Efforts to enhance access to information and help develop the basic features of a civil society in Kyrgyzstan take place on a number of levels. First, USAID is helping to nurture the non-governmental organization (NGO) sector to enhance citizen participation. Second, programs are underway to promote independent media, especially television. Third, assistance is being offered to the newly elected Kyrgyz parliament in order to enhance its effectiveness. Fourth, outreach programs involve judges and lawyers as part of an effort to improve the effectiveness and independence of the judiciary. Finally, efforts are underway to improve the electoral process.

Viable democracies depend on the participation of all citizens, as individuals or as members of interest groups. Virtually no NGOs existed before the breakup of the Soviet Union. Since then, several hundred NGOs have emerged. Many tend to be poorly funded and make a limited contribution to the political, economic and social life of Kyrgyzstan. However, the generally open environment for NGOs provides opportunities that are increasingly being realized. USAID-funded groups work directly with such NGOs, providing both training and small grants to assist in program development.

A free and independent media is also a hallmark of democratic societies. Efforts are under way to improve both the quality of independent television programming and ensure its continued financial viability. TV officials attest to the value of these programs in redesigning studios, improving presentations, maintaining ethical standards, and learning how to manage a private enterprise.

While constitutional changes shift the balance of power to the presidency, the parliament still represents a forum for public debate and can play a constructive role in ensuring that alternative voices are heard. It also continues to control the process for discussing, amending, and passing legislation. USAID-organizations assist by providing forums for public discussion on pending legislation and in helping legislatures strengthen relationships with their constituents. The first public hearing, dealing with the proposed labor code, was conducted in part as a result of USAID assistance.

USAID-funded programs seek to involve the judiciary in the law-making process. USAID focuses on judges, bar development, and legal education. It has provided advice on legal and constitutional issues and on improving the credibility and independence of the judiciary. A charter for a forty-member Association of Attorneys of Kyrgyzstan has been established and a USAID-funded organization is working to strengthen this new association. An association of law students has been formed, and the judges are anxious to form an association of their own. USAID also helped organize a seminar on legislative drafting as well as candid discussions on draft legislation related to civil and criminal codes.

USAID programs have sought to improve the electoral process and, where appropriate, bring weaknesses and inconsistencies to light. Work of this type helps strengthen the professional capacity of the Kyrgyz Central Election Commission (CEC) which is actively working to increase its independence. USAID provided the majority of international observers for the December 1995 presidential elections. This year, USAID is conducting a tracking poll to follow up on its 1995 survey of voter attitudes.

Finally, USAID's existing projects involving housing, land privatization, health, and local government will serve as the base from which USAID will assist the government in its decentralization efforts and help improve the capacity of local authorities to carry out their expanded responsibilities.

- Strategic Objective: Increased, better-informed citizens' participation in political and economic decision-making

- Strategic Objective: Demonstrate more effective, responsible and accountable local government

Strategic Goal: Social Stabilization

Social sector restructuring is closely related to the wider economic restructuring effort. The elimination of subsidies from Moscow shortly after independence underscored the fact that existing approaches were not sustainable. The need for sustainable approaches also provides a powerful impetus for devising new and innovative ways in which the state can facilitate social sector development rather than being solely responsible for funding and managing it.

USAID efforts focus on health and housing with the aim of introducing market-based approaches that increase individual choice and rely when possible on the private sector. A recently completed evaluation of the USAID's health reform effort concluded that "there is a strong supporting relationship between the substantive reform of the health care system and the overall success of the transition to market oriented, democratic societies."

USAID's health reform program has supported development and implementation of market-driven private payment schemes in Issyk-kul oblast on a pilot basis. These mechanisms have improved the efficiency of the health delivery system in the oblast. In addition, the program established family group practices, a process based on active local participation that now provides alternative choices for individuals in the region regarding their health car provider.

Similarly, housing programs have sought to combine policy change with practical training geared toward maintaining existing housing stocks. The housing effort also includes formation of a housing policy council and a real estate register. The housing program successfully promoted municipal property auctions, private sector housing construction, and the development of condominium associations.

The Mission plans to take the next step in improving the sustainability of social services by developing technical assistance and training interventions based on the combined lessons learned from demonstrations in local self government and in health and housing. USAID plans to work at both the national and local level. The goal would be to demonstrate that social sector reform can be carried out in a cost-effective manner while improving the quality and availability of services. For example, USAID plans to expand its support for health financing schemes that contribute to long term financial sustainability in two oblasts outside the pilot oblast. The World Bank is planning to use its resources to replicate the Issyk-kul model in two additional oblasts. As a result, by 1999 at least 90 percent of Kyrgyzstan's population should benefit from a restructured and more efficient health care system.

- Strategic Objective: Improved sustainability of social benefits and services

Cross-cutting and Special Initiative

Special initiatives in medical partnerships, health, infectious disease control, and reproductive health will continue to be shaped to improve the sustainability of the social sector and to support the broader health reform agenda. The medical partnership activities assisted in establishing a Kyrgyzstan nursing association. The Ministry of Health's creation of the new position of "nurse manager" in hospitals with more than 300 beds, a revolutionary step in the former Soviet Union, is directly attributable to training and technical assistance provided as a result of the medical partnership. Both achievements help support the overall health reform program.

Training and technical assistance through a PASA with the Centers for Control and Prevention (CDC) in Atlanta have helped to develop institutional capacity in the Ministry of Health to monitor the incidence of various diseases. A new management information system for immunization was also introduced.

Using FY 1996 and 1997 reproductive health earmark funds, USAID has undertaken to support the Kyrgyzstan Demographic and Health Survey (DHS) in 1997. This is the third DHS survey in the former Soviet Union, the first two having been conducted in Kazakstan and Uzbekistan. It is expected to provide reliable health status data leading to more informed policy formulation and program interventions. The reproductive health effort has resulted in two fully equipped service delivery/clinical training sites in reproductive health in Bishkek. The contraceptive social marketing program has trained over 200 pharmacists in modern pharmacy management practices and in modern contraceptive technology. This program has also worked to enhance the skills of both government and private individuals working in the contraceptive social marketing initiative, popularly known as the "red apple" program.

Economic and democratic reform cannot take place without a cadre of individuals from both the public and private sectors who have an understanding of markets and democratic processes. The NIS Exchanges and Training program in Central Asia has been developed to supply the human resources necessary to assure this orderly transition. The program was designed to support USAID's technical assistance programs in economic, democratic and social sector reform and to develop cadres of officials willing and able to bring about necessary change.

USAID has provided U.S. short-term training for 420 officials between 1994 and 1996, and approximately 90 more participants are anticipated under a follow-on training program for 1997. USAID-funded participants have been instrumental in the fiscal reform, central banking operations, commercial law, accounting standards, housing sector reform, health reform, and NGO development. This effort benefits the Kyrgyz at all levels by training qualified public officials who are able to establish laws and regulations that are transparent and foster the growth of markets and democratic government. Potential entrepreneurs will benefit as they establish links with potential future U.S. commercial partners.

Training programs support both U.S. short-term training as well as in-country follow-on programs. The in-country program includes establishment of a Resource Center in Bishkek where returning participants can utilize e-mail and fax facilities to keep in touch with U.S. trainers and contacts, as well as duplicating equipment to reproduce reports and other materials. Future efforts will emphasize in-country and third-country training approaches.

The Special Initiatives category also includes U.S. agency activities that do not directly support USAID's strategic objectives.

KYRGYZSTAN
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	1,500,000	--	--	--	1,500,000
Private Enterprise	14,500,000	--	--	--	14,500,000
Financial Reform	3,000,000	--	--	--	3,000,000
Energy	--	--	--	--	--
Citizens' Participation	--	4,000,000	--	--	4,000,000
Legal Systems	--	--	--	--	--
Local Government	--	2,000,000	--	--	2,000,000
Crises	--	--	--	--	--
Social Benefits	--	--	3,000,000	--	3,000,000
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	8,500,000	8,500,000
TOTAL	19,000,000	6,000,000	3,000,000	8,500,000	36,500,000

*FREEDOM Support Act (FSA) Funds

USAID Mission Director: Patricia K. Buckies

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE: Fiscal Reform, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION: FY 1998: $1,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased soundness of fiscal policies and fiscal management practices.

Background: Prior to independence, Kyrgyzstan had almost no experience in formulating its own fiscal policy and administering rational and efficient tax collection and budgeting practices. Complicated budget procedures lacked transparency and little was known about modern approaches to tax collection and revenue generation. Given this backdrop, Kyrgyzstan has been successful in implementing a tight fiscal policy which contributes to economic stability. Subsidies on both the production and consumption side have been drastically reduced. Similarly, inflation is now negligible, reflecting a performance with few parallels anywhere else in the former Soviet Union. Finally, exchange rate management has been extremely effective. Over the past two years, the Kyrgyz som has been among the most stable currency in the NIS, though a major devaluation appears to be taking place in the face of a large trade imbalance.

USAID Role and Achievements to Date: Officials at the Ministry of Finance have benefitted from USAID-funded analysis and policy advice, particularly in the fiscal area. As noted, results include dramatically reduced inflation, currency stability and a macroeconomic environment that is among the most stable in the former Soviet Union. USAID-funded advisors also had the lead role in formulating the new tax which was introduced on August 1, 1996. Current technical assistance focuses mainly on implementation of the new tax code.

Description: In FY1998, USAID technical assistance in the fiscal area will concentrate mainly on further rationalization of Kyrgyzstan's system of intergovernmental finance, with a view toward ensuring that various levels of government operate with greater economic efficiency in implementing their taxation and expenditure authority.

Host Country and Other Donors: Ongoing efforts in the fiscal arena are coordinated with those of other donors, including the World Bank and EU-TACIS.

Beneficiaries: This effort seeks to benefit tax-paying citizens of Kyrgyzstan at all levels by ensuring greater transparency and a more rational revenue collection and budgetary expenditure process. Potential entrepreneurs will benefit as more comprehensible and transparent tax systems are adopted. More efficient revenue collection and more rational budgetary procedures should also help strengthen the credibility of the government and help ensure the sustainability of targeted social programs aimed at the most vulnerable sections of society.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through a U.S. commercial contractor as well as through the U.S. Department of Treasury.

Major Results Indicators:

	Baseline	Target
Govt. deficit as % of GDP (accrued basis less revenues as percentage of GDP)	12.5% (1995)	3.7% (1997)
GOK maintains compliance with IFI conditions	Yes (1995)	Yes (1997)

Tax revenues as % of GDP	13.6% (1995)	15.5% (1997)
Adoption of modern tax legislation	No (1995)	Yes (1997)

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE: Private Enterprise, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998 $14,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Improved, more sustainable private business operations.

Background: Given relative success in stabilizing the macroeconomic environment and placing government-owned assets under private control, Kyrgyzstan's future growth now depends on its ability to stimulate and promote a new and emerging indigenous private sector. The fact that Kyrgyzstan lacks easily exploitable natural resources and the fact that it inherited one of the least efficient industrial sectors in the former Soviet Union complicates matters. Nonetheless, there was widespread citizen participation in the mass privatization program and approximately 70 percent of the industrial labor force is expected shortly to be working for private firms.

USAID Role and Achievements to Date: USAID is providing crucial support for promoting legal and regulatory reforms that call for broad-based privatization process, the breakup of regional transport and wholesale monopolies, effective banking and securities market regulatory guidelines, and improvements in the corporate governance framework of privatized firms. Work in privatization has been especially key, ensuring among other things that the percentage of investment coupons invested in private enterprise increased from 10 % in December 1994 to 90% in July 1995. By mid-1996, most of the 900 targeted medium- and large-scale firms had gone through the coupon auction process.

To stimulate private foreign investment in energy, an independent regulatory agency for energy has been established. Monopoly control over the energy sector by a parastatal has been removed. Plans are being made to break the same parastatal and to privatize major components of the energy sector. As the proportion of the economy managed by the private sector expands, new emphasis is being given to the legal and regulatory environment in which private entrepreneurs must operate. Trade and investment, bankruptcy, and general business law receive special attention. The Central Asian American Enterprise Fund (CAAEF) represents another vehicle for bringing badly needed capital to the emerging private sector and recently started operations in Kyrgyzstan.

Description: In FY1998, support for private enterprise reform will focus mainly on further commercial law development and related areas such as support for accounting reform at the enterprise level. Among other things, the support activities will assist Kyrgyzstan in developing a financial sector that is more open and transparent and therefore less susceptible to corrupt practices.

Host Country and Other Donors: Ongoing efforts to strengthen private business operations are developed in close conjunction with those of other donors, especially the World Bank, EBRD, and EU-TACIS.

Beneficiaries: Specific beneficiaries include the hundreds of thousands of citizens of Kyrgyzstan who own shares in newly privatized government enterprises and stand to gain if these new firms increase in value or pay out dividends. Aspiring entrepreneurs stand to benefit from a more comprehensible and more transparent legal environment. The entire population stands to gain from a market-based economic system which creates employment, increases incomes, lower prices, and expands individual choice.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through several private U.S. firms as well as U.S. private voluntary organizations such IESC, FINCA and Volunteers in Overseas Cooperative Assistance (VOCA). As noted, the CAAEF is an important player because of its role in

making scarce investment and equity capital available to Kyrgyzstan's emerging private sector.

Major Results Indicators:

	Baseline	Target
Number of economic sectors showing increase in private market share	0 (1995)	9 (1998)
Number of new laws and policies drafted with USAID assistance	0 (1995)	25 (1998)
GOK maintains adherence to IFI conditionality	Yes (1995)	Yes (1998)

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE: Financial Reform, 110-S001.4
STATUS: *Continuing*
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A competitive private financial sector more responsive to a market-oriented economy.

Background: Early success in the privatization arena will be unsustainable unless it is followed by the establishment and growth of a vibrant capital market to channel scarce investment resources into areas of highest economic return. Most commercial banks are barely solvent, and there is only the most rudimentary understanding of how capital markets work. Although Kyrgyzstan adopted basic central and commercial banking laws in December 1992, continued assistance is needed to modernize these laws and ensure effective implementation. A strong, independent Central Bank with an effective banking supervisory capacity is needed to modernize the banking system. The basic framework for an effective securities market also needs to be implemented and set on a sustainable footing.

USAID Role and Achievements to Date: The formation of a National Securities Commission represents one important achievement, the establishment of Kyrgyzstan's first stock exchange in Bishkek in 1995 another. More than twenty companies are now listed on the stock exchange board. New corporate accounting standards have been introduced. Significant strides have also been made as part of USAID's effort to tighten financial regulatory guidelines and enhance monitoring capacity in the banking sector. A number of insolvent banks have had their licenses suspended as a result of this work. These actions, and a dramatic reduction in credits and an overall tight monetary policy over the last two years, reflect the success of the Central Bank in asserting its independence.

Description: USAID's main role is to provide technical assistance and training to nascent institutions in the financial sector. Much of the early work--drafting and introducing new laws, procedures and operating systems--has already been done. Now, hands-on work and on-the-job training is receiving special emphasis. In FY1998, USAID will continue to provide assistance to the financial sector in these and related areas.

Host Country and Other Donors: USAID is the major foreign donor working in the financial sector, and the only one involved in the securities area. Work is coordinated closely with the World Bank as well as with other donors such as EU-TACIS.

Beneficiaries: Immediate beneficiaries include professionals involved in securities market development such as private bankers, stock brokers, and government officials. Newly emerging entrepreneurs as well as a broad range of Kyrgyz citizens should benefit by expanding capital markets which channel scarce financial resources in more productive directions.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through three private U.S. firms in cooperation with the local counterparts at the Central Bank, Ministry of Finance, the Bishkek Stock Exchange, and National Securities Commission.

Major Results Indicators:

	Baseline	Target
Banks deposits as % of GDP	5.0% (1995)	7.0% (1998)
No. of financial services available	5 (1995)	24 (1998)
% of banks meeting capital adequacy requirements	42% (1995)	80% (1998)

% of firms using new accounting standards	0 (1995)	50% (1998)
Types of financial institutions	3 (1995)	7 (1998)
Types of security markets institutions	4 (1995)	8 (1998)
No. of companies listed on stock exchange	10 (1995)	50 (1998)

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE: Citizens' Participation, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998 $4,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased citizens' participation in political and economic decision-making.

Background: Despite occasional setbacks along the way, Kyrgyzstan remains the most open Central Asian country. In particular, there have been many recent examples of steps to expand information flows and promote greater transparency in the government decision-making process. For example, with USAID support a Consultative Council on Legal Reform provides a new mechanism for the executive, parliament, donors, NGOs and private citizens to gain access to information and participate in planning and discussing the ongoing reform program.

USAID Role and Achievements to Date: Active support of local non-governmental organizations (NGOs) remains a central part of the USAID program in Kyrgyzstan. By one estimate, some 420 NGOs were active in a variety of areas, including environment, human rights, agricultural development, women's rights, media, civic education, and election law reform. This number represents an increase of 157 NGOs over the previous year. Civic education programs are being developed, based partly on the results of a USAID-funded survey tracking voter opinions and attitudes. USAID grantees have also been influential in establishing a voluntary lawyer's union for Kyrgyzstan, encouraging the development of local bar associations, providing comments on draft legislation, and promoting public discussion on pending legislation.

Description: USAID-funded NGO activities largely involve technical assistance, training, and grants to local NGOs. The local NGO sector receives special attention, in terms of the legal and regulatory environment, in terms of introducing greater professionalism and new management skills to NGOs, and in terms of effecting social change and providing needed social services. Under a competitive small grants programs, a number of local organizations are eligible to receive direct programming support. A new initiative will provide training to private television stations to improve programming quality and enhance their financial viability.

Host Country and Other Donors: The United States is the major foreign donor working in the area of democratization in Kyrgyzstan. Programs supported by the various U.S. Government agencies, including those of USAID and USIA, are closely coordinated.

Beneficiaries: Beneficiaries include members of Kyrgyzstan's NGOs, independent television stations, lawyers, members of the judiciary, members of parliament and the public at large.

Principal Contractors, Grantees, or Agencies: Several USAID-funded American NGOs such as the American Bar Association/CEELI, National Democratic Institute (NDI), Internews, and the International Foundation for Election Systems (IFES) have played important roles in promoting democracy in Kyrgyzstan. Familiar American groups such as Goodwill Industries, Aid to Artisans, and the Citizens Network for Foreign Affairs, which together form The Counterpart Consortium, also participate in local NGO development.

Major Results Indicators:

	Baseline	Target
No. of Advocacy NGOs	0 (1992)	400 (1999)
No. of draft laws and policies with NGO input	0 (1992)	16 (1999)

No. of independent stations	0 (1994)	7 (1999)

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE: More effective, responsible, and accountable local government 110-S002.3
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998 $2,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1998 **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Demonstrate more effective, responsible, and accountable local government

Background: Kyrgyzstan, with limited arable land and a lack of readily accessible natural resources, has embraced the ideals of market reform as its only path forward. However, economic hardship continues and economic difficulties affecting large numbers of the population threatens the economic transition process as a whole. One approach toward dealing with these problems is decentralization, providing local authorities with greater responsibility for both raising revenue and determining how that revenue is spent.

At this point, Kyrgyzstan is far ahead of its neighbors in terms of delegating decision-making authority to local authorities. The range of legislation related to this area over just the past year is impressive. For example, progressive changes in the tax law allows designation of certain taxes to different levels of government. The October 1996 Presidential decree encourages formation of municipal associations as well as the development of municipal charters as the primary documents of local government.

USAID training and technical assistance have helped to demonstrate the benefits associated with effective, responsible, and accountable local government in one pilot test site. Using this model, USAID demonstrated how activity in health and housing can usefully be carried out at a local level for maximum effectiveness. Similarly, USAID's activity in intergovernmental finance supports the critical element of creating a resource base for social sector reform. The time is opportune in Kyrgyzstan to address the generic issues relative to financing and administration of social benefits and services in addition to the more sector specific issues covered under Strategic Objective 3.2 (Improved sustainability of social services and benefits).

USAID Role and Achievements to Date: USAID implemented the Municipal Finance and Management (MFM) Project in Central Asia as part of the Democratic Pluralism Initiatives (DPI) program from 1994 through 1996. Karakol, Kyrgyzstan was chosen as one of two municipalities in Central Asia (the other being Atyrau, Kazakstan) in which to implement the project. An external evaluation, marking the completion of the project, was conducted in October 1996, with a view toward providing further information about possible future directions. The evaluation concluded that significant strides towards democracy building were made, especially in view of the short life cycle of the project. Key events highlighted included preparation and use of a city budget; a significant increase in the percent of taxes received and retained in Karakol; the introduction and use of computer systems and software in the tax and finance departments; and the preparation of a draft city charter for Karakol that is now under consideration. The establishment of an information office and increased media exposure also increases transparency and makes local citizens more aware of developments related to local government. In addition, USAID is now implementing a pilot land registration process for use by municipalities. This project, which will be expanded with World Bank resources, is critical for ensuring that local governments have the revenue base needed to effectively carry out their responsibilities. In addition, this project will support USAID-assisted efforts at providing privatization of land at the local level through land auctions and encouragement of private sector real estate development.

Description: USAID believes the time is appropriate to expand the initiative begun in Karakol to other oblasts and municipalities in Kyrgyzstan. The inability of the central government to meet subsidy requirements at the local level is motivating policy makers to devolve key financial and other authorities to the local level. USAID would build on lessons learned from the MFM and housing reform projects

and from other donors to ensure efficiency and effectiveness. USAID funded training and technical assistance would be directed to the national as well as selected local levels to facilitate decentralization reforms.

The October 24, 1996 decree by the President of Kyrgyzstan "On the Measures for On-Going Improvement of Local Self-Governments in the Kyrgyz Republic" sets the stage for continued assistance. As one recent EU-TACIS activity concluded, there are very few additional resources available to local governments in the near term--and the only hope for providing municipal services is through increased efficiency. In keeping with this view, USAID plans to support administrative development at the local government level. Activities will be closely coordinated with ongoing assistance in the development of local resource bases to guarantee a degree of fiscal independence to local government, in the development of indigenous nongovernmental organizations, and in the development of sustainable social services.

Host Country and Other Donors: USAID will work closely with the various governmental entities involved in local government issues, including ministries, the presidential apparat, parliament, local level officials and government employees. A number of other donors also support activities with a local government dimension, including the World Bank, Asian Development Bank, and EU-TACIS.

Beneficiaries: Elected officials and government employees at the oblast and municipal level will benefit directly. Also, private citizens of Kyrgyzstan, especially those classified as part of the "vulnerable group" (i.e., elderly pensioners, women, and children) will benefit from improvements in the social safety net and more targeted and effective social services.

Principle Contractors, Grantees, or Agencies: To be determined. Mission plans to "buy in" to existing assistance mechanisms or to competitively procure services depending on which will provide the best benefit to the U.S. Government, cost and other factors considered.

Major Results Indicators:*

*This is a new strategic objective, indicators and targets will be finalized during the next planning period.

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE: Improve the sustainability of social benefits and services 110-3003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998 $3,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Improved sustainability of social benefits and services.

Background: The social sector in Kyrgyzstan, which was previously funded and managed entirely by the government, continues to be severely strained as the country moves from a planned economy to a market oriented one. A key determinant of the overall success and sustainability of the reforms will be the ability of the government and the private sector to develop and administer efficient and cost-effective social services. Under this Strategic Objective, USAID has focused attention on the health and housing areas. Progress made to date needs to be deepened to ensure the sustainability of well targeted social benefits and services in a market economy. One strategy for deepening the reform is coordinated work at the local level, as has already been shown in an intensive demonstration site at Karakol. Thus, work on this Strategic Objective will be coordinated with work on the Strategic Objective for local self government and with assistance provided by other donors.

USAID Role and Achievements to Date: USAID's most significant achievements in restructuring the health sector in Kyrgyzstan has been the pilot health reform project in Issyk-kul Oblast. Considerable progress has been made. Market-based insurance schemes were introduced. Eighty-one new family group practices have been established within the past year in the pilot oblast, resulting in a shift from costly hospital-based care to less expensive outpatient treatment. Eighty percent of the entire population of Issyk-kul has now enrolled in the family group practice of their choice. A new provider payment system which encourages primary care physicians to treat more and refer less to specialty hospitals was instituted. A rationalization of health resources plan was also introduced, resulting in the closure of one inefficient hospital. Given the success of the early pilot effort, World Bank funds are being used to extend the Issyk-kul work into two other oblasts.

The housing sector program has focused on working with government counterparts at the local and national level to develop a system for transferring authority for housing maintenance to those with the highest stake, namely the residents and owners of the buildings in question. In 1997 and again in 1998, efforts will be made to implement and broaden the policy changes adopted in 1996, with a view toward solidifying private ownership and maintenance. Finally, USAID programs directed toward NGOs also have an important local government dimension and can be used both to ensure more effective social delivery and bring about change in targeted communities.

Description: USAID, a key player in assisting the social sector reforms in Kyrgyzstan since 1993, anticipates taking further steps to deepen the reform efforts. At this point, USAID plans to focus and complete the pilot work in Issyk-kul oblast. This will make it fully operational and provide a viable health reform model for the World Bank to replicate in two other oblasts. In addition, USAID will concentrate on national health reform policy development based on lessons learned in Issyk-kul. USAID will complement World Bank efforts by providing health reform assistance in an additional two oblasts. The combined USAID and World Bank efforts would thus ensure that some 90 percent of Kyrgyzstan's population is covered by a health care delivery system consistent with a market-oriented economy in a democratic society. USAID may also assist the government in attempts to rationalize and reduce subsidies for housing and municipal services at the local level.

Host Country and Other Donors: Various Government of Kyrgyzstan ministries, local level government officials and government employees, World Bank, UNDP, UNICEF, UNFPA, WHO and EU-TACIS are all involved in activities with a local government dimension. As noted, the World Bank is an important

partner in a number of activities related to social sector reform.

Beneficiaries: Immediate beneficiaries include physicians in family group practices and their clients. Ultimately, at least ninety percent of the citizens of Kyrgyzstan benefit, especially those in that segment of the population classified as vulnerable (e.g., elderly pensioners, women, children).

Principal Contractors, Grantees, or Agencies: Abt Associates, Inc. is working in the health reform arena. International City and County Managers Association (ICMA) is working in the housing sector.

Major Results Indicators:

	Baseline	Target
No. of cities with pilot housing allowance program	0 (1994)	5 (1997)
% of central health budget allocated to primary health care	30% (1994)	50% (1999)
% of hospital and outpatient care reimbursed on incentive basis	0 (1994)	80% (1998)
Number of independent primary care practices	0 (1994)	80 (1998)
% market share of private pharmacies	12%	

LATVIA

FY 1998 Assistance to Central Europe Request $3,000,000

Introduction.

SEED Act assistance to Latvia began shortly after the country regained its independence from the former Soviet Union in 1991. Initial U.S. support consisted of emergency assistance and energy programs in response to immediate needs. However, since the restoration of its independence, the country has undertaken a major program of political and economic reforms which have led to expanded focus of SEED activities in support of these efforts. The prime U.S. objectives in Latvia have been to foster: 1) the development of a competitive, market oriented economy; 2) a transition to transparent and accountable governance; 3) improved living conditions through environmental and health care management; and 4) enhanced regional security by improving relations with its neighbors through active participation in the Partnership for Peace, the OSCE, and other international organizations. Latvia's successful transition to a market economy closely integrated with the European Union, based on democratic principles, is key to U.S. policy in this region.

The Development Challenge.

Latvia is not without its share of development challenges. In contrast to a surplus in the previous year, a budget deficit was recorded in late 1994. The Government of Latvia (GOL) remained committed to stabilization efforts, in accordance with IMF and IBRD arrangements, but structural and financial reforms continued to lag behind private sector growth. Then a significant crisis gripped the banking sector during the second quarter of FY 1995. By summer, three large banks failed and, according to IMF estimates, the collapse resulted in losses of around 8% of GDP. The prolonged banking crisis involving what had been Latvia's largest commercial bank set the economy back in the second half of 1995 causing a budget deficit of $170 million in 1995 and a projected deficit of $72 million in 1996. USAID modified its efforts to ensure core development objectives were met in bank supervision, tax administration, and budget implementation. SEED assistance contributed to addressing critical needs and thus enabled the GOL to avoid an economic collapse.

The overall economy seems to have stabilized and inflation has declined from 23% in 1995, to an expected 16% in 1996. Privatization in Latvia is progressing. Although, privatization of the banking and agricultural sectors is almost complete, the pace of privatization of large state owned enterprises has slowed considerably after privatization of 251 enterprises in 1995. However, 80% of small businesses are now in private hands. The government has authorized the Latvian Privatization Agency to start preparing 320 state enterprises for privatization.

The political challenges that Latvia faces include building public confidence in macroeconomic policies (especially with regard to banking and fiscal issues) fostering a sound social sector and civil society, and assuaging ethnic tensions surrounding its (mostly Russian) minorities. The 100-seat parliament (Saeima) elections held in the fall of 1995 were free and fair, but the election law barred some citizens from competing due to prior activity in pro-Soviet organizations and for lack of fluency in the state language. The election itself resulted in a fragmented parliament which has only added to Latvia's challenges in this area.

Originally, it had been expected that new USAID program resources would not be needed after FY 1996 and that current activities would end in FY 1997 or soon after. However, USAID's analysis of country indicators has strongly suggested that, although progress has been made, an additional modest level of assistance was needed to help sustain the transition to a market economy and functioning democracy. Current plans are to provide this needed funding in FY 1998 and end the program in FY

Other Donors.

The Government of Latvia's requirement for technical assistance for the period 1996-99 are defined in its National Indicative Program (NIP). Multi-lateral donors like the World Bank, UNDP and European Union (EU) have provided broad base assistance to Latvia. The major bilateral donors that are active in Latvia, besides the U.S., include Denmark, Finland, Germany, Sweden, UK, Canada, and Norway.

The EU has provided assistance to Latvia for macro-economic stabilization (privatization, industrial restructuring and development of finance and banking sector) in support of Latvia's move towards European integration. For the period 1995-99, EU assistance will continue to support restructuring and privatization in the industrial and agricultural sectors. Assistance will also be dedicated to supporting infra-structure investments, both through technical assistance and the funding of a portion of the local costs pertaining to loan-based financing of public investments.

The World Bank's strategy has shifted from supporting stabilization and early structural policy measures to assisting the Government of Latvia in deepening its structural reforms and promoting private and public investment. The Bank's future focus will be on (i) private investment promotion; (ii) ensuring adequate level of public infrastructure services; and (iii) streamlining and strengthening the social safety net and delivery of social services.

FY 1998 Program.

As part of an analysis of SEED program closeout planning, USAID in conjunction with the Department of State, recently reviewed Latvia's accomplishments under the SEED program. On the basis of available performance data, it appeared that there was a need for additional discrete programs in Latvia in the FY 1997-1999 period to help consolidate the country's economic and political reforms. An assessment was undertaken which confirmed the need to undertake a modest but highly focussed program to complete the transition work. Based on the approved strategy, the highest priority for the USAID program is to support two strategic objectives: 1) a more competitive and market-responsive private financial sector and 2) increased, better informed citizen participation in political and economic decision-making. In addition, USAID assistance will continue to improve the capability of the Energy Regulatory Board to regulate utility companies which will be privatized soon.

Strategic Goal: Economic Restructuring

Restoring a high sustained rate of growth is fundamental to meeting SEED Act objectives in Latvia. There are several critical gaps in the institutional fabric of the financial markets where USAID assistance could make a meaningful contribution to financial market development, investment and enterprise restructuring. A preliminary list of areas include:

- development of capital markets, including establishment, regulatory development and market-promotion capacities of a security and exchange commission, the provision of targeted advice and training to officials and intermediaries on the Riga Stock Exchange and the Central Depository;

- development of a deposit insurance program; and

- preparation of a collateral law and the development of a registry of moveable property to enhance the security of financial transactions.

These activities are aimed at restoring confidence in the domestic banking system, reducing risks associated with domestic lending operations of commercial banks and developing the institutions necessary to support rapid growth in capital market activity. Such activities will also help focus attention on the importance of the rule of law in the development of broad-based growth -- particularly in the financial areas where confidence was shaken after the 1995 bank crisis.

attention on the importance of the rule of law in the development of broad-based growth -- particularly in the financial areas where confidence was shaken after the 1995 bank crisis.

As part of the effort to define specific assistance needed in these areas, interventions will be costed and prioritized with the highest priority given to those areas where improvement is most important to attract investment which can lead to economic growth. This prioritization will more likely result in an emphasis on capital markets since attracting investment and capital has been identified as the most critical gap in the country's economic growth with capital market development viewed as the best method of achieving this objective.

- Strategic Objective: A more competitive and market-responsive private financial sector

Strategic Goal: Democratic Transition

USAID strategy will focus on support of Latvia's efforts to increase citizen participation in providing social services while reducing dependency on government to provide these services and to bolster the country's efforts to structure a meaningful national dialogue of integration, empowerment and tolerance among Latvia's ethnic minorities. The SEED analysis concluded that although NGOs were key to effective delivery of social services and addressing other citizen participation issues, they remained weak, as elsewhere in the Baltics.

Continuing assistance will be provided to the Democracy Commission which has been instrumental in articulating democratic country strategies and monitoring implementation of such strategies, including the development of democracy networks. On the basis of proposals submitted by the Democracy Commission, USAID launched Latvia's Democracy Network program in FY 1995 to increase the impact that private, voluntary and other NGOs have on influencing public policy and promoting grass-roots agendas. Although it has been in operation for less than a year, the DEMNET program has already helped NGOs to become self-sustaining and capable of influencing the formulation and implementation of public policy; mobilizing private resources, and providing services to and advocacy for constituents. Assistance also will be provided to the Democracy Commission to address the issue of integration of Latvia's non-citizen population. However, due to limited resources and time needed to successfully accomplish this objective, and subject to local laws and available counterparts, USAID will explore the foundation concept as a vehicle to strengthen and support the development of NGOs. This type of mechanism would have a longer term role, beyond the life of USAID assistance, and would attract other donor funds.

- Strategic Objective: Increased, better informed citizen participation in political and economic decision-making

Cross-cutting and Special Initiatives.

Assistance will continue to be provided to the Energy Regulatory Board in implementing tariff setting formula's and in supervising the activities of the soon-to-be privatized utility companies. This is viewed as cross-cutting because it is believed that progress in this area will lead to public and political support for the privatization of other large scale enterprises. The main results to be achieved from this effort are 1) a shift to economic pricing in the energy sector; 2) a reduction in energy arrears; 3) improvements in energy efficiency; 4) an increase in investment in the energy sector and, 5) development and application of objective methods for supervising and regulating costs and performance in the energy sector. In addition to supervisory activity, USAID will continue to support (through its regional efforts) the development of Baltic-wide energy planning and strategy formulation. This will complement the domestic regulatory activity by helping Latvia achieve scale economies in generation and transmission and by exposing the domestic energy market to sole level of external competition.

LATVIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	--	--	--	--	--
Financial Reform	1,500,000	--	--	--	1,500,000
Energy	--	--	--	--	--
Citizens' Participation	--	1,200,000	--	--	1,200,000
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	300,000	300,000
TOTAL	1,500,000	1,200,000	--	300,000	3,000,000

*Support for East European Democracy (SEED) Act funds

USAID Representative: Ronald J. Greenberg

ACTIVITY DATA SHEETS

PROGRAM: LATVIA
TITLE: Financial Reform, 180-S001.4
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,500,000 SEED Act
INITIAL OBLIGATION: FY 1997; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more competitive and market-responsive private financial sector

Background: Latvia is among the fastest reforming countries of the former Soviet Union. The Central Statistical Bureau of Latvia has reported Latvia's GDP in the second quarter of 1996 as $1.3 billion. The GDP volume went up in the areas of industry, construction and transport. Compared to the first six months of 1995, the GDP has increased by 1.5% in the corresponding time frame for 1996. Price liberalization and small-scale privatization are virtually complete, currency is fully convertible and the country generally pursues a liberal trade regime.

The progress in market-oriented reform continues but the pace of reform in 1994 and 1995 was somewhat slower than had been expected from an initial swift and successful start. In the area of macroeconomic stabilization, inflation has continued to decelerate but some deterioration has occurred. Further progress in structural reforms has been rather limited as large-scale privatization failed to accelerate. Moveover, the effectiveness of recently adopted measures to speed up the process has yet to be seen. Inward investment in the economy has been inhibited by various legislative and administrative difficulties and a general perception of increased riskiness of investing in Latvia. Nevertheless, key financial indicators continue to point to a reasonably healthy picture in the economy and there is a potential for renewed growth.

USAID Role and Achievements to Date: To establish a crucial financial sector framework, USAID and the U.S. Department of Treasury have advised the government and financial institutions such as the Ministry of Finance and the Bank of Latvia, in macroeconomic and monetary policies, tax policy and administration, budget implementation and commercial banking. Long and short-term technical assistance has been customized to fit the needs and abilities of the recipients. USAID has been particularly active in advising management and staff of the Bank of Latvia in bank supervision, and in budget legislation as well as in the management of budget implementation. In collaboration with U.S. Departments of Commerce and Justice, USAID provides technical assistance and training in the areas of trade policy and commercial law. Legal assistance to the Ministry of Foreign Affairs in the preparation of international agreements is hastening the pace of accession to internal trade structures. In addition commercial law assistance is being provided to reinforce the government's ability to regulate monopolies and foster a competitive environment.

Description: Progress in the development of Latvia's financial sector will require significant results in several areas to include 1) capital markets; 2) establishing a legal framework and institutional structure for secured transactions for commercial banks; and, 3) development of an effective deposit insurance system. However, the primary focus of USAID assistance will be the strengthening of capital market institutions since the analysis indicates this as the area in which the most intensive assistance would be required, particularly to the newly formed Securities and Exchange (SEC), but also to the Riga Stock Exchange and the Central Depository.

Assistance will be provided in organizing and establishing the SEC, in preparing the regulations and guidelines governing market participants in the capital markets, in training market intermediaries in public offerings and new instruments and in providing market promotion and market outreach activities. As volume traded and the number of instruments increases, the Stock Exchange and the Central Depository will need major organization and logistical reform. USAID assistance will help guide that

process. The ultimate objective of this assistance is the rapid development of Latvia's capital markets to facilitate privatization and inflows of foreign investment, and to expand opportunities to mobilize and deploy investment finance.

Host Country and Other Donors: USAID's support to Latvia is relatively small in comparison to that provided by other donors. Latvia's major external donors are the World Bank, the IMF, EU-PHARE and the EBRD. The focus of IMF/World Bank assistance has been on stabilization, economic reform and transformation; EU-PHARE's assistance has been aimed mainly at European integration while EBRD's focus has been on providing resources for economic infrastructure and new private enterprises.

Beneficiaries: People of Latvia (specifically depositors, investors, and potential employees of new and expanded enterprises).

Principal Contractors, Grantees or Agencies: To be determined

Major Results Indicators: Stock exchange capitalization, turnover, and depth, M2 as a share of GDP, growth in private bank deposits. (Targets TBD)

ACTIVITY DATA SHEET

PROGRAM: LATVIA
TITLE: Citizen Participation, 180-S002.1
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,200,000 SEED Act
INITIAL OBLIGATION: FY 1997; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased, better informed citizen participation in political and economic decision-making

Background: Latvia has made considerable progress towards establishing firm democratic traditions. Free and fair elections have been held. An independent judiciary and press are in place. Political parties have been established. The government has changed and a coalition government rules, without civil or military unrest. Still, Latvia's democratic transition has not been painless, nor is it complete. Income levels are half of what they were when the old system collapsed. Distribution of that income has deteriorated and the quality of life seriously worsened. On the political front, grassroots participation has begun to decline as people become disillusioned with the inability of the new political and economic institutions to meet many of their basic needs. Broadening citizenship to include the Russian-ethnic population remains an emotional and problematic issue.

USAID Role and Achievements to Date: Since the inception of the economic assistance program in Latvia, strengthening democratic institutions has been a major objective of the United States. In support of this objective, the USAID program has focused on democratic procedures and governance, legal reform, political party building, and support for an independent media.

Through USAID funded activities carried out by the International Center for Not-for Profit Law (ICNL), the National Forum Foundation (NFF), the U.S. Baltic Foundation (USBF), and the Children's Christian Fund (CCF), assistance has been provided to develop an appropriate legislative environment under which NGOs can operate effectively and to enhance the capabilities of selected NGOs (institutional development). Agreement has been reached between government and NGO representatives and work has begun on the development of a comprehensive legal framework. Under USBF effort (DEMNET), approximately 24 sub-grants to NGOs for public policy advocacy activities (directly related to expanding citizen participation in the government's decision making process) have been approved. Various training programs have also taken place to strengthen the organizational capabilities and advocacy skills of NGOs. The Democracy Commission has also made many sub-grants to NGOs in various areas related to meeting SEED objectives.

Closely related to the above efforts to enhance citizen participation, through NGO activities, is an interagency effort (USAID and USIA) which has been providing assistance and training in the areas of public administration, local government management, and constitutional and civil law reform.

Description: Non-government organizations' efforts to help the poor offer one of the best approaches in meeting Latvia's need to keep the social safety net viable as the transformation moves forward. These same groups help create a web which strengthens civil society and underpins the democratic process. It is felt that such groups may also be able to play a catalytic role in inter-ethnic relations and extensions of citizenship to the ethnic Russian population. This USAID funded activity will address overall strengthening of NGOs and the integration of current non-citizens into civil society, in part, by bolstering efforts by both the GOL and NGOs to structure a meaningful dialogue on integration and tolerance of Latvia's ethnic minorities.

One major element will be to identify a select group of NGOs that are currently providing community services (social safety net, business development) and/or working on minority integration issues. Continuing assistance will be provided to targeted NGOs during the implementation period in order to

ensure sustainability and create "model" organizations whose programs could be replicated throughout the county and whose activities could influence public policy. This would be accomplished through operational grants, technical assistance and training. The creation of a foundation dedicated to the long-term support of NGO activities is being explored. In addition, continued support will be provided to the Democracy Commission because of the unique support it provides to the democracy effort in Latvia.

Host Country and Other Donors: USAID is coordinating its efforts with key donors including G-24 Council on Europe and the Democracy Commission.

Beneficiaries: Vulnerable population groups to include both citizens and non-citizen minorities.

Principal Contractors, Grantees, or Agencies: Foundation (yet to be determined).

Major Result Indicators: To be determined

LITHUANIA

FY 1998 Assistance to Central Europe Request: $3,000,000

Introduction.

Lithuania regained its independence in 1991 after more than 50 years of illegal Soviet occupation. The United States never recognized this forcible annexation and after independence was instrumental in persuading Russia to withdraw its troops. Since 1993, U.S. policy has been to support Lithuania's integration into Western institutions, bolster its fledgling free market economy, support continued democratic reforms, and promote U.S. trade and investment. Excellent bilateral relations are expected to remain closely cooperative. Regional security is important and the United States promotes closer ties with Baltic and Scandinavian countries, while cooperation with NATO is of direct and material interest to the United States. Close ties to the United States, in the form of an extensive, technically qualified, Lithuanian-American community have facilitated the success of bilateral assistance. An active U.S. program is necessary to reduce the potential for political insecurity, a further rise in criminal activity, and economic instability. A recent banking crisis has shaken confidence in economic reforms and the Government of Lithuania (GOL). Lithuania's successful transition to a market economy closely integrated with the European Union, based on democratic principles, is key to U.S. policy.

The Development Challenge.

The Baltic nations were among the most developed parts of the former Soviet Union and have made the greatest advances of any of the Soviet successor states. The GOL has continued on the complex path of transforming its centrally-planned economy into a market-oriented system. Reforms have been geared to Western models and, in most areas, are proceeding at a satisfactory pace, although Lithuania has not had the degree of development success of other Baltic states. Examples of the fragility of Lithuania's democracy are persistent cases of white collar and organized crime and corruption and attacks against independent institutions, such as the media. Use of the Baltics as transit countries has increased substantially since 1994 as illegal goods are smuggled in and out of Russia and other New Independent States. Law enforcement officials recognize the problem and rely on Western law enforcement agencies, including many U.S. agencies, for training. In addition, local governments, having seen an unexpectedly large turnover in new officials after the 1995 elections, view U.S. assistance as a key factor to help decentralize and strengthen their organizational structures and intergovernmental relationships.

There are hopeful signs that economic activity is starting to increase. To sustain this momentum, the GOL will need to address imbalances in public finance, in the banking sector, and in the energy sector. Long-term economic reform will be needed to complete the transition to a market economy. This will include reforms that broaden the scope of private sector operations, a reduction in the scope and size of the public sector, price liberalization, a deepening of financial activity, trade and investment deregulation to create a non-distorting, enabling environment for private activity, improvements in the legal framework and the judiciary, creation of an affordable social safety net, and the use of market forces to restructure inefficient industrial and agricultural enterprises. Annual inflation for 1996 was relatively low at around 18%, compared to 183% just three years ago. Rising economic activity has led to increased electricity, gas and water consumption. Production levels have stabilized and are growing in some sectors. Agriculture and industry have gone through some much-needed restructuring, resulting in increased unemployment. Prices are more reflective of actual production costs. It is estimated that the private sector now employs two-thirds of the workforce and that the real wage rate continues to increase, however, the continuing areas of reform, such as a sound financial system and legal base, are crucial for future economic growth. In these sectors, the United States is seen as a model donor for technical assistance and training. While a recent banking crisis dampened recovery and shook national confidence, the economy expanded 3 to 5% in 1995 and is expected to

grow moderately in 1996 and 1997. The World Bank projects that Lithuania's external debt will grow over the medium and long term, but remain moderate and manageable. The Bank classifies Lithuania as a less-indebted lower middle income country. Lithuania has canceled all claims and obligations to Russia as it does not consider itself a successor state of the USSR.

Other Donors.

Major bilateral donors are Denmark, Sweden, Norway, Germany and Great Britain. USAID technical assistance to the Bank of Lithuania in the area of bank supervision is provided in close collaboration with the World Bank, International Monetary Fund, and the European Union's (EU) PHARE program. The development of a unified banker training program represents a substantial combined effort initiated by USAID with the EU PHARE Program and British Know-How Fund. In collaboration with the World Bank, SEED-funded advisors have made improvements in tax collection procedures as well as Central Bank supervision activities. USAID has also worked closely with the World Bank, the EU PHARE program, and other governments on the reform of the electric power sector. Monitoring and safety information regarding the Ignalina nuclear power plant is regularly exchanged among the Government of Sweden and other cooperating donors. USAID is currently the only major donor in this field, and consequently there is no notable coordination. USAID and the U.S. Environmental Protection Agency's (EPA) monitoring and policy advice to strengthen the Ministry's knowledge base complements work by the EU PHARE program in its development of a national environmental strategy, including environmental law. U.S. assistance for protection of the environment has included cooperation with the World Bank to support the drafting of environmental action plans; these plans now serve as a framework for country-level discussions.

FY 1998 Program.

Consolidation of reforms to create an effective market economy and a secure democracy remain the overriding objective of U.S. assistance. Setbacks experienced in the financial sector, including the banking crisis, underscore the need for a focus on policy issues and on improving the capacity of decision makers to make effective macroeconomic decisions. The FY 1998 program will focus on improving the framework within which banks operate. Bank supervision assistance will continue with on-site supervision assistance. Technical assistance will also be provided to the Governor of the Central bank on macroeconomic policy and related fields. In the area of capital markets, attention will be focused on developing laws and regulations, improving corporate disclosure and increasing transparency and investment options. There will be a new focus on strengthening fiscal management by focusing on tax policy and tax compliance. The FY 1998 program will focus on elimination of major price distortions, developing effective trade policy and on improving the legal framework for commercial activity. In the area of democratic initiatives, the FY 1998 program will focus on strengthening citizen participation through non-government organizations and local government. Institutional arrangements are being considered to develop public-private partnerships in target cities to achieve community objectives. Activities will be designed to address key business, political and social programs. The program will also focus on increased responsiveness to public participation among municipal government officials. The grants and training will be diversified and balanced by region, urban/rural context, gender and ethnicity. The United States will also continue training officials in applying law enforcement and legal reform methods. Current budget plans propose FY 1998 as the final year of funding. However, macroeconomic analysis suggests that Lithuania may require further assistance in the economic restructuring area. This need will be assessed during the next year.

Strategic Goal: Economic Restructuring

USAID economic efforts in Lithuania focus on crucial activities that do the following: strengthen fiscal management; forge a more stable financial environment; and improve the enabling policy environment conducive to sustained private sector growth.

USAID's work on fiscal management has been achieved through the efforts of the U.S. Treasury program. Since 1992, the Office of the Fiscal Assistant Secretary has worked to implement a modern, well-functioning treasury system. Such a system is needed to ensure quick collection of government funds into a central account along with a payment-as-needed system for disbursements. Other Treasury advisors have focused primarily on tax administration. Through their efforts, the Tax Administration law was passed on 6/95, which clearly defined the rights and responsibilities of the tax payer and tax collector. Together with the reorganization of the State Tax Inspectorate along functional lines, this law, implemented on July 1, 1996, will provide the necessary framework for Lithuania to implement a modern tax administration system. Implementation of such a combined tax collection system will increase the efficiency of the tax administration system. Additional work has been done on developing implementation regulations, training tax inspectors and developing a public information service about the tax system. Whereas USAID's past focus has been on tax administration and tax enforcement, future activities will focus on tax policy and tax compliance. This will involve working with the newly created budget and tax policy division at the Ministry of Finance on their priority issues. This work will include reviewing draft tax laws, developing a tax code, and developing the capacity to determine the economic impact of alternative tax policies.

USAID has been in the banking sector since mid-1993, through work with commercial banks and the bank supervision department. After a year of training and daily guidance, the Central Bank was able to examine commercial banks, identify major problems in ten banks and close them down, thereby preventing further losses to depositors. An inspection manual, which will institutionalize the lessons learned, is over 85% completed. In addition to Central Bank assistance, USAID has worked to make the commercial banking sector more viable. This has been done in various ways, including increasing the skills of bankers through 23 one-week courses in major banking centers of Lithuania. Over 250 bankers improved their skills in credit management, asset-liability management, internal audit and other areas. Another area of effort has been to develop alternative financial institutions. The World Council for Credit Unions program has helped put in place legislation allowing for the establishment of credit unions and assisted six credit unions in starting operations. An Environmental Investment Fund is under development. In response to the needs of the Ministry of Finance, an advisor is assisting on corporate governance issues at the three large state-owned banks. These banks make up half the banking sector and need help not only in bank operations, but also in developing the appropriate role of share holders. USAID advisors are also working on improving banking legislation in the Commercial Bank law and the Central Bank law.

In developed economies, capital markets acts as an alternative to banks by providing capital to enterprises and accepting investments. In Lithuania, the role of the capital markets remains underdeveloped. Future USAID work will target the regulatory body, the stock exchange and market intermediaries to improve their types and quality of activity. This will include developing laws and regulations governing the capital markets, improving corporate disclosure and increasing transparency and investment options. As main capital markets participants work well together and are interested in following a U.S. model for their system, this multiple-segment approach will allow for balanced and effective development of the capital markets.

USAID has assisted over 150,000 companies in Lithuania, by improving the enabling environment conducive to sustained private sector growth. Efforts directed towards achievements of the strategic objective have focused on reform of the commercial legal system, GATT accession and institutional development of effective competition and consumer law.

Much of the foundation has been prepared for reducing major price and trade distortions and improving the legal framework. Future efforts will concentrate on elimination of major price distortions, particularly, setting up energy prices to reflect actual economic costs and setting up environmental charges to internalize cost to pollution. Together with the assistance provided by other donors in reducing inter-sectoral price distortions, this will lead to improved enabling policy environment for private sector.

The other important area for private sector growth will be effective trade policy development which will increase market assets. Assistance in this area will concentrate on enhancing trade policy development skills within the GOL. Together with the EU assistance on preparation work for EU membership as well as on entry into regional trade accords, this will lead to improved market access for private business and therefore will stimulate the business to grow.

The third area of assistance concentration will be on improvement of the legal framework, with focus on the development and implementation of key laws necessary for further business growth, strengthening professional skills of judiciary and bar, and the development and implementing of low-cost alternative resolution services.

The lack of investment capital in the Baltics has been lessened somewhat by the creation of the Baltic American Enterprise Fund (BALAEF), which began operations in mid-1995. It is the USG's largest single economic program in the three Baltic republics. BALAEF is helping to provide a more stable financial service, which will stimulate development of private sector enterprises through two avenues. One, its loans provide capital for expansion and improvement of small business. Two, it is acting as a model for other financial institutions on lending to small and medium enterprises.

In Lithuania, BALAEF has made 20 loans, totalling $5 million. Because of high interest rates and prevailing lack of desire to lend to smaller enterprises, these twenty borrowers would have had a difficult time obtaining loans from local banks. BALAEF expects to increase its deal flow to about $1,000,000 per month for the three Baltic countries.

- Strategic Objective: Strengthened Fiscal Management
- Strategic Objective: More Stable Financial Environment
- Strategic Objective: Improved Enabling Policy Environment Conducive to Sustained Private Sector Growth

Strategic Goal: Democratic Transition

In order to achieve the strategic objective of increased, sustained collaboration of NGOs and local government to develop policies and services which reflect community interest, USAID will emphasize increased NGO activism and increased responsiveness to public participation among municipal government officials.

Establishment of enabling legislative framework for NGOs in Lithuania is critical to their development. During 1995-96, the International Center for Not-for profit Law (ICNL) worked with the legal departments of the Ministry of Economics and the Parliament to draft and pass Lithuanian's four cornerstone NGO laws. This legislative reform effectively introduces, regulates and integrates the legal experience of a non-profit NGO sector in Lithuania. Thus 100% of the required basic legislation is place. However, two additional steps will need to be taken over the next two-year period to assure that the appropriate legislation is in effect and utilized. First, numerous revisions to the legislation need to be drafted and passed. Secondly, the NGO community needs to be fully versed in the laws and their implementation.

The success of local NGO initiatives requires linkages to and support from the municipal government. The governmental relationship with the nonprofit sector is actually more collaborative than commonly believed and should be viewed in terms of a managed interdependence, combining the best of partnership and autonomy. We expect that fully 50% of participating municipal officials in mid-1998 will indicate increased responsiveness to public participation.

The National Democratic Institute (NDI) program can be expected to result in improved receptiveness of local government to public participation through building up the credibility of local governments, and reducing the physical, social and psychological barriers that citizens encounter when approaching the government.

The Democracy Network program has achieved a solid beginning in providing NGO support, through small grants and advocacy training. There will also be an ongoing NGO training program (conducted by NDI international trainers) that focuses on coalition-building, media relations, participation in local and national decision-making, and organizational sustainability.

Finally, through the U.S. Embassy's Democracy Commission Small Grants program, USAID is able to provide a flexible mechanism to award small sums of money for short-duration projects and initiatives that support democracy in Lithuania. Target recipients include native Lithuanian individuals, NGOs, municipal or national governments, and educational institutions whose purpose is to further the development of democracy. Of particular interest are projects relating to government reform, legal reform, civic education, media reform, the role of the military in a democratic society and inter-ethnic and political harmony. Maximum award for any one project is $24,000 but most grants are in the range of $1,000 to $10,000.

- Strategic objective: Increased, sustained collaboration of NGOs and local government to develop policies and services which reflect community interests

Cross-cutting and Special Initiatives.

There are three special initiatives which USAID will continue to support. The first initiative encompasses three targeted activities in the energy sector including support to the Ignalina Nuclear Power Plant to help strengthen nuclear safety and inspection capacities. Continued support to improve the early warning system and other nuclear safety measures is a very high priority, particularly in light of the potential risks from this reactor. Lithuania and the international donor community are working together to improve safety at the Ignalina Nuclear Power Plant (INPP) and to achieve internationally accepted nuclear safety standards. Although more work needs to be done in strengthening the operational and physical conditions of INPP, the plant is now significantly safer than at the onset of independence. Additional activities include self-evaluation program and INPP-specific inspection guidance.

Energy efficiency activities will contribute to overall demand reduction and to price rationalization efforts. As part of the U.S.G policy to support cooperation among the three Baltic countries, USAID will continue to support a third energy sector activity, the development of regional energy planning and cooperation and one environment initiative, establishment of a regional environmental monitoring system, which is managed by the U.S. Environmental Protection Agency. Activities for the future are the completion of electricity demand forecast for all three countries and for the whole region; completion of least-cost generation and transmission plan for the region; and creation of re-formulated power pooling arrangement.

The third special initiative seeks to improve enterprise capacity through an existing series of technical assistance and training grants in the areas of small and medium enterprises, agriculture, investment and demonstrations related to environment, and business training. To the extent feasible these activities will be refocused in line with USAID's four strategic objectives, including policy concerns and issues of sustainability. Others will be rapidly phased out. USAID does not have the resources to continue a retail-level technical assistance and training program. The EU PHARE and the EBRD have started business advisory services which can provide commercially-based assistance at a much higher funding level.

Short-term training is a cross-cutting activity which provides support in each strategic objective area. Within training, efforts need to be made to ensure that training activities closely complement achievement of other strategic activities. Training-specific objectives will be fully integrated into other programs and projects. Training programs are planned, implemented and evaluated in the context of strategic objectives and specified results. Impact of training is necessarily defined in terms of results. Resources will be allocated to the needs of the demand driven model.

LITHUANIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	600,000	--	--	--	600,000
Private Enterprise	250,000	--	--	--	250,000
Financial Reform	1,200,000	--	--	--	1,200,000
Energy	--	--	--	--	--
Citizens' Participation	--	400,000	--	--	400,000
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	550,000	550,000
TOTAL	2,050,000	400,000	--	550,000	3,000,000

*Support for East European (SEED) Act funds

USAID Representative: Ronald J. Greenberg

ACTIVITY DATA SHEET

PROGRAM: LITHUANIA
TITLE: Tax Policy, 180-S001.2
STATUS: *Continuing*
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $600,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: To strengthen fiscal management

Background: Poor fiscal policy in Lithuania has resulted in low levels of revenue collection. Inadequate revenues relate back to an excessively complex tax system, which is unevenly enforced and which drives economic activity underground. The tax system is administratively complex and hard to understand by tax payers, and riddled with exemptions and preferential rates for priority branches of the economy. Tax evasion and avoidance are so widespread that an estimated 40% of economic activity takes place in the grey markets. In tax administration, there are already far too many collection offices, and a separate collection service has been established for VAT (value added tax).

USAID Role and Achievements to Date: In the past, new legislation in fiscal management, tax policy, tax administration, and budget policy has been devised and successfully implemented with the assistance of U.S.-funded advisors. Work on fiscal management has been achieved through the efforts of the U.S. Treasury program funded by USAID. U.S. Treasury advisors helped the Ministry of Finance formulate fiscal policy and upgrade tax collection efforts through regular training. Through efforts of Treasury advisors the Tax Administration Law was passed and came into force from July 1996. With the Treasury advisors' active participation, the State Tax Inspectorate recently reorganized along functional lines. The reorganization increased tax inspectors' responsibility and improved tax collection mechanisms. Also, a treasury system for cash collection and disbursement has been implemented. Future USAID fiscal policy work will enhance the GOL's capacity to analyze the fiscal and economic implications of alternative tax policies as well as simplify and make more transparent existing tax systems.

Description: USAID assistance to the Ministry of Finance will focus on recommendations on tax policy, such as tax system simplification, improvements in tax equity, and minimization of administrative and taxpayer compliance costs. In order for tax legislation to be more simple and transparent, special attention will be paid to improvements of specific draft laws and laws already passed.

Host Country and Other Donors: USAID works directly with the Ministry of Finance. Other donors involved in the area are IMF, EU PHARE and Denmark.

Beneficiaries: Primary beneficiaries of the program are the Ministry of Finance and the Government of Lithuania. Since more transparent and simplified tax systems will stimulate businesses to grow, all businesses will benefit as will the tax-paying public.

Principal Contractors, Grantees, or Agencies: USAID's efforts in tax policy will be conducted by advisors provided under a contract to Harvard Institute of International Development. Efforts to improve tax administration are being provided by Treasury advisors.

Major Results Indicators:

	Baseline (1995)	Target (1998)
Tax revenue as a percentage of official GDP	24%	29%

ACTIVITY DATA SHEET

PROGRAM: LITHUANIA
TITLE: *Trade Policy, 180-S001.3*
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $250,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: *To develop effective trade policies which increase market access*

Background: Although protectionism has recently been on the increase, the Government of Lithuania appears to recognize the advantages of international trade and of getting other countries to open their markets wider to Lithuania's exports, as well as the benefits of opening its own economy wider to international trade. It is therefore making efforts to join WTO/GATT, the European Union (EU), and to establish free trade agreements with neighboring Baltic states and countries of Central Europe. Bilateral trade accords have also been reached with close to 20 nations.

USAID Role and Achievements to Date: USAID has provided continuing assistance to the Government of Lithuania (GOL) on accession to WTO and on implementation of obligations arising under the GATT/WTO. Also, GOL benefited from short term assistance in the areas of antidumping, countervailing duties, food safety, animal and plant health issues.

Description: Work on trade policy will include providing policy-oriented analytical help to relevant ministries/institutions. Longer term macro-analyses on trade related questions will be developed such as a comprehensive study of subsidies, strategy of customs reform, and trade policy strategy leading to greater openness and less protection. Providing policy oriented analytical help to GOL will include such issues as antidumping and countervailing duty policy, phytosanitary standards, tariff rationalization and stabilization, and transition to freer trade in agriculture.

Host Country and Other Donors: USAID works directly with the Ministry of Foreign Affairs. Other ministries such as the Ministry of Economics, Ministry of Industry and Trade, and Ministry of Agriculture will be assisted on specific issues. The main other donor in this field is EU PHARE which is working on harmonization of trade legislation under EU requirements. Also, EU PHARE is providing assistance to recently established Export Promotion Agency.

Beneficiaries: Primary beneficiaries are the Ministry of Foreign Affairs and the Government of Lithuania. Harmonization and liberalization of trade will stimulate business growth resulting in a positive influence on the society overall.

Principal Contractors, Grantees, or Agencies: USAID's efforts in trade policy are being conducted by advisors provided under a contract to Harvard Institute for International Development. Assistance on issues related to WTO accession are being accomplished by Commercial Law Development Program (CLDP).

Major Result Indicators

	Baseline (1995)	Target (1998)
Value of exports	2029 m	30% increase
Progress towards WTO general negotiations and legal reform accomplishments per WTO requirements	0%	100%

ACTIVITY DATA SHEET

PROGRAM: LITHUANIA
TITLE: Financial Reform, 180-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,200,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: To establish a more stable financial environment.

Background: The Soviet Union centralized all economic decision making in Moscow, such that Lithuania was only an implementor of financial decisions. An independent financial sector had to be created from the systems left behind and in some cases created anew. Properly operating systems are needed for the whole country to operate - manufacturing, retail, trade, etc. Lithuanians view the United States as a model for central bank structures, sound bank regulation, efficient capital markets, and financing of specific sectors (credit unions, environment funds, etc.). Efforts to reform the financial sector are hindered by the lack of financial knowledge, criminal and fraudulent activity, lack of transparency, lack of accurate financial disclosure and lack of capital pooling mechanisms. Also, the legal base continues to need improvements to safeguard the rights of creditors and investors.

USAID Role and Achievements to Date: USAID assistance has been instrumental in improving regulation of the banking sector, creating the Lithuanian bank training center, improving private financial sector services, improving the operations of the capital markets, and developing an environmental investment fund. The bank supervision department has improved the quality of its inspections by following the standardized examination practices and building the capability to identify problems before they become a crisis. Through the department's improved examinations and increased regulation, three banks were closed in 1995 and one was placed under limited operations. These actions helped the system to move through the banking crisis of December 1995 and rebuild the sector on a more solid foundation. A draft bank examiners manual is 85% completed through an iterative process of chapter preparation and field testing. USAID advisors have assisted in drafting the recently passed Securities Law, creating a Stock Exchange Index, increasing transparency in the trading system and ensuring the use of the Stock Exchange as the primary channel for privatization. This work has allowed the regulators to keep abreast of market developments and thus avoid structural problems and has led to increased turnover (50+%) at the Stock Exchange.

Description: Banking assistance will focus on the structure of the banking sector, with emphasis on improved regulation and improved Central Bank operations. Further technical assistance will be provided to the bank supervision department of the Central Bank for on-site training in examinations of banks, completion of an examiner's manual, closing failed banks, and addressing issues linked to foreign bank entry. New assistance will address the overall operations of the Central Bank, with a focus on internal structures, strategic development, and analytical capabilities. Efforts will also target improving banking laws and increasing transparency in operations of the Central Bank. By focusing on the structural level of the banking sector, the program will support a stronger and more transparent banking structure that provides for fair competition for all commercial banks.

In the capital markets area, USAID seeks to improve the regulation of the market, to increase liquidity and interest, and make the stock exchange a viable supplement to the banks for raising capital and attracting investments. This will be done through assistance to the Securities Commission on regulatory issues and the Stock Exchange on improving the trading system and marketing the Exchange. It is expected that as a result of USAID efforts, the privatization process will continue to use the Stock Exchange as its primary medium for sale of state-owned enterprises.

Host Country and Other Donors: USAID is the only donor working in the capital markets sector. The activities are building upon the foundation set by the French program in 1993-94. Activities in the

banking sector are coordinated among USAID, European Union (EU) PHARE, the World Bank, Great Britain, Denmark and Sweden. USAID has taken the lead in bank supervision activities with additional efforts coming from the Danish program. Together, these programs address the main needs of the bank supervision Department. Given USAID's past accomplishment through the U.S. Treasury program, USAID will be the lead donor in Central Bank policy concerns. Other donors may be asked to provide assistance in the future.

Beneficiaries: The immediate beneficiaries of USAID assistance are the main players in the financial services sector such as the Lithuanian Stock Exchange, the Securities Commission, the Central Bank and the commercial banking sector. The final beneficiaries will be people and enterprises with accounts in commercial banks and people investing in the stock exchange.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through a combination of contracts, grants and Interagency Agreements: International Business and Technical Consultants Inc. (IBTCI) and the U.S. Treasury on banking sector reform, Pragma on capital markets, and the Lithuanian Free Market Institute on policy and awareness building.

Major Results Indicators:

	Baseline (1996)	Target (1998)
Turnover at the Stock Exchange	$38Mln	$85Mln
Listed companies at the Stock Exchange	0	30
Share capital levels in banks	$95Mln	$175Mln

ACTIVITY DATA SHEET

PROGRAM: LITHUANIA
TITLE: Citizens' Participation, 180-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $400,000 SEED Act
INITIAL OBLIGATION: FY 1995; ESTIMATED COMPLETION DATE: FY 1999

Purpose: Increased, sustained collaboration of NGOs and local government to develop policies and services which reflect community interests.

Background: During the Soviet occupation, the only legal party was the Communist Party, and decision-making was conducted only at the highest level of the Central Government. Individual initiatives and public participation outside of the Soviet system were not tolerated. The only way for special interest groups to have their concerns heard was to voice them in the Communist apparatus. In order to erase this totalitarian legacy, and to help Lithuanian citizens take the first steps in establishing a democratic civic society, USAID and other donors have encouraged the public to take part in local politics and government decision-making and to help the government to respond to citizens' concerns in its decision-making process. Fifty years of Soviet conditioning remains a formidable obstacle, however, and efforts to build a civil society in Lithuania with vigorous citizen participation need continued support.

USAID Role and Achievements to Date: During F 1994-96, USAID programs assisted in the development of diverse, issue-based political parties in Lithuania. Campaign and platform assistance contributed to the holding of free and fair parliamentary and local government elections during this period. During F 1994-95, an annual $100,000 in grants was disbursed by the interagency Democracy Commission to individuals and NGOs for one-time activities in areas which promoted democracy in Lithuania. Starting in F 1996, the USAID Democracy Network program strengthened indigenous NGOs through policy grants, training to strengthen capacity building skills, and building the legal framework surrounding NGOs. Mid-program results include increased NGO participation in public policy impact, improvements to the social safety net, an increase in public awareness of NGOs, and greater NGO effectiveness within the community. Finally, USAID advisors have improved the ability of three municipalities to responsively govern through the introduction of public hearings, a program of public education, improvement of general management of the municipalities, and introduction of strategic planning processes undertaken in conjunction with the public.

Description: The USAID program will result in a larger number of Lithuanian non-governmental organizations engaging in advocacy work; a not-for-profit sector made stronger through the development of Lithuanian expertise on not-for-profit law, fund-raising, and public advocacy skills; and more towns and cities in which local governments and local non-governmental organizations work together to solve community problems. Through the U.S. Embassy's Democracy Commission Small Grants program, USAID will continue to award small sums of money for short-duration projects and initiatives that support democracy in Lithuania. Target recipients include native Lithuanian individuals, NGOs, municipal or national governments, and educational institutions whose purpose is to further the development of democracy. USAID is also exploring establishment of a Foundation for Local Democracy, which would encourage the development of public-private partnerships by target cities to achieve community objectives. The foundation would attract private funding to continue local democracy work in Lithuania, and perhaps the Baltics, beyond the closeout of the USAID assistance program.

Host Country and Other Donors: USAID is coordinating its efforts with key donors in these areas, including the Open Society Fund-Lithuania and the United Nations Development Program (UNDP), which supported the creation of an NGO Support Center. In anticipation of further decentralization of power from the central government, the Danish Ministry of the Interior, which has dedicated $1.8

million to a public administration reform program, and European Union PHARE are providing broad-based assistance to strengthen the capacity of local governments to govern responsibly.

Beneficiaries: USAID civic participation programs are targeted to benefit the citizens of Lithuania through the empowerment of the more than 1000 registered Lithuanian NGOs to enable them to successfully lobby the government on behalf of special interest groups, and through the training of local governments to incorporate citizens' concerns in their decision-making processes. It is estimated that over 700,000 citizens (almost 20% of the country's population) will benefit from current programming in three to five cities.

Principal Contractors, Grantees, or Agencies: Civic participation activities are being implemented through grants with the U.S.-Baltic Foundation, the National Democratic Institute, the International Republican Institute and a contract with Development Associates. The implementor of the proposed Democracy Foundation remains to be selected.

Major Results Indicators:	Baseline (1996)	Target (1998)
Joint public-private projects (in cities participating in program)	0	12
NGO-sponsored public outreach fora	2	18
Hearings that allow citizen access	1	12
City budget documents available to public	1	6

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

FY 1998 Assistance to Central Europe Request $16,000,000

Introduction.

The Former Yugoslav Republic of Macedonia (FYROM), the poorest country of the former Yugoslavia, was the only former republic to gain independence peacefully. Although FYROM declared its independence in 1991, the United States did not establish full diplomatic relations until September 13, 1995. The FYR Macedonians have consistently pursued policies aimed at reforming the economy and strengthening democratic institutions. Despite the hardships imposed by external forces (United Nations (UN) sanctions against Serbia and the Greek embargo), FYROM persisted in implementing the key reforms urged by the World Bank and the International Monetary Fund (IMF) in their proposed stabilization program.

The Development Challenge.

FYROM is suffering from many of the same ills as other East European countries going through the transition from a centralized to a market economy and from a socialist to a democratic society. With most of the agricultural land already privately owned and with fewer industrial environmental disasters, FYROM has certain advantages over its neighbors. However, the country dealt with the negative effects of compliance with the UN-mandated sanctions against Serbia, which accounted for 60% of its markets prior to the disintegration of Yugoslavia, and which also served as a conduit to other East, Central and West European markets. Further, the country had to deal with the effects of the trade embargo imposed by Greece from February 1994 to October 1995, in response to the declared constitutional name (Republic of Macedonia), the use of national symbols, and alleged territorial ambitions. Current Government estimates put the cumulative price of the sanctions and Greek embargo at over $2 billion. The FYROM government faces the additional challenge of having to create institutions to perform national functions previously performed by the federal government in Belgrade. Lastly, ethnic tensions remain a critical factor in the ability of the Government to maintain its integrity and stability.

Despite these numerous obstacles, FYR Macedonians appear to have the natural and human resources, and have demonstrated the political will, to transform their economic and political systems. In its first two years of implementation, the IMF and World Bank-mandated stabilization program has produced positive effects. Inflation has been brought under control: the annual inflation rate was 1,925% in 1992, 229% in 1993, 54% in 1994 (compared to the 70% rate projected by the IMF), 16% in 1995 (again exceeding the IMF targets), and is projected to fall to between 3% and 5% in 1996.

In July 1995, FYR Macedonia reached an agreement with the Paris Club of official creditors that provides $288 million in debt relief and ratified an understanding on the allocation of responsibility for the external debt of the former Yugoslavia (non-allocated debt). FYR Macedonia accepted responsibility for 5.4% of the non-allocated debt, as well as for debt that was owed or guaranteed by entities located on its territory.

Other Donors.

With the repayment of the arrears to the World Bank, FYROM is now receiving assistance from international financial institutions such as the World Bank, European Bank for Reconstruction and Development (EBRD), the IMF and the World Bank's International Development Association. As a result of the signing of the Greek/FYROM Accord on September 13, 1995, FYR Macedonian participation in the EU PHARE program has been formalized. An EU PHARE Resident Representative has been assigned to Skopje and has established the Macedonia office. Germany had been the largest provider of assistance to FYR Macedonia (primarily in humanitarian assistance and commodities).

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FY 1998 Program.

While the core FY 1998 program represents a continuation of multi-year programs begun in FY 1995, it also reflects the progress being made by FYR Macedonia in the transition to a democratic system and a market economy. In the area of democracy, for example, the focus of the initial project activities was on national elections, creation and development of political parties, and the legal framework for independence. The focus is now shifting to the local level with activities targeted at building capacity of civic organizations and grassroots political organizations, and at improving transparency, communication and citizen involvement in local governance. In the private enterprise sector, the focus is shifting from national oversight of the banking system (banking supervision) and national-level management of the privatization process, to capacity building among commercial banks and individual businesses, and provision of mechanisms for obtaining access to credit in both the urban and rural regions. In all areas, the USAID programmatic approach includes an assessment of the policy, legal and regulatory framework required to support the economic and democratic transition process, and assistance programs which address key requirements.

Strategic Goal: Economic Restructuring

The focus of USAID activities within economic restructuring is on direct assistance to private enterprises to improve their efficiency and productivity, as well as on indirect assistance aimed at improving the competitive environment within which they operate. Special emphasis is placed on small and medium enterprises, especially in the agricultural area.

While the transition to a private sector is nearing completion as a legal process, with 900 of 1200 socially-owned enterprises privatized, the new private sector is far from viable. Many of the socially-owned enterprises were bought by their former managers or by groups of their employees, most of whom are very uncertain of how to manage a business focussed on profit rather than production. New (as opposed to "transformed") businesses are still mostly in the area of trade, and so offer little opportunity for job creation. Most business person lack knowledge about how to identify new customers, how to develop new products, how to determine production costs, how to implement prudent financial management practices, how to develop and implement business plans and marketing strategies, and how to access and manage credit. This is true in industry, in agriculture, and in banking. The USAID strategy focusses on providing managers with the basic skills essential to their future survival and ultimate profitability.

Much has been done to improve the competitive environment for business. The Government has stabilized the exchange rate, has brought inflation under control, has increased Government foreign currency reserves, and has maintained controls on wages. Many basic laws have been enacted; the courts have been restructured; and government subsidies have been reduced. The largest bank has also been restructured, its bad debts transferred to the Bank Rehabilitation Agency for resolution, and Government bonds issued to cover the bad debts. Significant amounts of credit are being made available by international and foreign financial institutions. But much remains to be done. Many basic laws, although enacted, are not being effectively implemented or enforced. Bad debts for many enterprises remain unresolved. Key business-related laws are still in development (collateral law, bankruptcy law, modern commercial laws, etc.). Banks are still very conservative in their lending practices and lack critical risk assessment skills. Moreover, the banking system as a whole does not adequately serve the needs of the growing private sector, the success of which is largely dependent upon the provision of financial resources and services. Accounting standards are very weak. The courts are still not trained and organized well enough to provide adequate protection to the business community. The USAID strategy focusses on providing technical assistance in overcoming the most critical of these obstacles to an efficiently-functioning competitive market.

- Strategic Objective: Accelerated Development and Growth of Private Enterprises

Strategic Goal: *Democratic Transition*

As with reforms to a market economy, FYR Macedonia has moved toward democratic principles in a consistent and deliberate manner, often displaying transparency in the actions taken. Following independence in 1991, Macedonia approved a new Constitution and initiated a series of new laws to implement that Constitution. A democratic system of elections was put into place; two sets of national elections and the 1996 local elections have been deemed fair and open by international observers. This past year, Macedonia passed a law on local self-government (devolving limited authorities to the local level), a law on territorial divisions (increasing the number of municipalities from 34 to 123), and a law on local elections. Also over the last year, Macedonia has enacted basic criminal codes and has initiated legislation on a civil code. The law on courts was also enacted, and new judges selected for the restructured court system.

Despite the enactment of these laws, citizens continue to be distrustful and/or apathetic toward government systems. Citizens, government and the media need to shift their mind-set from rule by government to rule by the people. Work is needed to increase both citizen involvement in government decision-making and government receptivity and ability to respond to such involvement. The USAID assistance program is therefore targeting the development of mechanisms, especially NGOs, to increase citizen participation in democratic systems, and the willingness of government officials, at both local and national levels, to actively involve citizens in the policies of government. The media, as the watchdog of democracy, performs a special role in this process by ensuring that citizens are well informed on government activities and on economic, social, and political issues.

- Strategic Objective: Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making Strategic Goal: Cross-cutting and Special Initiatives

USAID funds a number of activities which cross strategic objective lines, including English language training, participant training, and audit, evaluation and project support. In addition, USAID funds several special initiative activities which indirectly support the primary strategic objectives described above. These include a judiciary strengthening initiative, with a special focus on court administration; a pension reform initiative to assist in the restructuring of the current public pension program and to assist in the development of private pension supplement programs; and an initiative to establish user-owned rural financial institutions.

MACEDONIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	11,600,000	--	--	--	11,600,000
Financial Reform	--	--	--	--	--
Energy	--	--	--	--	--
Citizens' Participation	--	2,400,000	--	--	2,400,000
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	2,000,000	2,000,000
TOTAL	11,600,000	2,400,000	--	2,000,000	16,000,000

* Support for East European Democracy (SEED) Act funds

USAID Representative: Linda Gregory

ACTIVITY DATA SHEET

PROGRAM: FYR Macedonia
TITLE: Private Enterprise
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $11,600,000 SEED Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Accelerated development and growth of private enterprises.

Background: The privatization process for the approximately 1,200 non-strategic, non-agricultural socially-owned enterprises required that enterprises submit privatization plans to the Privatization Agency by December 1995. As of September 1996, almost all companies had submitted their plans, and close to 900 had completed the process. Most privatization were through management buy-outs, with a small number of companies electing sale to employees. During the last year, a law on privatization of agricultural kombinats was passed, providing the 217 kombinats with a maximum of one year to develop and submit their plans for privatization. About 388 "strategic" companies remain outside the privatization process, most of them natural monopolies and/or public services. These companies pose a special problem for privatization in that they must be regulated by the Government in the public interest. The Government has not yet addressed these regulatory issues, although it remains committed to privatizing as many of these companies as possible.

Most of the newly-created private companies deal in trade, and therefore employ very few people. This sector is therefore not yet at the point of providing employment opportunities for the many workers already fired by the larger socially-owned enterprises. It is not expected that these businesses will grow quickly enough to absorb a significant proportion of these workers, nor of the surplus workers expected to be fired over the next few years. The World Bank program to provide retraining for fired and surplus employees has made little progress in addressing this need. There is, however, a sizable gray economy which is absorbing some of the surplus, and which is helping to prevent large-scale social unrest due to the poor overall economic situation.

With the removal of the sanctions against Serbia and the Greek embargo, many businesses are now exploring ways to regain former markets and to identify new ones, but progress is slow. Foreign investment has also not been at the level anticipated, largely due to the continued perception of Macedonia as part of the former Yugoslav republic and therefore involved in the problems to the north. Agricultural marketing systems, in a country whose economy is dependent upon agriculture, are underdeveloped. The banking sector has been very slow to respond to the needs of the business community for services and financing, and has been very conservative in providing access to the large amount of credit now available from the World Bank, the EBRD, and other foreign and international financial institutions. Rudimentary accounting standards in Macedonia are an impediment to the country's ability to compete internationally since they do not meet international standards.

Business-related laws have been enacted only very slowly, and many in the business community perceive them as being unresponsive to the real needs of the marketplace. It is still difficult for a creditor to resolve debt issues in the courts, and mechanisms for resolution of contract disputes are nonexistent or under-utilized.

USAID Role and Achievements to Date: USAID has contributed to the development and growth of the private sector in a number of ways. A team of experts provided assistance to the Privatization Agency in the development of procedures for the privatization process. An English-language booklet, entitled "Doing Business in Macedonia," was developed and has been widely distributed to potential foreign investors. A micro-lending program has provided credits to about 50 micro-enterprises, providing employment opportunities and serving as an example to others interested in self-employment. A farmer-to-farmer program has provided direct assistance to several hundred Macedonian farmers in

improving their production, reducing demands for pesticides and fertilizer, implementing quality control measures for agricultural products, increasing the number of producer associations, and expanding into new markets. A dairy marketing program has assisted several thousand farmers to learn how to improve sheep-breeding, comply with sanitation standards, and control livestock diseases to improve the quantity and quality of dairy products. A business resource center has worked with almost two hundred new, or newly-privatized, companies to improve financial management, business planning, and product development, in order to improve their profitability. USAID-funded legal advisors have provided assistance in the development and implementation of tax and banking laws, and are assisting in the development of new laws in such business-related areas as collateral, bankruptcy, and commercial law. USAID-funded advisors have developed training programs and operating manuals for bank supervisory functions of the central bank. A USAID-funded university has developed and implemented an undergraduate business management curriculum at the universities in Bitola and Skopje. USAID-funded training programs have provided U.S.-based training in a variety of business-related skills for around 50 Macedonians.

Description: Shifting its focus from the privatization process to the encouragement of the newly-created private sector, USAID is implementing a number of activities aimed at providing businesses with the technical and managerial skills to succeed in the new arena of a market economy. A business resource center is responding to individual requests for assistance from the new private sector; performing a "diagnostic" assessment of a company and then targeting assistance to areas which will have the greatest impact on profitability. Technical assistance is being provided to commercial banks which will be coping with sizable lines of credit targeted to small and medium enterprises. Another USAID activity provides micro-loans to very small entrepreneurs, while yet another is working to create member-owned financial institutions in rural areas, to provide access to credit for farmers and others not fully supported by the commercial banking system. The farmer-to-farmer program provides grassroots-level assistance to farmers on a one-to-one basis, while a dairy marketing initiative is attempting to expand production and marketing of milk and cheese to assist the large population of sheep breeders. A new agricultural marketing activity will focus on improving domestic marketing of livestock products and export marketing of fruits and vegetables. A new activity to bring accounting practices up to international standards will help the private sector become more competitive in the global economy.

Host Country and Other Donors: USAID programs are intermeshed with donor activities throughout the portfolio. On the business resource centers, USAID coordinates closely with the United Kingdom (UK) Know How Fund, which is financing two small centers in regional cities, as well as with the World Bank, which is using USAID centers for advice to potential borrowers for new credit lines coming on line. USAID has also negotiated agreements with both British and Dutch retired executive programs, to provide more effective collaboration between these programs and the business resource centers. In the area of commercial banking, USAID activities are being coordinated with EBRD and UK training programs. Lines of credit for SMEs are being established by EBRD, the World Bank, and Germany. In the agricultural area, USAID activities are coordinated closely with the World Bank's Private Farmer Support Project and with EU-PHARE.

Beneficiaries: Although USAID programs will specifically benefit new private sector companies, bankers and farmers, the benefits will accrue to all FYR Macedonians through development of an improved economic climate and increased employment and productivity.

Principal Contractors, Grantees, or Agencies: USAID programs currently are being implemented by Crimson Capital, KPMG Peat Marwick, Opportunity International, the World Council of Credit Unions (WOCCU), Volunteers in Overseas Cooperative Assistance (VOCA), Land O'Lakes, Financial Services Volunteer Corps (FSVC), and the U.S. Information Agency (USIA). Implementors for new projects in bank operations and SME development have not yet been identified.

Major Results Indicators:

	Baseline	Targets
Private sector share of GDP (%)	35% (1994)	TBD
Percent increase in volume of bank loans (cumulative)	0% (1996)	45% (2000)
Percent increase in total investment (cumulative)	0% (1996)	45% (2000)

ACTIVITY DATA SHEET

PROGRAM: FYR Macedonia
TITLE: Citizens' Participation
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,400,000 SEED Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Increased, better-informed citizens' participation in political and economic decision making.

Background: Following its independence in 1991, FYR Macedonia made a commitment to a democratic system. Initial elections were assessed as being largely fair and open by international observers, as were the second national elections held in the fall of 1994. Turnout at the last national election was approximately 78%. A draft law on elections at the national level was defeated in parliament just before the last election, resulting in the election being conducted according to an old Yugoslavian law. The law on local governments was passed late in 1995, and elections took place in November 1996. Two associated legislative requirements for these elections were the law on territories (defining the municipalities) and the law on local elections. The combination of a new geographic organization of municipalities and new authorities being devolved to the local level will create a new operating environment for both municipal governments and, by extension, our assistance activities in this area.

While there are indigenous NGOs in FYR Macedonia, they have not been as active as in other countries. The press is not generally viewed as independent or unbiased, with the large-circulation papers viewed by many citizens as being under the thumb of the national government. Most citizens have not yet come to recognize the responsibilities of citizenship, and do not take an active role in government, at either the local or national level.

USAID Role and Achievements to Date: USAID has played an important role in enhancing citizen participation in FYR Macedonia. USAID-funded advisors have provided extensive capacity-building assistance to Macedonian NGOs in areas such as financial management, organizational skills, grantsmanship, strategy development, and member recruitment. Assistance has included small grants to support project activities like newsletters, networking, community-building, and environmental awareness. Advisors have also worked closely with three local governments to develop their capacity for management of public services and infrastructure, economic development, revenue generation, and public involvement in decision-making. Three mayors have visited several U.S. cities to learn about different approaches to local government as practiced in the United States. In addition, USAID advisors have worked with the Government to address changes needed in election laws and procedures; many of the recommendations made have been incorporated in revised laws. USAID funding has been used to provide direct support to new media outlets through purchase of equipment, training, and funding of operating costs. Several dozen journalists have obtained training in investigative reporting, basic writing skills, and management of media operations. American journalists have provided in-country assistance in reporting techniques, use of new technologies, and curriculum development.

Description: USAID activities are working to increase the number, membership, capacity, and activities of indigenous NGOs. Activities also include working with political parties to increase their capacity to address economic and social issues, and to improve their internal management practices. USAID-funded activities also focus on getting people together to peacefully resolve their problems, across ethnic, gender, and social lines. This has involved organizing round table discussions between NGOs and government officials, encouraging the establishment of parent councils in ethnically diverse schools, and assisting in the conduct of town meetings that bring citizens together with their elected officials to discuss common concerns. USAID is working at the national and, increasingly, the local level to establish mechanisms for such public participation; to ensure that regulatory procedures include

solicitation of, and responsiveness to, public opinion; and to enact laws which protect the right of citizens to express their opinions on government decisions and activities.

Host Country and Other Donors: Donor assistance in this area has been rather limited. Dutch Interchurch Aid assisted in the creation of an indigenous civic organization (the FYR Macedonian Center for International Cooperation), which has been active in local community-level issues such as income generation, basic health, nutrition, food for the poor, and sanitation. The European Community Humanitarian Office (ECHO) has provided funding for humanitarian activities by indigenous NGOs, as has the International Federation of the Red Cross (IFRC). A number of donor humanitarian activities have used indigenous NGOs as a conduit for distribution of food and other relief supplies, which has had a secondary benefit of building capacity within those organizations.

Beneficiaries: USAID activities seek to benefit all citizens by encouraging greater citizen participation in all aspects of political and social life, whether through professional associations, civic organizations, special interest groups, or political parties. Activities also benefit the Government by assisting in the development of appropriate mechanisms for public participation and of awareness of the importance of such participation to a modern democracy.

Principal Contractors, Grantees, or Agencies: USAID activities have been implemented through a number of contractors and grantees: Catholic Relief Services (CRS), Delphi Star, the International Republican Institute (IRI), the National Democratic Institute (NDI), Development Associates Inc. (DAI), the Institute for Sustainable Communities (ISC), the National Forum Foundation (NFF), and the International Center for Not-For-Profit Law (ICNL). Media programs have been implemented through the U.S. Information Agency (USIA). Training programs have been designed by Partners in Developmental Education and Training and Project HOPE.

Major Results Indicators:

	Baseline	Targets
Change in percentage of citizens who report having actively participated in citizen-based organizations and groups	5% (1995)	25% (2000)
Ratio of open to closed sessions of municipal councils	0% (1995)	20% (2000)
Number of laws enacted with public participation	TBD (1995)	TBD (2000)
Law on administrative procedures (citizen participation) enacted	No (1995)	Yes (1999)

MOLDOVA

FY 1998 Assistance to the NIS Request: $32,800,000

Introduction.

The Government of Moldova is committed to the process of reform and transition to a market economy initiated in 1991. The second smallest and the most densely populated of the New Independent States (NIS), Moldova remains one of the foremost reform-minded countries within the former Soviet Union and it is in the U.S. Government interests to support its efforts in becoming a market-oriented democracy. Moldova can be viewed as a reform laboratory in the region, providing useful lessons for the neighboring States of Belarus and Ukraine. It was the first former Soviet Republic to receive a structural adjustment credit from the World Bank and also the first NIS country to establish an independent securities market regulating entity with Ministry status, the Securities and Exchange Commission. In November 1996, Moldova held its first contested presidential elections. A run-off election was held on December 1, 1996, between President Snegur and parliamentary chairman Petru Lucinschi, in which Lucinschi was elected president.

The goal of U.S. assistance in Moldova is to promote the country's successful transition to a strong, independent, market-oriented democracy. Over the past several years, Moldova has begun the arduous task of building a democratic nation and market-based economy as it faces ethnic conflicts and the social hardships accompanying societal transformation. Despite these obstacles, the country is pushing ahead with political and economic reform and adopting peaceful solutions to its ethnic and security problems, including granting the largely Russian population of the separatist Trans-Dniester region broad autonomy. It is now poised to initiate essential market reform programs that will create a business environment to attract both foreign and domestic investment.

Moldova has made significant progress in establishing the macroeconomic and policy framework needed for the transition to a market economy. Its stabilization policy reduced inflation to under one percent per month, the fiscal deficit is approximately 3.25 percent of gross domestic product (GDP), and the real GDP growth should be positive in 1997. Important progress has been made in structural reform, notably in the liberalization of prices and trade, and the privatization of state assets. Foreigners can now buy up to 60 percent of a former state-owned company. The *leu* is the most stable currency in the NIS. Continued progress is being achieved in the stabilization of financial and macroeconomic indicators, and the focus of policy makers remains structural reform to lay the foundations for market reform and sustainable economic growth.

The Development Challenge.

Moldova is increasingly viewed as a NIS model for the positive application of an integrated strategy and approach to market reform. The current approach to privatization and post-privatization assistance seeks to address multiple constraints present in transition economies by bringing together, in a tightly integrated fashion, USAID resources targeted for land privatization, enterprise restructuring, capital markets, accounting reform and tax policy. USAID technical assistance is expected to demonstrate how carefully targeted interventions in these sectors can result in a fair and transparent business environment in which privatized enterprises can restructure, pursue new capital resources and new business start-ups can flourish. The objective is to create a fair and transparent business environment suitable for domestic and foreign investment.

In reaching this goal, some difficulties are being encountered in enforcing hard-budget constraints, in restructuring the industrial and agricultural sectors, and in addressing budgetary arrears to energy enterprises. To maintain financial stability and to lay the basis for sustained growth, a broadening and deepening of macroeconomic and structural reforms are necessary.

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As of March 1996, the country's external official debt was $652 million, about 42 percent of GDP, and growing steadily. Analysts report that production efficiency that promote exports needs to be encouraged to help reduce external indebtedness. Debt rescheduling privileges will begin to expire in 1997-1998, significantly increasing the debt servicing burden. In 1996, the Ministry of Finance drafted a new law that will allow the government to manage and regulate all official debt, including internal, external and sovereign guarantees to economic agents. A significant share of the total debt burden is for energy imports, primarily gas from Russia, with energy debt arrears of $400 million as of May 1996. Moldova is almost wholly dependent on imports for its energy requirements for its industries. The World Bank has provided a first energy project $10 million loan, with USAID, Moldova-Gaz and MoldEnergo providing the balance of a total credit of $20.5 million loan for energy efficiency improvement projects.

Other Donors.

Data from Moldova's Ministry of Economy as of October 1996 indicate that there are approximately 105 projects ongoing under foreign technical assistance, two thirds of the planned target of 157 projects in the country's 1995 two year technical assistance program plan. The chief donors in 1996 were EU-TACIS, USAID, GTZ of Germany, and the UNDP.

FY 1998 Program.

Moldova is poised to initiate additional essential reform programs that can create a business environment to attract both foreign and domestic investment. More importantly, these efforts will continue to build a constituency to support economic reform and democratic institutions. The United States is working with Moldovan officials to expand land and energy sector reforms, improve agricultural capacity, improve fiscal performance through better tax administration, establish a treasury function, institute the use of international accounting standards and practices, and reform the bank system, including better supervision. Moldova will benefit from both the cooperative activities under the Partnership for Freedom and ongoing technical assistance to support the establishment of a market-oriented democracy. Without the substantial support of the United States and the international donor community, Moldova could falter in its commitment to economic and political reform.

Strategic Goal: Economic Restructuring

Strengthening efforts at macroeconomic stabilization and accelerating structural reform are the most important economic policy challenges facing Moldova. The U.S. Government is playing a major role in creating a fully-functioning market economy with the expectation of attracting foreign investment. USAID priorities encompass post privatization activities, including enterprise restructuring; fiscal reform; improvement of the policy environment; development of capital markets; land reform, including decollectivization; and energy efficiency measures, including full cost recovery.

The mass privatization program has nearly been completed, with the participation of 90% of the eligible population and resulting in the privatization of an estimated two-thirds of the Republic's agro-industrial assets. USAID is now focussing its privatization efforts on providing technical assistance to the Ministry of Privatization to support cash auctions of residual state shares in privatized enterprises by establishing an open and transparent auction system. This is expected to rapidly move remaining government-owned assets and services to broad-based private ownership and control. USAID is also supporting a comprehensive agricultural and enterprise land privatization program nationwide. The focus is the breakup of a large number of collective farms resulting in the formation of independently-owned and operated farm entities together with the issuance and registration of thousands of land titles. Also, significant efforts are under way to streamline the legal and regulatory environment to facilitate the privatization of land under enterprises.

USAID continues to strengthen the underlying capital markets infrastructure through capacity building activities of the nascent Moldova Stock Exchange and the independent state body established to regulate the trading activities of the professional participants. Also, activities are in place to strengthen the institutional capabilities of the investment fund industry and other intermediaries seeking to establish market transparency and fostering investor confidence. Development of accounting expertise focuses on financial accounting for capital markets and managerial accounting for enterprise development. Support will also be provided to the development of an accounting and audit self-regulating organization, so as to increase the professional competence of practitioners.

Technical assistance is also being provided to develop a Moldovan private-sector management consulting industry to take the lead in restructuring privatized enterprises by focussing on development of financial management, cost accounting, and marketing tools. In tandem, institutional development is being provided to a self-regulatory organization in support of the Moldovan accounting and auditing industry. A public information and education campaign has been implemented to publicize the results of privatization, educate the public concerning corporate governance, and promote post-privatization activities. Other areas of support include small and medium-sized enterprise development, as well as creating a computerized business information network to link Moldova with other NIS countries and the U.S. The Western NIS Enterprise Fund also fosters private sector development by providing investment capital to small and medium-scale businesses. Through a pilot effort to develop land and real estate markets, USAID is helping to introduce a legal and regulatory environment supportive of the development of land markets and to establish pilot systems for titling and registration which will allow private land owners to hold secure titles.

Since Moldova is primarily an agricultural country, USAID also focuses on agricultural privatization. Through the Farmer-to-Farmer program (FTF), USAID is helping the agriculture and agribusiness sectors adjust to a market economy by promoting private solutions to agriculture production and marketing problems and to improve farm management methods. In addition, FTF is working with the Ministry of Agriculture and the Parliamentary Agriculture Committee concerning the development of land law and policy. Under USAID's food systems restructuring activity, there is assistance to Moldovan private agribusinesses to become more competitive through linkage with non-Moldovan sources of private and public finance and trade. Furthermore, USAID is establishing a resource center for agribusiness to assist them in accessing sources of finance. Promoting increased capacity at the Chisinau Agricultural University for teaching marketing, commodity trading and transportation of agricultural goods, as well as conducting seminars and workshops for private business and farmer associations in marketing, financial management and business planning is also a focus of USAID assistance.

USAID's fiscal program is designed to aid in the development of fiscal policy and management infrastructure essential to the growth of a market economy. Specifically, USAID's goals are to increase the capacity of the Moldovan Government to generate revenue, assist with making improvements in efficiency and administration of a new tax system, and recommend changes to improve Moldova's legal foundation. Since 1995, USAID has provided technical assistance and training to Ministry of Finance officials in the areas of tax policy, analysis and administration. It has assisted in drafting comprehensive reforms to Moldovan tax laws and harmonizing those laws into a single tax code. Parallel activities include working with the Budget and Finance Committee of the Parliament to establish an analysis unit and providing policy advice on budget, tax and other economic legislation.

In financial reform, USAID's strategy is to focus on strengthening the private banking sector and the transparent and open securities system. As a result, USAID has helped improve banking supervision capacity by establishing a "troubled bank resolution unit" to determine the nature and extent of the problems for each of the troubled banks, and to assist the National Bank to develop solutions on how to resolve the banking problems. USAID has also helped develop a modern, standardized accounting system through which the Central Bank has converted to a new chart of accounts. In 1997, the commercial banks are to convert to a new chart of accounts consistent with internationally accepted standards. Through USAID assistance, Moldova's capital markets structure improved with the creation

of a Securities and Exchange Commission and a Moldovan Stock Exchange. Furthermore, USAID created a banking center to train employees of the central and commercial banks in western banking practices and standards.

Concerning energy and environment, Moldova imports close to 100 percent of its energy resources, most of which is gas. Gas imports are an enormous balance of payments burden to the country, and need to become profitably and effectively managed by Moldova's gas distribution companies. MoldovaGas, the state monopoly, has requested the assistance of USAID in restructuring its assets. This restructuring is also being promoted by the World Bank in order for MoldovaGas to qualify for loans. USAID expects to work with MoldovaGas in reconfiguring the State monopoly into a series of competitive companies and provide a corporatization strategy together with new corporate organization plans. The restructuring effort will include training programs in financial management and in financial accounting as well as a procurement plan for management systems equipment. More efficient natural gas use will also be promoted.

- Strategic Objective: Increased transfer of state-owned assets to the private sector
- Strategic Objective: Increased soundness of fiscal policies and fiscal management practices
- Strategic Objective: Accelerated development and growth of private enterprises
- Strategic Objective: A more competitive and market-responsive private financial sector
- Strategic Objective: A more economically sustainable and environmentally sound energy sector

Cross-cutting and Special Initiatives

Through cross-sectoral and special initiative programs, USAID is increasing Moldova's capacity to implement democratic reforms and to deal with the social hardships accompanying the difficult transition. This category also includes other U.S. agency activities that do not directly support USAID's strategic objectives. In support of democracy-building, USAID assistance is directed toward non-governmental organization (NGO) development, voter education, legal reform, independent media development, and a resource center for information on election management and administration. USAID is also assisting with reproductive health care, partnerships between U.S. and Moldovan hospitals, child survival issues, and training.

Although the November/December 1996 Presidential elections were deemed free and fair, Moldova does not yet have a permanent Central Election Commission. However, an elections resource center has been established, public opinion surveys have been conducted and disseminated, and assistance to the temporary Central Election Commission and NGOs improved the flow of information to citizens. In addition, a voter education program has been implemented to provide technical advice on the legal issues of electoral reform, establish voter education programs to prepare for elections, and create and produce instructional materials that promote a focus on issues in local election campaigns. USAID assistance has also increased the participation of media, civic activists, and politicians in shaping the policy debate concerning the election process.

USAID's assistance to promote rule of law has been modest compared to the progress the country has made. USAID is focussing its efforts on strengthening indigenous, self-sustaining bar associations to enhance the effectiveness of judges and lawyers in monitoring the ethics of their professional members. Moreover, USAID has supported the establishment of a judicial training center, and is educating legal professionals and the public concerning the rule of law in a democratic society. To this point, USAID has been successful responding to discrete targets of opportunity in the democracy area. During the 1997 strategic planning cycle, USAID will explore whether a strategic objective in

democracy is warranted.

After Moldova's independence from the Soviet Union in 1991, it soon became evident that the government was no longer able to provide adequate health services for the population. Poor medical services contributed to high rates of maternal and infant mortality and morbidity. Abortion complications are a leading cause of maternal mortality and morbidity and treatment of these complications severely strains Moldova's scarce financial resources. As a result, USAID is promoting increased access to family planning services to reduce reliance on abortion as a means of fertility control, upgrading selected clinical sites with modern equipment, and facilitating qualitative research to develop mass media messages on the health benefits of birth spacing. Training for service providers on modern contraception, sound clinical practice, infection control and counseling is provided through USAID's women's reproductive health program. The program is also initiating activity in improved maternity care practices. Basic support for institutionalizing child survival is reducing infant and child illness and death through immunization programs as well as improving the effectiveness of child survival programs through strengthening the local health systems.

USAID continues to provide humanitarian assistance to the most vulnerable members of Moldovan society, such as the elderly, children and disabled. USAID supports the Counterpart Humanitarian Assistance Program which coordinates the delivery and distribution of humanitarian aid provided through the U.S Department of Defense (DOD) excess supplies program to vulnerable people through social service non-governmental organizations (NGOs) and social service providers such as hospitals and orphanages.

USAID, the major donor assisting Moldova carry out their mass immunization campaigns to control diphtheria, provided technical assistance to the Government of Moldova in planning for mass immunization campaigns and educating the population on the importance of immunization. For the first eight months of 1996 diphtheria cases declined by 80 percent compared to the same time in 1995. The epidemic has come under control faster in Moldova than anywhere else in the NIS.

Through medical partnerships, USAID is improving the efficiency and productivity of existing health care providers through better clinical and administrative management and organization. The partnerships also train health care policy makers and administrators at all levels of government to make informed choices and rational system changes with respect to delivery system reform. The partners will continue to train operating room personnel in infection control techniques, data collection and team approach management strategies. Furthermore, the Emergency Medical Services (EMS) Center aims to reduce complications from inappropriate and untimely treatment. Other partnership activities are reducing mortality and decreasing infection resulting from cardiovascular surgery. The partnership is initiating the expansion of Emergency Medical Training to include police, firemen, and industrial safety personnel.

MOLDOVA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	3,000,000	--	--	--	3,000,000
Fiscal Reform	1,000,000	--	--	--	1,000,000
Private Enterprise	8,300,000	--	--	--	8,300,000
Financial Reform	5,200,000	--	--	--	5,200,000
Energy	2,500,000	--	--	--	2,500,000
Citizens' Participation	--	--	--	--	--
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	12,800,000	12,800,000
TOTAL	20,000,000	--	--	12,800,000	32,800,000

*FREEDOM Support Act (FSA) Funds

USAID Mission Director: Gregory Huger

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: Privatization, 110-S001.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased transfer of state-owned assets to the private sector.

Background: The Republic of Moldova is one of two countries of the Former Soviet Union (FSU) to complete its mass privatization program, with two-thirds of the non-agricultural economy affected. This effort was accomplished through the broad-based participation of 95 percent of the population resulting in the transfer to the private sector of more than 2,238 small, medium and large enterprises. USAID technical assistance supported the development of the methodology and infrastructure during the program through the use of open outcry auctions and public tenders for small-scale objects and a nationwide share for subscription process for medium and large-scale enterprises. USAID assistance was also instrumental in the creation of the Share Registry Coordination Unit responsible for issuing and consolidating an accurate and complete record of privatized enterprises with more than 300 shareholders, and transferred to one of 27 independent share registries to protect the ownership rights of the fledgling shareholders. Gradual but significant changes continue to improve the overall environment for market reform and private sector growth.

USAID Role and Achievements to date: USAID assistance continues to support critical components of Moldova's ongoing continued success as a NIS role model in its transition to a market economy. Moldova now claims the distinction as the first of the NIS republics to issue individual land titles to independent private farmers. At a public ceremony attended by the President-elect Petru Luchinschi, the U.S. Ambassador to Moldova, USAID Regional Mission Director and other key representatives, the first 150 land titles were distributed to the new private independent men and women landowners, December, 1996. This ceremony marked the initial results of a nine-month pilot effort which, by the time the process is complete, will produce some 2,200 land titles arising out of the break-up and dissolution of the former collective farm. In possession of registered, secure land titles, independent farmers are now able to enter into private transactions and freely sell, proxy, or bequeath their land rights.

The distribution of land and property shares was accomplished through a fair, transparent and democratic process. The methodology developed during the pilot has lead to the consolidation of the land through the sale or lease of the land by people who no longer want to engage in agricultural production, to people who want to farm large areas of land. All eligible individuals of the former collective have exchanged their land shares for physical land at a public land auction and ownership has been registered at the mayor's office prior to issuance of the land titles. Likewise, the property share is a registered right which can be sold or proxied.

Concurrently, USAID has committed substantial resources to the privatization of land adjacent to privatized enterprises. Through the Ministry of Privatization, efforts are underway to refine the legal and regulatory environment to facilitate the transfer of land rights to the privatized enterprises. It is expected that early in 1997, the Parliament of Moldova will amend the Law on the Normative Prices of Land thereby approving a significantly lower pricing structure for the sale of urban land.

Description: USAID assistance in 1998 will focus on a nationwide roll-out of the collective farm break-up methodology implemented by a cadre of Moldovans acting as a swat team to troubleshoot problems as they arise. Prior to that time, USAID will expand the pilot collective farm break-up by taking the process to an additional 70 farms throughout Moldova and training a cadre of 80 Moldovans. All technical assistance efforts will be implemented through the Ministry of Privatization and its eleven

Territorial Agencies. Continuing support will also be provided for the roll-out of the privatization of enterprise land.

USAID will continue to support cash auction sales of the remaining state shares in privatized enterprises. This effort will also provide a welcome opportunity to achieve capital market institution building. Plans are being developed for the transfer of the remaining share packets through a variety of mechanisms including: staging the cash auctions at the stock exchange or by private placement by broker/dealers using their own contacts within the investment community, transfers to a compensation fund or a liquidation fund and/or to parties having claims on the government.

Host Country and Other Donors: The Moldovan Government has under consideration a proposal from the World Bank to create an agricultural restructuring agency which would be responsible for the restructuring of debt owed by the collectives. EU-TACIS is providing training and technical assistance in the restructuring of four collective farms.

Beneficiaries: Beneficiaries include the Moldovan population at large as Moldova is primarily an agricultural economy and therefore private ownership and possession of land titles are key to achieving market reform and attracting domestic and foreign investment. Also privatization of the residual state shares will accelerate the restructuring of enterprises and strengthen the corporate governance process under way since 95% of the population directly participated in the mass privatization program. During this program, employees and managers of small to large-scale firms exercised preferential rights to ownership in their own enterprises.

Principal Contractors, Grantees, or Agencies: East-West Management Institute is the sole implementor of the rural land privatization program while Booz Allen & Hamilton is implementing urban land privatization component and all aspects of the titling and registration effort. International Business & Technical Consultants, Inc. is the contractor providing technical assistance and support for the sale or disposition of residual state owned shares. Mendez England is providing public education, publicity and public relations on all privatization activities.

Major Results Indicators	Baseline	Target:
Number of land titles issued (cumulative)	0 (1995)	350 (1999)
Market-based land pricing system implemented	No (1995)	Yes (1996)

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: Fiscal Reform, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased soundness of fiscal policies and fiscal management practices.

Background: The development of a market economy in Moldova requires fundamental changes in the approach to government taxation and expenditure from those employed under the former central planning system. The tax system must be restructured to encourage economic activity and taxpayer compliance and also to ensure fairness and consistent application. Modern techniques of budget preparation and budget execution are needed, along with the capacity to finance any budget deficit through issuance of government securities. Moldovan officials have been receptive to technical assistance and have pursued a number of reforms, including modernization of major tax laws, improved tax administration practices, adoption of a comprehensive budget law, improved budget process, establishment of a treasury, and development of a government securities market.

USAID Role and Achievements to Date: A USAID-funded project has provided tools and training to Ministry of Finance (MOF) staff in the areas of tax policy, tax analysis and revenue forecasting, tax administration and computerization of tax collection. A team of experts has been working with the MOF and the Parliament in drafting comprehensive reforms to Moldovan tax laws (especially the major taxes, including personal and corporate income tax, VAT and excise taxes). They are also working on techniques, procedures and systems to administer these laws, including assistance in computerizing the tax system under a World Bank loan.

A companion USAID-funded project has been assisting the Parliament to develop its legislative drafting and analysis capacity, particularly in the tax and budget areas. Under its auspices, a Center for Budgetary and Financial Analysis (CBFA) has been established to advise the Parliament -- the first of its type in the entire CIS.

Under USAID funding, the U.S. Treasury has provided both resident and short-term advisors to the MOF, including a budget/treasury advisor, a government securities advisor, and short-term legal and data processing advisors. The principal undertaking is the implementation of a treasury system, with assistance from the IMF and computers provided by USAID. Components of this project include budget law, budget classification, organization of a Treasury, and implementation of a computerized budget execution, accounting and cash and debt management system.

Description: USAID-funded advisors, including contractors and U.S. Treasury advisors, will continue to provide assistance in fiscal reform activities in FY 1998, coordinating closely with other donor organizations, particularly the IMF and the World Bank. On the tax side, we expect to see implementation of the personal and corporate income tax law enacted in FY 1997, adoption of a revised VAT law and preparations for implementation, and significant improvements in tax administration, including collections of excise taxes. On the budget side, technical assistance to the MOF should result in a more efficient budget preparation process and the creation of a functioning treasury at the central level, with the beginnings of a similar development at the regional level. We also expect that, in time, government securities will finance an ever-increasing part of the government budget. In the Parliament, the growing capability of the CBFA to provide independent advice and analysis will result in better drafted and more economically informed legislation and aid significantly in deliberations on budget and tax legislation.

Host Country and Other Donors: The World Bank has approved a $1.9 million loan for computerization of the State Tax Service, for which USAID has supplied the necessary technical assistance. The IMF is providing assistance to the MOF in macroeconomic analysis and development of the treasury system. GTZ and various other donors are assisting with reform of customs law and procedures, which complements USAID's efforts on VAT and excise taxes.

Beneficiaries: The MOF receives advice on tax policy and tax law codification, tax analysis, and tax administration and computerization. It also gets advice on budget process, treasury management and government securities issuance. The Budget and Finance Committee of the Parliament, and soon other committees as well, receive advice on the budget, tax and other economic policy legislation.

Principal Contractors, Grantees, or Agencies: KPMG/Barents is the contractor in charge of the USAID tax reform and parliamentary development activities, while the USAID-funded U.S. Department of Treasury advisors assist with budget reform, treasury management and government securities issuance.

Major Results Indicators:

	Baseline	Targets
Government meets IMF deficit targets	No (1995)	Yes (1996)
Comprehensive budget law adopted and implemented	Yes (1997)	No (1995)
State budget revenues equal or exceed forecast level	No (1995)	Yes (1998)
Treasury system operational, centrally and locally	No (1995)	Yes (1996)

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: Private Enterprise, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998 $8,300,000 FREEDOM Support Act:
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Accelerated development and growth of private enterprises.

Background: The emphasis of USAID assistance to Moldova is now on post-privatization since the mass privatization program has been completed. USAID will build on the concomitant components of the enabling environment necessary to support and strengthen the newly developing private sector. It is designed to build the capacity of individual Moldovan professionals, independent firms and nascent industries in fields that did not exist before the transformation to a market economy, and in areas that are essential to ensure that new and developing enterprises become commercially viable.

USAID Role and Achievements to date: Without laws, regulations and policies that are conducive to business activity, the private sector will not be able to grow. USAID is addressing that through strengthening business advocacy associations. Another approach is to improve the analytical capacity of the Parliament to understand the ramifications of laws proposed for enactment. The improved management of business is a key to the creation of viable private enterprises.

Description: In order to improve the management capacity of business, USAID will assist in the improvement of production and processing technologies in selected businesses, the provision of additional financial resources for selected local businesses through joint ventures, ensure the availability of adequate market information to identified pilot enterprises, and the development of business and farm advisory centers. USAID will also build on its integrated and interdependent activities to develop the legal and regulatory environment related to capital markets and land markets, privatization of urban and agricultural land, expansion of the capital markets infrastructure and the development of western accounting principles.

Host Country and Other Donors: USAID coordinates with the United Nations Development Programme and EU-TACIS to provide technical assistance and funding for business service centers that help small and medium-sized business managers improve business plans and management skills.

Beneficiaries: Privatized and start-up businesses will benefit directly from these activities, but specific focus will be on restructuring the agro-industrial complex, including food processing, marketing, equipment and services suppliers, as well as light manufacturing, construction and the service industry.

Principal Contractors, Grantees or Agencies: Development Alternatives Inc. provides business support services. Peace Corps provides business volunteers to advise the Moldovan managers of the business service centers.

Major Results Indicators:

	Baseline	Target:
Number of MBA graduates from Moldovan state institutions (cumulative)	50 (1995)	1,500 (1999)
Number of companies listed on stock exchange with financial statements conforming to international accounting standards (cumulative)	0 (1995)	70 (1999)
Number of corporations filing quarterly	0 (1996)	100 (1999)

reports with State Commission on Securities Markets (cumulative)		
Compliance with trade standards of World Trade Organization (WTO)	No (1995)	Yes (1998)

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: Financial Reform, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $5,200,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; ***ESTIMATED COMPLETION DATE:*** FY 1999

Purpose: A more competitive and market-responsive private financial sector as well as continued development of a modern capital market infrastructure.

Background: The development of a strong and dynamic market-based economy requires an effective, transparent and safe financial sector. USAID's strategy emphasizes the creation of a private banking sector together with the creation of a transparent and open securities system. The revitalized banking sector will provide a vehicle to transfer ownership and funds between individuals and enterprises. Effective, safe and transparent capital markets facilitate the restructuring of enterprises and provide them with a flexible source of funds for investment.

USAID Role and Achievements to date: The development of the financial infrastructure in Moldova is continuing at an accelerated pace. The Moldovan Stock Exchange was inaugurated in June, 1995, following a six month USAID effort to train Moldovan professionals in all aspects of the securities market and installation of the necessary hardware and software. To date, 43 investment companies, 11 trust companies, 27 independent registrars, and 54 broker/dealers and consulting companies are active in the stock exchange. Moldova was the first NIS country to establish an independent securities market regulating entity with Ministry status. In addition, the Central Bank has converted to a new chart of accounts, and the commercial banks are expected to convert to a new chart of accounts consistent with internationally accepted standards by the end of 1996. Improved banking supervision is a major emphasis, and it has led to the formation of a troubled bank resolution unit in the central bank. This unit has already made its first recommendations for dealing with the largest troubled institution.

Description: USAID's assistance in 1998 will focus on helping to create a professional bank supervision department at the National Bank as well as assisting in refining the laws and regulatory-reform environment. In developing Moldova's capital markets, USAID will assist with the development of self-regulation among market participants, while helping to expand and strengthen the front-office and back-office broker/dealer community and broaden the role of existing investment funds to include raising capital for privatized enterprises through initial public offerings, venture funds or private placements. In the banking sector, USAID will focus on training employees of the Central and commercial banks in western banking practices and standards, and supporting the Moldovan Bankers Association in maintaining a self-sustaining bank training center.

Host Country and Other Donors: The banking school is benefitting from the support of the German Government in training trainers, and the National Bank is receiving assistance in on-site bank supervision from the International Monetary Fund in collaboration with USAID.

Beneficiaries: The beneficiaries are the National Bank of Moldova and virtually all the larger banks in the country that have sent employees to the USAID-funded training center. By extension, depositors and borrowers will benefit, as will firms and their employees that access securities markets and the financial intermediaries - banks, brokerage firms, etc. - that participate in the financial market.

Principal Contractors, Grantees, or Agencies: Barents-KPMG, Financial Services Volunteer Corps are implementing USAID's banking support activities. The capital markets assistance implementors are The Intrados Group and International Business & Technical Consultants, Inc.

Major Results Indicators:

	Baseline	Targets:
Commercial bank credit to private enterprises and households (as percentage of total bank credit)	35% (1995)	55% (1999)
Equity capital of private banks (as percentage of assets of total banking system)	15% (1995)	30% (1999)
International accounting standards adopted by commercial banks	No (1995)	Yes (1996)

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: Energy, 110-S001.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more economically sustainable and environmentally sound energy sector

Background: Moldova imports 98% of its primary energy from Russia. Moldovagas, the only gas supplier in the country, is in arrears to Russia by over U.S. $230 million. Its ability to pay is substantially hindered by nonpayment by its own customers, including the national electricity utility, Moldenergo. Additionally, Moldovagas has no current capability for operational, administrative and financial oversight and planning of its affiliates, as well as no corporate planning, finance, rate and regulatory, marketing, or customer service departments. Moldenergo is in a similar situation. In 1995 the Moldovan Parliament approved a Privatization Program that includes Moldovagas as a prime candidate. Successful privatization of Moldovagas and Moldenergo will be facilitated by establishment of a regulatory framework, restructuring and commercialization of the companies.

USAID Role and Achievements to Date: USAID, in cooperation with other key donors in the country and in particular the World Bank, has agreed with the Government of Moldova to provide primary assistance in regulatory reform and restructuring and transforming Moldovagas and Moldenergo into commercial energy companies. Project activities were only initiated in 1996.

Description: The USAID program in Moldova will focus on establishing a market-oriented regulatory framework and independent regulatory body, implementation of restructuring of Moldovagas and Moldenergo, as well as improved managerial, planning and commercial practices and control procedures within Moldovagas and Moldenergo. Restructuring assistance will include the introduction of state of the art combustion technologies to the energy industry.

Host Country and Other Donors: World Bank, EU-TACIS and EBRD coordinate with USAID in providing assistance.

Beneficiaries: The State Department of Energy, State Department of gasification, Moldenergo, Moldovagas, Fossil-fuel power plants (Chisinau CHP#1, CHP#2) will directly benefit, and the environment and consumers of energy resource will indirectly benefit from subsequent improvements.

Principal Contractors, Grantees, or Agencies: USAID's energy sector activities are implemented by Hagler-Bailly Consulting, Inc., Burns and Roe, and the US Energy Association.

Major Results Indicators*

Percent change in energy prices
Elimination of budgetary subsidies for power and gas
Number of privately-owned utilities operating
Number of privately-owned utilities financially viable
Independent regulatory agency established

*Targets will be set as a result of the 1997 strategic planning process for the Moldova program.

POLAND

FY 1998 Assistance to Central Europe Request: $35,000,000

Introduction.

Poland was the first country in Central and Eastern Europe to declare its independence. U.S. assistance with its transition to democracy and free markets began in 1989 with the inception of the Support for Eastern European Democracy (SEED) Act. Debt restructuring and debt relief from the United States and other creditors has been a major factor in helping Poland through the transition. Poland has served as a leader in the political and economic transition of the region. Despite resulting social hardship, it was willing to use shock therapy at the earliest critical point in its transition which succeeded in breaking its initial hyperinflation crisis. With a population of 38.5 million, Poland is the largest market for U.S. exports in the region. Its early accession to European Union (EU) membership is important to U.S. security and economic interests in Central Europe.

The Development Challenge.

Poland has regained its fundamental economic strength. Inflation and debt are now contained at manageable levels and pre-1990 output has been re-established. The Polish real GDP expanded by 5.3% in 1994 and 7% in 1995, but experts expect real GDP growth rates for 1996-1998 to be lower at between 5-6%, due to the slow-down in West European trading partners' economies, especially Germany, and continuing problems in agriculture. As the largest domestic market in the region, Poland looks promising to foreign investors, now that economic stabilization is completed and growth is steady. In 1996, total U.S. Investment shot up by over 40% from $1.6 billion in 1995 to nearly $2.4 billion. This recent upsurge has taken place despite delayed large-scale privatization and reports of some American firms contemplating withdrawal from the Polish market.

By 1996, Poland's total debt slipped below 60% of GDP, meeting one of the EU's criteria for joining the monetary union. Poland, however still remains one of the largest debtors in Central Europe. Poland has reached agreement with both London and Paris Clubs of official and commercial bank creditors that cut its debt load in half. Although the country is classified as severely indebted by the World Bank, the burden of debt has been reduced as a consequence of the debt reduction agreements and its strong foreign currency reserves. Increases in export levels assure its ability to service its current debt. In 1995, Poland paid back all of its IMF drawings.

An estimated 62% of the Polish economy is now in private hands. U.S. assistance has contributed to an improved policy climate for the further growth of the private sector, greater competition within the banking sector, the development of a capital market, introduction of new financial products including expansion of mortgages and the introduction of models for environmental improvement, housing privatization, and delivery of key services. Though a number of business management training programs are in place and graduating to self-sufficiency, there is still much to do to develop indigenous business support organizations that will continue to foster private sector growth.

Despite progress, Poland's financial sector remains undeveloped. Fewer than 50% of households have bank accounts and cash transactions predominate. Savings and investment rates remain low (less than 20% of GDP) compared to other high growth economies and needs. Government treasury bills and notes still dominate capital markets and crowd out private efforts to raise capital. Banks are overly conservative in their lending practices. To address this, more diversified financial instruments are being developed, financial markets are being further deepened, and programs are underway to make banks more efficient and user-friendly.

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Poland enacted the most profound reforms in the region, notably, enterprise restructuring and shedding of excess labor, resulting in major productivity increases at the enterprise level. Hence, in 1994 private sector industrial output rose by 23%, while that of state-owned enterprises expanded by only 6%. Export growth was at an impressive 35% in 1995 but, according to the National Bank of Poland (central bank), Poland has generated a deficit in 1996 of almost $3.2 billion. Without concerted action in defence of exports, these figures could reach over $10 billion in 1997. Moreover, Poland's rate of SME growth in numbers is expected to taper off as the country enters the next, more mature phase of economic reform, while the average SME is expected to grow larger. These newly created, smaller firms must undergo an internal restructuring, and a transition to more systematic management styles. These changes have only just begun and place a greater focus on issues such as cost control, quality production, marketing and distribution strategies, demanding much more of the relatively inexperienced Polish business manager than previously.

Poland is a successful democracy. Since independence, 47,000 NGOs have been registered and 12,000 were still active in 1994. Leaders of 2,500 local governments have been elected in free and fair elections. Independent print media are well established. U.S. assistance has strengthened democracy in Poland through its focus on the role of local governments, and the broadening of participation, primarily by non-governmental organizations. Much still remains to be done to develop local government capability, especially for revenue generation and budgeting, service delivery, and economic development, and to develop more models for public-private partnerships in these aspects.

U.S. funding levels have declined for five consecutive years, in recognition of Poland's economic progress. Continued success with Poland's economic and political transition make it possible for us to plan for its graduation from SEED Act assistance by the end of the decade. Assistance until then is oriented toward preparing for this graduation.

Other Donors.

In July 1996, Poland was admitted as the 28th member of the Organization for European Cooperation and Development. Assistance from the EU remains the largest and thematically broadest share of technical assistance to Poland. The U.S. provides the next largest share of grant assistance. The World Bank provides $4 billion in loans with emphasis on infrastructure improvement in the transport sector (roads, rail, ports), and the European Bank for Reconstruction and Development provides loans for private sector investment (85% of its current portfolio). The British Know-How Fund provides a small program of assistance to the financial sector and local government. Germany, France and Japan finance modest programs focused on scientific and cultural exchanges and growth in trade and investment. In September 1995, Japan acknowledged the success of Poland's debt management and repayment record by reopening its trade credit and guarantee windows to Poland. The U.S. collaborates closely with all of these donors and lenders in its definition of program strategy. International Monetary Fund assistance is no longer requested by the GOP.

FY 1998 Program.

In 1996, USAID and its partner USG agencies and departments confirmed the 1995 decision to focus the future SEED program on three strategic objectives: stimulating private enterprise at the firm-level, establishing a competitive and efficient financial sector, and strengthening local government effectiveness, responsiveness and accountability. This intensifies efforts on aspects critical to Poland's progress in moving towards EU membership, and its graduation from U.S. assistance by the end of the decade. To this end, USAID's mission is to strengthen sustainable institutions and systems that will remain in place to complete Poland's transition to markets, foster participatory democracy and public-private initiatives at the local level, and promote long-term U.S.-Polish institutional relationships.

Strategic Goal: Economic Restructuring

Poland is the largest and most diverse economy among the Central and Eastern European countries. Achievement of further economic progress is dependent on continued private sector dynamism and continued development of private financial sector systems and institutions. Progress in FY 1996 includes: 95% of Poland's eligible population collecting shares under the country's mass privatization program; progress towards self-sufficiency for a number of Polish business schools and private nonprofit business support organizations for housing developers; submission to Parliament of a new energy law; the first complete examinations of two major Polish banks; establishment of the first Central European Credit Rating Agency; and opening of an Over-the-Counter securities trading entity through the cooperation of 43 stock brokerage firms.

Future economic restructuring activities in Poland will focus on privatizing more state-owned banks, improving bank supervision, and increasing the volume of housing constructed by the private sector. Longer term capital will be provided for municipal projects through commercial bank lending and increased reliance on municipal bonds. A credit rating agency will better inform investors of the risk in buying debt investments and will improve pricing of debt issues. The Over-the-Counter market will serve as an effective alternative for financing. Further work will proceed in deepening capital markets by developing institutional investors such as private pension funds. Poles will need to be educated as to the range of private pensions choices soon to be available. Energy activities will be refocused to rationalize electricity prices fundamental to enterprise competitiveness. The establishment of post-graduate training programs in business management in Warsaw, Gdansk and Lodz will be completed. The postdoctoral environmental studies degree program is being replicated throughout the academic community in Central and Eastern Europe.

- Strategic Objective: Private Sector Development Stimulated at the Firm Level

- Strategic Objective: A Competitive and Efficient Private Financial Sector Established

Strategic Goal: Democratic Transition

Democracy in Poland has developed rapidly, and the necessary laws, media, and legal institutions to support democratic processes are in place. Local governments have assumed greater responsibility and are demonstrating increased creativity and capacity in their use of resources and management services. Progress in FY 1996 includes several outstanding examples of USAID's assistance to Polish cities: Issuance of the first-ever municipal bond by Gdynia; signing of the first of seven pilot partner cities programs between the United States and the city of Bielsko-Biala for downtown historic district revitalization and other economic, investment, and public administration cooperation at the local level; development of a model municipal wastewater infrastructure project; selection of USAID-assisted city of Lublin as one of 40 "best practice" housing programs in the world; and selection of the city of Gliwice by General Motors as its future plant site due to a business development proposal prepared by a USAID-trained city planner.

Remaining problems include unfunded mandates for service delivery at the local government level, the need for: capacity-building in local government, economic development finance, and greater influence on local decision-making by neighborhoods, local businesses, and NGOs that represent these and other groups.

- Strategic Objective: Local Government Becomes Effective, Responsive and Accountable

Cross-Cutting Assistance and Special Initiatives.

Funds for the processing of participant trainees, and for U.S. assistance performance measurement data services are cross-cutting and support all of the above three objectives. In addition, there are

a number of special initiatives in Poland, for example: English language training; U.S. graduate degree support; small democracy program grants; and support for labor market transition. Each of these programs either provide basic skills and opportunities, such as retraining for laid-off workers, or they complement activities associated with Poland's three strategic objectives, such as ensuring the sustainability of an independent school for journalists.

POLAND
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	7,222,000	--	--	--	7,222,000
Financial Reform	8,600,000	--	--	--	8,600,000
Energy	--	--	--	--	--
Citizens' Participation	--	--	--	--	--
Legal Systems	--	--	--	--	--
Local Government	--	17,178,000	--	--	17,178,000
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	2,000,000	2,000,000
TOTAL	15,322,000	17,178,000	--	2,000,000	35,000,000

*Support for East European (SEED) Act funds

USAID Representative: Suzanne Olds

ACTIVITY DATA SHEET

PROGRAM: POLAND
TITLE: Private Enterprise, 180-SO01.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $7,222,000 SEED Act
INITIAL OBLIGATION: FY 1989; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Private Sector Development Stimulated at the Firm Level.

Background: Over the five years since independence, Poland's small and medium-sized enterprise (SME) sector has grown dynamically. In Poland today, the private sector employs 62% of the labor force and generates at least 50% of GNP. Between 1990-1994, the level of employment in private enterprises increased by approximately 1.5 million persons, thereby alleviating some of the negative social effects of the restructuring of state-owned enterprises. There are still some factors in the Polish economy, notably poor credit and onerous tax systems, that constrain the private sector, especially in SME. Technologies are outdated and knowledge of modern management techniques and skills is still lacking.

USAID Role and Achievements to Date: USAID advisors assisted with the conceptual and regulatory design of a mass privatization program under which 513 firms were privatized. To date, 95% of eligible Polish citizens have collected their share certificates. USAID's advisors have contributed to a revision of Poland's commercial code, especially provisions on tax administration, public procurement, and bankruptcy. They have helped the newly-created Polish Foundation for the support of SMEs develop a formal strategy for small businesses and helped draft a modern collateral law that was passed in 1996. USAID has contributed to the rapid expansion of the private sector by helping over 700 Polish small businesses to develop business plans and to improve their marketing and overall enterprise management. Polish capacity to train entrepreneurs in business skills has been strengthened by establishing seven Polish management training institutions. Annual profits have increased by $7.2 million at 18 Polish firms as pollution levels have decreased through the application of 52 model waste minimization projects. A new and progressive energy law has been submitted to the GOP for review. The Polish-American Enterprise Fund is the largest and most successful of the seven funds established in Central Europe. It has provided loans and equity investments totalling $224 million to over 5,000 private Polish enterprises. Its investments are directly responsible for the creation of 15,000 new jobs and the employment of more than 70,000 people. It has created several new financial institutions, including Poland's first mortgage bank, and successfully raised more than $250 million in private investment capital.

Description: Continued support will be provided to lobbying efforts in support of SME. Assistance will also continue in the following areas: commercial law reform and legal information for SMEs will also be provided. In view of the progress made by the SME sector in Poland to date and the remaining gaps in technical know-how constraints still facing the sector, greater emphasis will be given to improving and strengthening indigenous business support organizations, especially private firms and NGOs that can provide quality consulting and training to Poland's SME's. Secondarily, USAID will continue to provide technical assistance to selected Polish SMEs to improve their planning, management, marketing and production capabilities.

Host country and other donors: USAID collaborated with the EU assistance program to Eastern Europe (PHARE), the British Know-How Fund, the International Finance Corporation (IFC) and other donors who also provide assistance to SMEs. Host country legal and regulatory changes in support of SMEs have been undertaken with USAID assistance.

Beneficiaries: Over 1300 businesses and 25 business support organizations will benefit directly from this assistance. Indirect beneficiaries will include the future clients of these business support organizations.

Principal contractors, Grantees, or Agencies: *U.S. assistance is delivered by a wide range of* institutions and mechanisms -- grants to two U.S. universities: University of Maryland and University of Minnesota, an IAA with the U.S. Treasury, an international organization (International Development Legal Institute), several U.S. PVOs; and contracts with U.S. private firms, especially Agricultural Development Cooperation (ACD)I.

Major Results Indicators:

	Baseline	Target
Number of legislative initiatives passed with broad and positive impact on the SME sector	0 (1/92)	14 major laws (12/99)
SME sector fixed asset investment rate	5% of real GDP	25% of real GDP (12/98)
Per cent change in the real value of sales by SMEs	0 (9/96)	15% of increase (12/98)
Number and type of indigenous self-sustaining:		
Business training centers	0 (1/92)	8 (12/99)
Business support institutions	0 (1/92)	25 (12/99)
Number of enterprises that use new business plans, management techniques, marketing and production methods	650 (1/95)	1300 (12/98)

Data Sources: Reports by Ministry of Industry and Trade, Ministry of Justice, and GEMINI; baseline study by new Polish institutional contractor, Financial Services, plus annual follow-up surveys; USAID implementers' reports

ACTIVITY DATA SHEET

PROGRAM: POLAND
TITLE: Financial Reform, 180-SO01.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $8,600,000 SEED Act
INITIAL OBLIGATION: FY 1989; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: A competitive and efficient private financial sector is established.

Background: To complete Poland's transformation to a market economy integrated with the European Union, the Polish financial sector will have to play a greater role in mobilizing savings and efficiently allocating investment. Depositors' and investors' confidence in financial institutions must be established. More accurate and complete information must be made available to creditors and investors. Competition among financial institutions and between debt and equity markets needs to be encouraged, and markets need to be deepened. Financial institutions still lack skills in corporate finance, risk analysis, and mortgage lending. The climate two years ago, for example, was such that only the state savings bank made long-term residential loans, all of which were heavily subsidized.

USAID Role and Achievements to Date: An on-site bank examination manual has been developed for Poland's central bank and, in FY 1996, trained examiners completed their first-ever examination of a major Polish bank; this experience will serve as the central bank undertakes several more examinations in the coming months. A modern collateral law was recently approved by Poland's legislature which will provide greater surety to banks in lending against assets. The USAID-created Warsaw Bank Training Institute, with over 2,000 bankers trained, is now delivering professional banking courses using Polish rather than expatriate staff and is striving for self-sustainability through fee-for-services and other revenue sources. Polish brokers from 43 houses have now formed an Over-the-Counter market which will provide an alternative to the Warsaw Stock Exchange for raising equity capital, especially attractive to less well-known companies. With USAID assistance, the Financial Services Resource Center is building corporate finance capabilities in Polish banks. To date, six banks have participated, representing 35% of total Polish banking sector assets. On the municipal level, some 300 USAID supported, independent local cooperative banks continue to show strong operating improvements. Last year, total assets of these banks rose by 20-30 percent over inflation, showing that they have begun to meet the credit needs of their smaller, largely rural, clients.

Financing for housing construction, municipal development, and home purchase has made rapid progress in the past year with the elimination of housing subsidies. Presently, 20 banks now carry long-term loans at market prices and 75 commercial bank branches now offer mortgage loans from the Mortgage Fund, a fund initiated by USAID assistance. Mortgage loans now finance 18 percent of all private sector housing completion. This transformation could not have occurred without the $10 million USG-funded Housing Guaranty loan which leveraged World Bank and EBRD co-financing, or without complementary USAID technical assistance in bank strengthening and regulatory reform. In addition, the creation of the first Credit Rating Agency in Central and Eastern Europe will contribute substantially to increasing confidence in the financial sector.

Description: The U.S. will continue to strengthen the ability of Poland's central bank to carry out its bank supervision responsibilities. New initiatives are creating a legal and regulatory framework and enforcement capability for the over-the-counter market, municipal bond issuance, spot and futures commodity trading, and private pension funds. Banks will improve their corporate finance capabilities. A decentralized cooperative banking system will remain autonomous. About 24 grain elevators are participating in a licensed warehouse receipt system to facilitate commodity trading, and allowing farmers to borrow against stored produce. Improvements to the payments clearing system will be instituted, and information on the creditworthiness of firms and municipalities will

become more readily available.

Beneficiaries: First line beneficiaries will be the Polish financial institutions including banks, brokerage houses, commodity traders, private pension funds, stock and commodities exchanges, and the entities that regulate them. Their client depositors, investors, and borrowers will all be indirect beneficiaries including businesses, both large and small, individuals and families, throughout Poland.

Principal Contractors, Grantees, or Agencies: USAID implementors include: the U.S. Department of Treasury, KPMG-Peat Marwick, Price Waterhouse, Crimson Capital, Barents, First Washington Associates Ltd., Credit Union National Association, Volunteers in Overseas Cooperative Assistance, Agricultural Cooperative Development International, Financial Services Volunteer Corps Inc., Eastern Europe Real Property Foundation, Urban Institute, and PADCO, Inc.

Major Results Indicators:	Baseline*	Target*
Number of large banks inspected on-site by Central Bank	0 (1/96)	5 (12/99)
Regulations and supervision of private pension funds established	TBD	TBD (12/97)
Law, regulations and supervision of futures and commodity exchanges established	TBD	TBD (12/97)
An independent membership-governed cooperative bank system functioning	TBD	TBD (12/98
Number of banks using more advanced techniques for credits & investments	TBD*	15 (12/98)

*Baseline and target data will be provided Spring 1997 through a National Survey conducted by a Polish Firm, Financial Services.

Data Sources: National Bank of Poland data; USAID contractor reports; National survey by Financial Services, Polish institutional contractor.

ACTIVITY DATA SHEET

PROGRAM: POLAND
TITLE: Local Government, 180-SO02.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $17,178,000 SEED Act
INITIAL OBLIGATION: FY 1989; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Strengthen local government effectiveness, responsiveness, and accountability.

Background: Major responsibilities for service delivery in key sectors like health, education, and housing have been delegated to the local level, but these are severely under-funded mandates. Ownership of key land and buildings that could contribute to economic development has also been transferred to the local government level, but at that level there is little capability for planning, applying for financing for infrastructure, or instituting incentives in support of privatization and economic development. Public-private partnerships are considered to be essential for both service delivery and economic development at the local level.

USAID Role and Achievements to Date: Recognizing the importance of strong local government in a democracy, USAID has concentrated on helping local governments increase their capacity to efficiently deliver services and manage scarce economic development resources. In FY 1996, USAID established a successful municipal credit program - through loans and bonds -- which has now spread to at least six cities, beginning with a $12 million municipal bond to the city of Gdynia. Model demonstration projects for design and finance of wastewater treatment plants have been finalized in two cities and plants will soon become operational in three others; 50 other cities have received training in relevant skills.

USAID has also sought to increase influence of local governments on national and regional policy. As a result, municipal associations and support institutions have been strengthened, including creation of a Municipal Development Agency; task-based budgeting is being disseminated throughout the country; and a $50 million loan from the World Bank and a $4.0 million ECU grant have been leveraged for infrastructure. In addition, public participation on the local level has improved, which has led to changes in the housing allowance law to more fairly reflect the differences among cities' housing stock and burden. Partnerships are beginning to flourish. USAID experts encouraged an empowered public-private partnership which designed and co-financed urban renovation in the neglected city of Lublin. This "Neighborhood Partnership Program" created: a major private investment program, and a leveraging model with a 10: 1 private/public ratio; 137 renovated buildings; 15 new businesses; and 225 new places of employment. A network of indigenous NGO-support organizations has been established and models of transparent and consistent regulation of NGOs by local government are being developed.

Description: USAID uses a combination of legislative and policy development; local government partnerships; and institutionalization of new skills to assist Poland in creating models for municipal development. For partner cities, activities under this objective will be expanded from 7 initial pilot cities into an additional 40 partner cities specially selected as representative of the range of city sizes and development contexts in which U.S. models for local government innovation and public-private partnerships in economic development and service delivery can be most effective. The seven pilot cities will increase their resource management capacity, strengthen their financial and strategic planning systems, increase public involvement, improve service delivery, develop capital budgeting, economic development and land use planning capacity, and increase locally-generated revenues. New degree programs in city and regional planning will be established in key universities to develop a cadre of local government economic development professionals. Neighborhood and business associations in partner cities will be created and strengthened to promote cooperation between NGOs

and the local government in service delivery and economic development.

Host Country and Other Donors: The U.S. is the major donor supporting this objective. The British Know-How Fund supports a small program of pilot local government projects. EU PHARE also provides some assistance to local governments. The GOP recently enacted the Local Government Law which gives cities and towns the authority to borrow from banks and float municipal bonds to finance development projects; as of December 1996, five Polish city had issued municipal bonds.

Beneficiaries: All *2,400 gminas* (local governments) covering the entire population of Poland will benefit from the models developed and extended, the national policy and new urban development finance options, and long term degree programs created by this assistance. About 47 partner cities and their residents will benefit most intensively from the actual models tested.

Principal Contractors, Grantees, or Agencies: USAID implements activities through direct grants to two Polish local government support organizations, sub-grants to many other Polish NGOS, contracts with two U.S. universities and five U.S. contractors, and sub-grants and sub-contracts to many other Polish firms and organizations.

Major Results Indicators:

	Baseline*	Target*
Percentage of cities using public-private partnerships for service delivery	TBD (1996)	Baseline + 10%(2000)
Percentage of cities using public-private partnerships for economic development	TBD (1996)	Baseline + 10%(2000)
Percentage of cities using bank or bond financing for economic development	TBD (1996)	Baseline + 10%(2000)

*Baseline and target data will be provided in Spring 1997 through a baseline survey conducted by Polish Firm, Financial Services. Follow-up surveys will be conducted annually.

ROMANIA

FY 1998 Assistance to Central and Eastern Europe: $33,000,000

Introduction.

With 23 million people, Romania is the second most populous of the formerly centrally planned economies in Central and Eastern Europe. Following 45 years of Communist Party rule, Romania began its economic and democratic transformation after the December 1989 revolution. The U.S. assistance program to Romania began in 1990 with the direct provision of humanitarian and social sector assistance. Assistance also sought to strengthen the tenuous democracy which emerged from Romania's revolution. Since 1993, an increasing share of Support for East European Democracy (SEED) resources has been devoted to fundamental economic restructuring programs, which now account for the largest share of USAID commitments. Support to the democratic transition process is focused on increasing citizen participation in political and economic decision-making, primarily at the local level through non-governmental organizations (NGOs) and local governments. Social sector restructuring programs are shifting the programmatic emphasis from direct service delivery to activities which address the systemic causes of social problems. In national elections held in November 1996, Romanian citizens voted out the former communists. The opposition party, Democratic Convention of Romania, won the Presidency and a plurality in Parliament. The political and economic interests of the United States continue to be served best by an active program assisting Romania to accelerate reforms, promote a sustainable economic transition, and strengthen democracy and local governance.

The Development Challenge.

In the November 1996 elections, the democratic opposition, which started the 1989 revolution but lost out in the 1990 elections to the former communists, gained power in free and fair elections. The Democratic Convention of Romania (CDR), a party composed of several reform-minded opposition parties, won a plurality in the Parliament. In the presidential runoff, the CDR presidential candidate Emil Constantinescu decisively defeated then President Ion Iliescu.

The new Government of Romania (GOR) inherited a formidable challenge in rescuing an economy which is struggling as a result of seven years of indecisive policy and a general failure to implement meaningful reform. Romania faces a number of developmental challenges which dramatically worsened in the past year. The inflation rate increased from 25% to 45%. The fiscal deficit increased from ½% to approximately 4.0% of GDP. Factoring in losses of public enterprises would increase the fiscal deficit to over 8%. Privatization remains incomplete, but has been accelerated to accommodate the USAID-funded over-the-counter (OTC) and Bucharest Stock Exchange. Foreign investment proceeds only at a snails pace -- $2 billion since 1990. The banking system is weak, and the former government, for political reasons, directed major amounts of credit to the inefficient agricultural sector. In short, in the past year, Romania's transition to a market economy slowed, the economic well-being of its citizens deteriorated, and the government seemed to have lost its will and capacity to move forward with reform. Romania has fallen out of compliance with the IMF standby agreement and World Bank structural loans.

Romania's ability to sustain economic reforms and promote a stable democracy faces other key constraints, including: restrictions against foreign ownership of land; bureaucratic red-tape and corruption; limited availability of investment finance; slow pace of privatization; lack of respect for contractual obligations; and low confidence in the judiciary. In post-election statements, President Constantinescu declared that these issues would be high on the new GOR's reform agenda.

The country is endowed with natural resources, especially oil, gas, and coal, and agriculture. GDP growth is estimated as high as 6.0% for 1997. Unemployment is dropping, though still may be

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relatively high. Romania's high credit rating enabled it to return to international capital markets, borrowing US$ 1.5 billion. There are more than 600,000 registered small and medium-sized enterprises in Romania that are operated by a highly literate work force. Traditionally defined trade and investment barriers are not a significant problem in Romania. However, the cost of doing business in Romania is high: changing laws and regulations discourage efficiency and expediency; foreigners may lease, but not own land; business contracts are often not enforceable; and, income and social benefits tax rates are too high. In 1996, Romania made further progress toward privatizing its economy and establishing the legal framework for a market economy.

Other Donors.

The use of SEED resources to leverage financial contributions from other donors has been an explicit element of the assistance program in Romania. USAID-funded technical assistance has paved the way for projects such as the two in energy--each for roughly $300 million--co-financed by the World Bank, the Japanese Government, and others, the $250 million World Bank privatization and financial reform project, the $100 million World Bank private agriculture effort, the $55 million World Bank employment services program, the World Bank's $100 million program to address industrial pollution and environmental legislation, the $150 million health rehabilitation activity, the $65 million European Bank for Reconstruction and Development (EBRD) municipal utilities project, and preparatory work for a proposed second tranche of loans for $140 million. In addition, as part of the Romania Enterprise Restructure Project, USAID is collaborating on privatization with the EU.

FY 1998 Program.

USAID's priority in Romania is to help the Government of Romania (GOR) formulate and implement a reform package which puts Romania firmly on the road to economic and democratic reform and responds to IMF and World Bank conditions.

To accomplish this, USAID will offer a new package of technical assistance to advance a comprehensive and practical economic reform program. This effort, which started in 1997, includes a clear articulation of priorities, consensus building within the cabinet, and technical assistance and training for parliamentarians, to improve the coordination between the executive and legislative branches of government on key reform issues.

USAID has continued its strong emphasis on economic restructuring assistance, reflected in the significant commitment of funds and technical resources to support the country's development of private independent capital markets. The Capital Markets Program has created a fluid share trading market for a wide variety of firms and investors, linked to the final stage of the Romanian Mass Privatization Program (MPP), during which tradeable company shares are registered to individuals. The program also continues assistance in consolidating and strengthening financial markets and in other economic transition assistance, including support for direct business development programs. USAID's assistance in legal reform, specifically bankruptcy, is also enabling the country to better use its resources.

Supporting Romania's democratic transition remains a key objective. Priority areas include decentralization of governing authority and fiscal control to the local level, and fostering the development of non-governmental organizations (NGOs). USAID remains committed to pursuing key social service restructuring opportunities to address broader systemic problems resulting from the economic transition.

In July 1996, the GOR ratified the bilateral agreement between the U.S. and Romanian Governments, thus placing USAID assistance within a firm legal context. The agreement went into force on November 1, 1996. This allows USAID to assist the GOR's reform efforts without the bureaucratic drag experienced in previous years.

Strategic Goal: Economic Restructuring

As part of Romania's efforts to promote the development of a competitive, market-oriented private financial sector, USAID supported a series of broad market reform initiatives, including legal initiatives and capital market reforms. These efforts provided market infrastructure for the new shares created in 5,200 companies participating in the Romanian Mass Privatization Program (MPP) and an estimated 16 million new Romanian shareholders. Specifically, USAID undertook the development of: an OTC market for the trading of newly issued MPP securities; a depository/clearance corporation; a central shareholder registry; telecommunications linkages; broker-dealer training; self regulatory organizations for both broker-dealers and investment companies; creation of new investment companies; a securities analysts training program; and assistance to the Romanian securities commission.

In past years, USAID-funded technical assistance helped the Romanian Government consolidate its national accounts and thus keep track of its funds flow, enabling greater control over revenues and expenditures. Likewise, U.S. Government securities advisors focused on the legal framework and development of the primary market approaches to debt management.

USAID financing fostered several cooperative partnerships with U.S. electrical utilities to improve the energy efficiency of the power sector and its major clients. This has reduced government subsidies, thereby relieving pressure in public spending. USAID technical assistance prepared the original sector analysis and restructuring recommendations that paved the way for the $600 million World Bank Petroleum Rehabilitation Project which makes the industry more efficient and less destructive to the environment.

USAID's strategy in FY 1998 calls for continued technical assistance through the Capital Markets Program to solidify growth of the OTC market, promote market development and further regulatory implementation. As a complement to the Capital Markets Program, USAID will support economic reform efforts, in general, and will specifically support the GOR's plans to consolidate disjointed privatization efforts. Activities will support privatization and restructuring by alleviating the strain on the fiscal deficit caused by continued subsidization of inefficient state-owned enterprises. Major efforts in support of private business development will continue with the intent to leverage technical assistance to private enterprises with access to credit provided by the Romanian-American Enterprise Fund and other lending institutions. USAID assistance will also promote a safe and sound banking sector.

USAID efforts will continue to promote sustainable use of natural resources and to limit environmental risks to health, with continued emphasis placed on power sector restructuring, effective regulation of the oil and gas industry and energy efficiency. Activities in the power sector should secure the GOR's agreement to proceed with power and refinery sector reforms in order to reduce a major source of the budget deficit. In addition to relieving the deficit crisis, Romania's chances to obtain nearly $600 million of World Bank assistance will be increased.

- Strategic Objective: Accelerated development and growth of private enterprises
- Strategic Objective: A more competitive and market-responsive private financial sector
- Strategic Objective: A more economically sust[illegible] environmentally sound energy sector

Strategic Goal: Democratic Transition

To improve the legislature's ability to make decisions based on independent and sound policy research, USAID has worked with the Congressional Research Service (CRS) to assist Romanian parliamentarians

through training programs and give them greater access to information. In FY 1998, USAID will continue to work with the Romanian Parliament in improving legislative procedures important to implementing economic, democratic and social reforms.

Assistance has been provided to local governments to improve municipal finance and budgeting, management and operational efficiencies in urban services. Building on this assistance and the successful collaboration with EBRD for $65 million of infrastructure loans, USAID will support fiscal decentralization and a more market-oriented approach to municipal finance in a proposed second phase of EBRD loans for $140 million.

In FY 1998, a more targeted program in the area of democratic transition will be maintained in order to strengthen parliament, foster increased decentralization of government and fiscal control towards the municipal and county level, strengthen the development of Romanian non-governmental organizations (NGOs), and promote citizen participation in economic and political decision-making at the local level.

As part of a program directed at housing and urban improvements at the local level, USAID has implemented financial management, public budgeting, and water utility management programs. As a result of these initial successes, a Public Administration program initiated in 1995 in five initial cities has been expanded to include five more. The program focuses on public management, economic development, and public participation.

- Strategic Objective: Increased, better-informed citizens' participation in political and economic decision-making

- Strategic Objective: More effective, responsible, and accountable local government

Strategic Goal: Social Stabilization

In the area of social stabilization, the USAID program has focused on the provision of humanitarian assistance to Romania's institutionalized children; the establishment of private family planning clinics; assistance to the national health reform; assistance in a number of high priority medical areas; and reduction of health risks from environmental pollution.

Some of USAID's programs have a direct aim of reducing human suffering and improving long-term prospects for the disabled. Results include: 1224 institutionalized children reunited with their families, 65 handicapped or abandoned children moved from institutions to foster or group homes, and over 450 children adopted either domestically or abroad.

The USAID program also helped reduce environmental health risks. For example, regulatory authorities and community representatives have worked together to improve worker safety in Zlatna, site of an outdated copper smelter responsible for heavy metal contamination and sulfur dioxide emissions.

U.S. technical assistance has supported three key components of the World Bank Health Rehabilitation Project. First, a USAID grant to UNICEF for Hepatitis B vaccinations directly leveraged the inclusion of a $15 million vaccination program in the World Bank project. Second, the U.S. Centers for Disease Control (CDC) provided training and advice in family planning logistics management, helping the GOR Ministry of Health (MOH) and the National Pharmacy to better implement a large World Bank-financed contraceptive commodity distribution program. Third, ongoing assistance to regional hospitals, chosen as test sites for health finance and management reform, is laying the groundwork for an entirely new system of payment for health services. In addition, USAID enlisted a team from the Centers for Disease Control to help the Ministry of Health and the City of Bucharest deal with an epidemic of West Nile Virus.

USAID strategy will continue to pursue key social service restructuring opportunities, moving beyond earlier service delivery programs in family planning and help for institutionalized children to address broader constraints in the health and social service delivery systems. An effort will be made to increase the role of private pharmacies in the delivery of contraceptives and to expand the general awareness of modern contraceptives. Health management training will build the human resources necessary to better manage the shift to primary health care and a diagnostic related cost (DRG) system will be introduced to allocate scarce health resources more rationally. The health program will support Romania's health reform law in key areas. Grant funds will be used to upgrade sanitary conditions in Bucharest primary schools through a local currency account.

- Strategic Objective: Individuals receive more effective and sustainable health and social services and benefits

- Strategic Objective: Reduced environmental risks to public health

Cross-cutting and Special Initiatives.

USAID funds a cross-cutting training program which offers training opportunities in the United States for Romanians in a number of key sectors and areas which support the strategic objectives of the USAID program.

ROMANIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	8,700,000	--	--	--	8,700,000
Financial Reform	7,600,000	--	--	--	7,600,000
Energy	3,000,000	--	--	--	3,000,000
Citizens' Participation	--	2,233,000	--	--	2,233,000
Legal Systems	--	--	--	--	--
Local Government	--	2,500,000	--	--	2,500,000
Crises	--	--	--	--	--
Social Benefits	--	--	2,250,000	--	2,250,000
Environmental Health	--	--	2,900,000	--	2,900,000
Cross-cutting / Special Initiatives	--	--	--	3,817,000	3,817,000
TOTAL	19,300,000	4,733,000	5,150,000	3,817,000	33,000,000

*Support for East European Democracy (SEED) Act funds

USAID Representative: Peter Lapera

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE: Private Enterprise, 180-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $8,700,000 SEED Act
INITIAL OBLIGATION: *FY 1991;* ***ESTIMATED COMPLETION DATE:*** *FY 2002*

Purpose: Accelerated development and growth of private enterprises.

Background: Since 1990, Romania has embarked on the transition from a centrally planned to a free market economy. Progress will pick up pace under the new GOR. Currently, there are over 600,000 private enterprises in Romania and over 45% of GDP comes from non-government sources.

USAID Role and Achievements to Date: USAID's role is to assist businesses develop business management capability and capacity to find new markets, import modern technology, manage resources more cost-effectively and generate new jobs. Several hundred small businesses and several thousand entrepreneurs, including women and rural citizens, have found new markets, products, financing and technology through USAID assisted programs.

Description: In 1998 USAID programs will accelerate the leverage of its assistance to small business by improving the ability of small businesses to qualify for loans and repay them. USAID programs will assist state-owned enterprises in promising sectors rapidly achieve privatization and profitability which will also stimulate foreign investment. The Romanian-American Enterprise Fund has also evaluated prospective investment projects and began its lending program during 1995, with a total of $6 million through 1996 and $17 million projected in 1997.

Host Country and Other Donors: Ongoing efforts in this sector are coordinated with those of other donors including the United Nations Development Program (UNDP) program, IMF, World Bank and EU-PHARE.

Beneficiaries: The direct beneficiaries of this assistance are the private entrepreneurs of small and medium sized businesses.

Principal Contractors, Grantees or Agencies: Washington State University, Citizens Democracy Corps, Volunteers in Overseas Cooperative Assistance (VOCA), Agricultural Cooperative Development International, Land O' Lakes, Aid to Artisans, Entrepreneurial Management and Executive Development (EMED), and Peace Corps. Romanian-American Enterprise Fund

Major Results Indicators:

	1995 Baseline	Target
Increase in sales for USAID-assisted firms.	Current level of firm sales	5% annual growth
% of annual GDP from the private sector	45%	75% in 2000

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE: Financial Reform, 180-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $7,600,000 SEED Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: A competitive, market-oriented private financial sector.

Background: Development of the private financial sector has continued to accelerate. Legislation has been introduced in Parliament allowing for the privatization of state-owned banks. The first of these banks (the Romanian Development Bank) has already been identified.

The Bucharest Stock Exchange began trading operations in November 1995 and the USAID-funded over-the-counter trading system has been operational since October 25, 1996. The OTC system is used to trade shares of the 5,200 companies that are under the mass privatization program and Government securities.

USAID Role and Achievements to Date: USAID undertook the development of: an OTC market for the trading of newly issued MPP securities; a depository/clearance corporation; a central shareholder registry; telecommunications linkages; broker-dealer training; self regulatory organizations for both broker-dealers and investment companies; creation of new investment companies; a securities analysts training program; and assistance to the Romanian securities commission. USAID assists the Government to improve its implementation of public finance laws. USAID-funded US Treasury assistance resulted in a draft privatization law for state banks. A USAID-funded program has assisted Romanian bankruptcy courts organize bankruptcy proceedings; US Federal Bankruptcy judges, bankruptcy attorneys and trustees volunteers assist.

Description: In the capital markets area, assistance is being provided to solidify growth of the OTC market and supporting institutions, promote regulatory implementation, and support the GOR's plans to consolidate disjointed privatization efforts. Our activities will support privatization by alleviating the strain on the fiscal deficit caused by continued subsidization of inefficient state-owned enterprises. USAID will also provide assistance to the GOR to help implement economic reform in general.

A long term bank privatization Treasury advisor has worked extensively with the National Bank of Romania and the Council for Coordination, Planning and Economic Reform to develop a draft bank privatization law. The draft that has been submitted to parliament has had extensive input from this advisor and is acceptable to the World Bank.

USAID will work with the National Bank of Romania to strengthen capacity to supervise and promote a safe and sound banking sector, through training bank examiners in on-site inspection policies and procedures, strengthening the legal and regulatory framework, and working with problem bank issues and enforcement mechanisms. USAID will continue to assist the Romanian bankruptcy judges improve the administration of their courts as bankruptcy cases proceed under the new market-oriented law.

Host Country and Other Donors: Ongoing efforts in this sector are being coordinated with the World Bank, EU-Phare, the British Know How fund and Canadian technical assistance teams.

Beneficiaries: The Romanian population at large will have access to a much improved financial system.

Principal Contractors, Grantees or Agencies: Coopers & Lybrand, INTRADOS, Financial Markets International, and Booz Allen & Hamilton; U.S. Treasury; and the World Council of Credit Unions,

Major Results Indicators:

	1995 Baseline	Target
% of state-owned banks privatized	0%	100% in year 2000
Numbers of licensed viable private commercial banks	25	100 in year 2000
% increase in volume of equity trading per week (Buch. stock mkt & OTC mkt)	$50,000	1996: 50%; 1997: 30%; 1998-2000: 20% ave.
Number of well-functioning Mutual Funds	3	70 in year 2000
Number of registered Broker/ Dealers operating on Stock and OTC market	40	250 in year 2000

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: Energy, 180-S001.5
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,000,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: A more economically sustainable and environmentally sound energy sector

Background: USAID provides assistance to the Government of Romania (GOR) in three critical areas of the energy sector: Power, Petroleum Refining and Petroleum Exploration and Licensing.

A main objective of the Power Sector Policy of the GOR is to provide reliable electricity supply to all Romania's people at least cost to the economy. The achievement of this objective is hampered by lack of a coherent legal and regulatory framework, inefficiencies of the sector institutions and lack of capital. To address these systemic problems, the GOR has decided to undertake a fundamental reform of the power sector that will bring about demonopolization of activities, and create conditions for the participation of publicly and privately owned companies in a competitive environment.

The refining sector has been beset by poor operational performance, extended downtime, losses and disregard for environment and energy conservation. As a first step towards developing such a strategy, the GOR intends to undertake a Study on Refining and Associated Petrochemical Sector Restructuring and Privatization.

As a condition to receiving World Bank assistance in the petroleum sector, and following technical assistance granted through USAID consultants, the Government of Romania agreed in 1993 to establish an independent National Agency for Mineral Resources (NAMR) to negotiate mineral rights and grant licenses for concessions and to oversee geological research. NAMR is responsible for administering a petroleum law that incorporates internationally recognized standards. The new law was approved by the Parliament in December of 1995. Previous USAID assistance identified the need for further assistance to NAMR, to become a fully operational, independent regulatory body.

USAID Role and Achievements to Date: USAID has been the key provider of technical assistance and program development support for over $600 million in lending from international financial institutions for energy sector programs.

- Power Sector Loan made effective.

- Upstream Petroleum Sector Loan made effective.

- Energy Efficiency Savings at 10 industrial plants.

- Analysis of power sector restructuring options presented to the government, and is under review with World Bank and EBRD.

- Plans for rationalizing and improving refinery sector presented to government, and under review (with World Bank.

Description: The Power Sector Study is to be carried out in two phases. The first phase, a diagnosis, defined the current constraints to the reaching of the GOR's policy objectives and identified possible solutions for overcoming them. During this phase the USAID consultants reviewed current options for restructuring, identified key issues associated with these options and analyzed advantages and disadvantages of alternative options for consideration by the GOR. The second phase will build on the diagnosis and the GOR's decision with regard to the sector structure and ownership. In the second

phase the consultants should provide the main elements for implementing the reform, including recommendations on detailed steps and schedules.

The Refining Study developed by the USAID Consultant will produce: 1) a restructuring strategy the refining and associated petrochemical sector based on a full review and detailed evaluation of the performance of each operating company in the sector; 2) a critical investment report needed to identify investments that hypothetically private partners/owners would need to undertake to optimize the performance of the plan; 3) privatization proposals of the refinery products retail marketing and service subsector and few large refinery-petrochemical operating companies.

Host Country and Other Donors: The Power Study is undertaken in partial fulfillment of a condition with the GOR and with respect to the World Bank, EBRD and EIB loan to the Electricity Utility RENEL. The loan for the power sector rehabilitation and modernization has an estimated value of $363,900,000 over a four year period.

The Refinery Study is undertaken in cooperation with the World Bank and EIB which are considering a loan for the rehabilitation of the refining sector and promotion of private investment in the sector.

The assistance to NAMR is being provided in close cooperation with World Bank which granted a loan for the rehabilitation of the petroleum sector.

Beneficiaries: The primary beneficiaries of this assistance are the owners and suppliers of the respective organizations. All Romania will eventually benefit from a more efficient energy sector.

Principal Contractors, Grantees or Agencies: The project is implemented by a team headed by the Bechtel Corporation, and comprised mainly of: Bechtel, Arthur Anderson, National Economic Research Associates, and Gaffney Cline.

Major Results Indicators:

	1995 Baseline	Target
% of independent filling stations to total	50%	75% in 2000
External private investment in energy	$150M increase	100 M annually increase in 1996-97
Market share of independent power producers	2%	8% in 2000
Electricity and heat law enacted	No (1995)	Yes (1997)

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE: Citizens' Participation, 180-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,233,000 SEED Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Increased, better informed citizens' participation in political and economic decision-making.

Background: USAID engages this issue in two significant areas: support for local NGO development and improved local public administration.

Six years ago, Romania was confronted by an influx of private groups all bringing emergency assistance. For the first time, Romanians heard of non-governmental organizations and tried to understand the concept. Initially, many officials were wary, refusing any involvement with NGOs, other than to form their own so they could access international funds. Then the pendulum shifted to attempting to control the NGO sector. Since 1994, however, there has been broad recognition and support of the NGO sector in Romania, which has expanded beyond expectations.

USAID Role and Achievements to Date: USAID's Democracy Network (DemNet) program supports the emerging NGO sector in Romania, through: establishing linkages within the NGO community and program sectors; enhancing institutional effectiveness; fostering state, market and civil society collaboration; and increasing the access of Central and East European regional resources to Romanian NGOs. During the period July 1995 to February 1996, assessments were conducted throughout the country to identify NGOs with the potential to influence public policy in Romania and to make a preliminary assessment of their training and technical assistance needs. Of the 345 NGOs and 34 governmental organizations interviewed, 111 qualified for participation in the "Democracy Network" program and 60 further qualified to attend the NGO Management Workshop series. Seven Romanian NGOs received subgrants through the DemNet program.

Description: USAID focuses on the development and strengthening of a broad range of Romanian public policy oriented NGOs in four priority sectors: (1) democracy; (2) environment; (3) economic growth, and (4) social sector reform. Through subgrants and technical assistance, local NGOs are helped to become self-sustaining and capable of: influencing the formulation and implementation of public policy; serving as a forum for public policy debate and advocacy; mobilizing private resources; forming partnerships and alliances with appropriate public and/or private organizations; raising funds to further the purpose of the NGO and secure its financial and organizational sustainability; operating democratically, effectively, efficiently and responsibly; providing services to and advocacy for their constituents.

Host Country and Other Donors: EU-PHARE, EBRD, International Monetary Fund (IMF), the Soros Foundation, National Democratic Institute (NDI), International Republican Institute (IRI), and some individual European countries have programs which address this objective. Romanian communities receiving USAID assistance are not the beneficiaries of programs of other donors offering similar assistance. The Government of Romania does not provide matching funds or in-kind support for NGO development programs. Public Administration activities are largely supported by Romanian local government personnel and institutions. Individual NGO recipients also provide facilities and support with their own personnel.

Beneficiaries: The main beneficiaries of the "Democracy Network" program are local communities in Romania. Citizen groups and local NGOs will improve their public advocacy methods and skills, as well as their institution-building capabilities. Ultimately, NGO staff members will gain credibility and government officials will become aware of the value of dialogue, team work, and participatory training

as examples of democracy at work in the effort to address needs at the community level.

Principal Contractors, Grantees, or Agencies: USAID implements activities through a cooperative agreement with World Learning Inc., in collaboration with the National Democratic Institute for International Affairs (NDI), and Support Center International (SCI). National Forum Foundation (NFF) and International Center for Not-for-profit Law (ICNL) are also involved in the program, as regional contractors. This objective is also supported by work performed under SO 2.3, local government.

Major Results Indicators:

	1996 Baseline	Target
Number of new federations, organizations, coalitions, etc. formed to promote or oppose specific policies or legislation.	66	210 in 2000
Average capacity rating for USAID-assisted local NGOs/PVOs (4 point scale)	1.3	2.8 in 2000

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE: Local Government, 180-S002.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,500,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2002

Purpose: More Effective, Responsive, and Accountable Local Governments.

Background: Romania is a unitary state and it has little experience with decentralized governmental authority. Decisions are made and control is exercised by the central government in Bucharest. Local authorities have restricted legal authority and even that authority is limited by central government control over the financial resources necessary to exercise even the limited authority the law provides. The recent change of government represents an important opportunity for decentralization of legal and fiscal control to local governments.

In the area of public administration, decisions traditionally have been made and control exercised by the central government in Bucharest. Local authorities have restricted legal authority and even that authority is limited by central government control over the financial resources necessary to exercise even the limited authority the law provides. There are hopeful signs, however, as local officials are actively lobbying for increased levels of responsibility. A recently revised law on local government gives increased authority to municipalities. The new GOR's commitment to democratic reform will serve a key role in advancing the decentralization process.

USAID Role and Achievements to Date: USAID has provided assistance to several Romanian cities in housing and management through creation of condominium associations which no longer look to government for solutions, and in systems management for those same cities with emphasis on budget and financial management with the computerization necessary to support those systems. So far six cities have received technical assistance in budget and finance, the creation of modern program budgets, or computerization. As a result, two of these cities have been assisted in qualification for European Bank for Reconstruction and Development loans to improve their water and waste water systems. As a result of the condominium project, the new housing law passed in October 1996 will not only provide for the existence of condominium associations but will require their creation as replacements for tenant associations for privately owned apartments.

The Romania Public Administration Program began operation in October 1995. Its first public participation specialists began work in Romania at that time. As a result of their efforts, a citizen information center constructed, staffed and began operation in Slobozia, sponsored by the Ialomita County Council. In late 1996, a second information center was opened in Bucharest to service residents of the capital. The assistance was provided in cooperation with then Mayor of Bucharest Victor Ciorbea, who is now Prime Minister.

Description: By expanding the condominium activity, a local NGO capability to create and train condominium associations is being produced to cope with the national demand generated by the passage of the new condominium law. The result will be sustainable organizations nationwide capable of property management and maintenance and interface with local government agencies such as utility providers. The Romania Public Administration Program encourages decentralization of power to local authorities by increasing the capacity of local governments to perform their legal responsibilities. Among those responsibilities is economic development. The program focuses on economic assessments of each pilot city and the production of development plans for each. To combat the tendency to look to the central government for solutions, the public participation focus of the program encourages NGOs and individual citizens to participate in local authority decision-making and encourages local authorities to make effective use of citizens' input. The program initially targeted five

pilot cities, and has been expanded to five more. The initial five were charged with transferring lessons learned to the second five and the ten will be the basis for spreading the benefits of the program throughout Romania.

The Public Administration Program focuses on economic development, public management, and public participation. It provides for short term advisors in each of these areas to concentrate activities on each of five pilot cities. The successful projects from each of these cities is being transferred to five additional Romanian cities. The public participation focus of the program encourages NGOs and individual citizens to participate in local government decision-making and to encourage local authorities to make effective use of citizen input. Among the few permitted activities of local government is local economic development. As citizens become more involved in government, they will become equally involved in economic decision-making as well.

Host Country and Other Donors: EU-PHARE, European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), the Soros Foundation, National Democratic Institute (NDI), and some individual European countries, notably the United Kingdom and Denmark sponsor programs that directly or indirectly impact this objective. Public Administration Program pilot cities do not receive similar assistance from other donors. Individual recipient cities provide facilities and support with their own personnel.

Beneficiaries: Public Administration beneficiaries are the citizens of the targeted communities who will enjoy improved services and a have greater role in running their communities. Local authorities will also benefit from training and skill development. Ultimately the central government will benefit through being able to turn over authority for essentially local activities to local authorities.

Principal Contractors, Grantees or Agencies: This objective is supported by contracts with Chemonics Inc. for the Public Administration Program and with NDI and IRI for programs which indirectly affect it.

Major Results Indicators:

	1995 Baseline	Target
Revenue available from national and local sources	TBD	15% increase by 1999
Number of formal mechanisms for local governments to exchange ideas & involve citizens	1	20 in 1998
% of budgets of USAID-assisted local government units that are self-directed	0%	50% in 2000

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: Social Benefits, 180-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,250,000 SEED Act
INITIAL OBLIGATION: FY 1990; **ESTIMATED COMPLETION DATE:** FY 2002

Purpose: Individuals Receive More Effective and Sustainable Health Services and Benefits

Background: Romania has one of the highest maternal mortality and infant mortality rates in Europe as well as a high number of institutionalized children. A major contributing factor is the lack of access to and use of modern contraceptives, resulting in unplanned pregnancies and subsequent high rates of abortion and child abandonment.

In addition, Romanian health care institutions have limited quality assurance systems and prevention programs in place, which has resulted in high rates of infectious diseases, such as HIV/AIDs and Hepatitis B and high rates of cardiovascular disease. There is an over-reliance on more costly hospital and specialist care in comparison to primary health care. Managers of the health care institutions are physicians who do not have skills in basic management, which has resulted in less effective and efficient use of the limited health resources.

Health reform is being piloted and evaluated in eight counties, a health insurance law has been introduced, and there is a draft health sector reform strategy. Major barriers to reform efforts identified by the World Bank and the government include lack of management training and lack of experience in implementing a new health delivery system.

USAID Role and Achievements to Date: Modeling prevention, community-based services, primary health care, and sound management practices has been a major focus for the last five years.

Community-based approaches to care of Romania's institutionalized children have been successfully demonstrated in ten counties. Social workers and educators have been trained and are working in collaboration with staff in government institutions to demonstrate services to prevent abandonment; facilitate family reintegration, domestic adoption and foster care; or improve the social and living skills for children and young adults. Government officials are starting to implement similar programs in other counties. Romanian social workers and managers trained though these projects are now taking a leadership role in addressing child welfare issues. National and local groups have been created to advocate for children's rights and to promote improvements in child welfare legislation and administrative policies.

Family planning services have been developed and seven clinics have provided high quality services and education, which have served over 27,000 women to date. The Ministry of Health is now utilizing staff trained by the program to train government family planning providers. Family planning managers are being trained in contraceptive logistics management.

A primary health care curriculum has been developed and approved by the Ministry of Education. More than 3,700 students, residents and general practitioners will be trained each year in primary health care at the Medical school in Cluj. Concepts of primary health care will be introduced to schools of dentistry and pharmacy.

Six new-born protocols are in place in 12 maternities and will be introduced in another 40 hospitals impacting 80% of all mothers and newborns. Safe and effective hepatitis B vaccines are now being given to all newborns whom are born in maternities. Over 17,000 workers have been screened for cardiovascular risk; those at risk will receive prevention education and follow-up screening.

An early childhood development program has resulted in the development of a national curriculum that has been implemented at 20 government sites.

Health management technical assistance and training has focused on introducing to health managers and providers in the health reform districts concepts of quality assurance, practice management, and methods for determining costs and performance. The program facilitated the creation of work groups of general practitioners and specialists in two reform districts that are now developing practice protocols and standards to improve quality of care and have implemented procedures to increase client access to care.

Description: Through the United Nations Children's Fund (UNICEF), the program will continue to promote the sustainability of community based care for children by educating policy makers about the achievements of the projects.

Seven USAID funded family planning clinics will implement sustainability plans. To increase access to modern contraceptives, private pharmacists will be trained in contraceptive marketing and operations management. The program will continue activities to help create a policy environment supportive of women's and children's health.

A health management training partnership will build upon program activities initiated to date and on a World Bank management training program. The partnership will strengthen the knowledge and skills of the health management training staff and health managers in the field by assessing and improving the health management curriculum The program will facilitate linkages between health management training and practical application in the context of health reform implementation, through the development of case studies. The program will also facilitate information sharing and problem solving across reform districts and with other Central and East European countries implementing health reform.

Host Country and Other Donors: On going efforts related to women's and children's health are coordinated with those of other donors, including UNICEF, United Nations Fund for Population Activities (UNFPA), EU PHARE (Child Protection Program), and the World Bank. USAID is represented on the National Committee for the Protection of Children, which has developed a National Action Plan for child protection. The Ministry of Health is beginning to provide family planning services around the country and to provide training to about 400 general practitioners and obstetrical nurses.

Efforts related to health system reform are coordinated with the World Bank and EU Phare. The World Bank has been the major donor in the health sector, providing loans for primary health care, family planning clinics, and a health management training institute. The Ministry of Health has initiated several laws related to health reform, has taken the initiative on developing a cost model, is implementing health reform in eight counties, and supports (through the World Bank loan) the Institute of Hygiene, Public Health and Health Services and Management (IIPSSC). The IIPSSC staff is responsible for health management training and technical assistance to the reform districts.

Beneficiaries: All Romanians will eventually be impacted by health reform efforts. Women of reproductive age and children account for 40% of the population in Romania, or about nine million people. The USAID-supported program reach about one-half of these beneficiaries.

Principal Contractors, Grantees, or Agencies: USAID implements activities through U.S. PVOs, local NGOs, U.S. firms and U.S. universities including: Feed the Children, Holt International Children's Services, Project Concern International and World Vision.

Major Results Indicators:

	Baseline	Target
Increased use of modern contraceptives	14% in 1993	35% in 2000
% of private sector in contraceptive procurement	5% in 1996	30% in 2000

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE: Environmental Health, 180-S003.3
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 98: $2,900,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE** FY 2002

Purpose: Reduced environmental risk to public health

Background: USAID environmental health activities address three areas: 1) the reduction of exposure to toxic pollution at selected industrial sites; 2) improving environmental policies and institutions and; 3) using economic incentives to obtain better environmental outcomes.

The town of Zlatna is one of 14 environmental "hot spots" in Romania. The major health problems in the area are caused by exposure to lead and sulfur dioxide. Lead in the environment comes from traditional mining and copper smelting activities that existed in the area for the last 250 years. Sulfur dioxide is emitted by AMPELLUM Copper Smelter during its operation.

Environmental Action Plans (EAPS) in Romania are being implemented pursuant to the U.S. Government commitments under the Environmental Action Program which was adopted in Lucerne in 1993. Following GOR requests, and in support of the Environmental Health Project, EAPS focus on technical assistance and equipment provision to the AMPELLUM Copper Smelter.

At the request of the Council for Coordination, Strategy and Economic Reform, USAID, through Harvard Institute of International Development, has been providing long and short term technical assistance to the GOR focusing on market-oriented environmental policy assistance and training. The primary targets are the Ministry of Waters, Forests and Environmental Protection, Ministry of Industries, Parliament, National Commission for Statistics, and municipalities.

USAID Role and Achievements to Date: Romanian Working Groups for all three major activities have greatly assisted EHP team members in identifying equipment and TA needs. Locally designed, family and community health education/ counselling materials and programs to reduce exposure of children to lead were drafted and distributed. More than 300 children were tested for their blood lead levels; as a consequence, more than 150 families received counselling from the local medical staff. Data reveal that no child under 11 had a level of 10mcg/dl, the CDC's "level of concern". A workshop on data analysis, Interpretation and communication increased the capability to approach in a holistic way the different kinds of data made available during the project, in order to find concrete ways to reduce health hazards for population. The Medical Research Center in Cluj Napoca is better able to perform blood lead level tests.

The EAPS initiated activities in Romania in 1995, working with AMPELLUM on smelter technological information, operation, management, and financial support for equipment purchases and design assistance. The EAPS project also supported a Study Tour in December 1995 of US Copper Smelter.

USAID provides assistance in drafting the Water Law, in recommending the "beneficiary-pays" principle, the establishment of the local level River Basin Commissions, and explicit and mandatory public participation in the water management. At the suggestion of the USAID program, an interministerial task force to ensure the expeditious implementation of the Environmental Law was established. In the forestry sector, the Project has designed procedures for the Forestry Department to improve timber auction and to help obtain a fair market value for the timber. To date, the program has also completed a contingent valuation survey/willingness-to-pay analysis which will form the basis of upcoming policy recommendations. A methodology has been provided to the National Statistics Commission to compute a NNP series incorporating resource depletion. This will allow the GOR to set targets and indicators regarding the true sustainability of investment and consumption allocation

decisions.

Description: At the request of the GOR, USAID selected Zlatna as a demonstration site for reducing the environmental risk to population. USAID requested the Environmental Health Project (EHP) to provide AMPELLUM and various community groups in Zlatna with both technical and equipment assistance to reduce the environmental and human health problems associated with the smelter. At the request of USAID, EHP addressed the following three areas of concern in Zlatna and the surrounding county of Alba: reducing the exposure of young children to lead; air quality monitoring and control; and occupational health and safety. There is a clear need to consolidate these gains, as well as to attempt to replicate this model with other communities in Romania facing similar environmental and occupational problems.

The EAPS program will provide to selected project sites a combination of three types of support (1) technical assistance aimed at improving process efficiency, (2) grant procurement of equipment and instrumentation that significantly reduces environmental emissions, and (3) training focussing on building the technical capacity and environmental awareness in the non-ferrous metals industry.

HIID's Environmental Policy Project is designed to: analyze existing policies, laws and regulations, to determine their impact on environment and major environmental hazards and their causes; identify least-cost policies and their concrete solutions to deliver affordable environmental protection during transition to a market economy; develop strategies, legislation, regulations and methodologies in support of sustainable economic development; transfer skills in environmental economics and policy analysis.

Host Country and Other Donors: The Government of Romania disbursed the equivalent of $1,000,000 up to the end of 1995 for retrofitting the AMPELLUM Copper Smelter. Proposals have been made to allocate the equivalent of $1,500,000 from the FY 1996 State Budget for the same purpose.

Beneficiaries: Local communities and industries in selected sites, central GOR agencies.

Principal Contractors, Grantees and Agencies: Camp Dresser and McKee (EHP), Chemonics (EAPS), World Environment Center.

Major Results Indicators:

	1995 Baseline	Target
Average blood lead levels in targeted areas	30-45 mg/d	123-38 in 1998
Percentage of severely-polluted areas with EAPS (Environmental Action Plans) in place	0%	100% by 1998
% of AID-assisted sites with environment data quality assurance procedures in place	0%	100% by 1998
Number of Environmental Impact Assessments carried out	150	500 in 1998

RUSSIA

FY 1998 Assistance to the NIS Request $241,500,000

Introduction.

Russia's continued evolution toward development of a democratic and market-based system remains in the U.S. national interest. In supporting and hastening that evolution, the U.S. seeks to build and consolidate new relationships with Russia, first as a constructive partner on a wide array of global issues --ranging from the maintenance of regional and world peace to the reduction of environmental threats-- and second, as an active partner in trade and investment. The Government of Russia has maintained a course that has permitted these relationships to take root while U.S. assistance has contributed significantly to the broad agenda of change and innovation, working with public and private Russian partners in virtually every sector.

In FY 1998, the United States will begin to shift the focus of its support for Russia's transformation from more broad-based economic, political, and social restructuring activities toward interventions that more directly target the trade and investment needed for Russia's economic growth. With the economy substantially in private hands and many new economic and political institutions in place, the Administration's new Partnership for Freedom (PFF) initiative will emphasize boosting trade between Russia and the U.S., facilitating rapid increases in foreign investment, fostering cooperative activities to strengthen civil society and democratic rule, and promoting durable ties between U.S. and Russian partners.

The Development Challenge.

While Russia can look with satisfaction at progress already achieved, the road ahead continues to pose formidable challenges. Although the privatization process progressed much more rapidly than was anticipated in early 1992, actual restructuring of many of these privatized enterprises has lagged. The continued threat of growing unemployment has contributed to widespread skepticism about the benefits of privatization, particularly among the economically displaced. Physical infrastructure is deteriorating, and uncertainty persists over rural land and property ownership. Progress has been slow in the absence of resources for new infrastructure investment to increase agricultural sector productivity and because of a lack of agreement on whether and how to privatize farmland. While foreign investors are exploring the Russian market, actual investment levels remain relatively low as potential investors display caution in the face of uncertainties about Russia's political stability, its relatively poor credit rating, and the perverse economic incentives created by certain taxes, regulations and policies governing economic activity and foreign participation.

Corruption and organized crime continue to be of major concern, reflecting a lack of functioning systems to maintain the rule of law under open and democratic principles. In addition, although a vigorous independent media has sprung up across Russia, providing significantly greater citizen access to objective information and alternative points of view, threats to the continued independence of broadcast and print media include lack of investment and financing, an ambiguous legal environment, and continued government control of key inputs such as printing presses. Democratic goals have also been furthered by the impressive growth of Russia's civil society, but the non-governmental sector is still in the formative stages and has not been a major factor in policy debates. Among the challenges facing non-governmental organizations (NGOs) are: a high percentage of the most active groups remain concentrated in the large cities; NGOs need to expand their base of support through better outreach and organization; and the NGO sector as a whole has a long way to go before becoming financially sustainable.

The strong showing of the Communists in the December 1995 Duma elections, which raised the possibility of backsliding in political and economic reform, has been tempered by the re-election of

President Yeltsin and the electorate's apparent endorsement of continued progress along the reform path. Leading reformers received prominent positions in the executive branch in mid-1996, and there is evidence of a resurgence of reform efforts. However, mixed results in recent regional and local elections bear testimony to the reality that the economic reform measures remain fragile.

Key economic indicators for the Russian economy during 1996 are mixed. Data for the first three quarters of the year suggest some continued decline in GDP, although these figures probably understate actual performance, particularly in the dynamic informal sector. Investment in the economy reportedly dropped 17%, hurt by concerns over the elections and President Yeltsin's health, and official statistics show that unemployment continues to rise. Russia's fiscal problems have not eased, with budget revenues falling so sharply in the first half of the year that IMF disbursements were temporarily suspended (though subsequently resumed). A positive note among the key indicators is a sharp reduction in the inflation rate, from about 130% in 1995 to a respectable 20% in 1996. This snapshot suggests the need for improvements in budget planning and implementation, as well as for measures designed to attract both domestic and foreign funds for investment in Russia's economy. It also suggests that U.S. Government withdrawal from support for Russia's reform efforts would be premature at best and detrimental to long-term U.S. interests.

At year's end, both the Russian Government and a number of large enterprises and production entities succeeded in selling, respectively, bonds and shares abroad, an indication of a substantial amount of foreign interest in the economy. However, investment levels are nowhere near those required to revitalize and expand Russia's productive capacity, and are unlikely to increase without fundamental changes in the legal and regulatory environment.

As of January 1, 1996, the total outstanding external debt of the Government of the Russian Federation amounted to $120.4 billion. In 1995, $6.4 billion in debt service was paid, $2.4 billion more than the previous year. Of the outstanding amount, some $17.4 billion is in the form of loans contracted or guaranteed by the Russian Government and has always been honored in full. The remainder represents the debt of the former Soviet Union. In the absence of sufficient foreign currency reserves to service these obligations --of which more than 25% fell due in 1992-- the government was forced to seek a restructuring of this inherited debt burden. Four rescheduling agreements were negotiated with the Paris Club followed by an unprecedented comprehensive and definitive rescheduling accord reached in April, 1996. Rescheduled principal will be repaid by means of gradually increasing installments commencing in 2002.

Other Donors.

A key objective of U.S. assistance to Russia, following from the fact that the United States was the external supporter able to mobilize most rapidly following the dissolution of the Soviet Union, is to serve as a catalyst for other assistance providers, not only other bilateral donors but perhaps more importantly, the international financial institutions (IFIs). For example, because of the technical assistance provided by USAID to Russia's fledgling capital markets institutions, two World Bank loans totaling $120 million were provided to the Federal Commission for the Securities Market (CSM) in 1996, contributing to the development and sustainability of that key institution.

To put U.S. assistance into perspective, about $31.1 billion of total assistance (exclusive of debt restructuring) has been disbursed to Russia from all sources through mid-1996. Of this amount, about $2.7 billion has been in technical assistance, some 44% of which has been provided by the U.S. through USAID. USAID has, therefore, played a premier role in working with Russian counterparts to devise solutions to the challenges of economic, political and social transition.

FY 1998 Program.

U.S. assistance to Russia has rapidly declined following the FY 1994 peak of $1.6 billion, but the USAID program has remained broadly focussed on economic and political restructuring intended to support Russia's move toward a sustainable free-market democracy. This assistance has helped bring about encouraging institutional and attitudinal changes. Despite the fact that significant economic reforms are already in place, there is scant domestic or foreign investment in Russia and, consequently, less economic growth than is desirable. While prospects for political stability appeared to brighten with the process and outcome of the mid-1996 Russian presidential election, democratic-era political institutions remain fragile.

In response to those conditions, the Administration intends to launch a major multi-year initiative to support economic growth and political development in Russia, beginning in FY 1998. The Partnership for Freedom would shift USAID's focus more toward economic growth goals --such as trade and investment-- and toward collaborative undertakings --such as partnerships and exchanges-- to strengthen democratic institutions and practices. USAID proposes to take advantage of a resurgence in reform spirit in Russia, particularly on matters affecting the economy, as articulated in meetings between Russian and U.S. leaders, to push for increasing investment and growth. Many U.S. Government agencies will be engaged in this priority program. In Russia, about 48% of the request level, will be managed by USAID, while the remainder will be managed by other U.S. Government agencies.

Strategic Goal: Economic Growth, Focusing on Trade and Investment

An expansion of external trade and increased ability to attract both domestic and foreign investment are key elements in turning around the current negative growth in output and employment in the Russian economy. While Russia's potential as an object of U.S. investor interest has improved markedly, it remains limited due to several factors that raise investor risk: unclear political conditions; absence of an enforced, transparent legal and regulatory framework, including crippling tax laws; an unfavorable macroeconomic situation (inflation, monetary instability, etc.); a perception of runaway crime and corruption in the Russian business sector; a variety of infrastructural inadequacies (telecommunications, transport); and, perhaps most importantly, a dearth of potentially profitable enterprises in which there is a possibility to invest. These same factors also inhibit domestic investment.

Despite the magnitude of the task ahead, far-reaching changes in the Russian economy are well underway -- and U.S. assistance has been associated with many of these changes. In each of the areas of reform noted below, for example, USAID support has played a critical role.

- Majority ownership in about 150,000 enterprises was transferred in 1994 from the Government of Russia to private owners.
- Titles to nearly a thousand parcels of land had been transferred to privatized industrial enterprises throughout Russia by October 1996. This marks the beginning of a market for commercial real estate.
- On March 1, 1996, the new Russian Civil Code (establishing, among other things, the legal right to buy and sell private property, borrow money, sign contracts, and for non-governmental organizations to operate) became effective.
- The underpinnings of a reliable and efficient banking system are in place, with 50 foreign and over 2,000 local banks, and increasingly effective banking supervision.
- Russia's stock market is now handling as much as $50 million in daily trades, up from zero in June, 1995. Requisite government and private sector implementation and regulatory institutions for this pivotal component of the financial system are in place and functioning.

- A nascent residential mortgage market has been formed on the heels of privatization of over half of Russia's housing stock with the help of U.S. assistance. Some 25 banks are now making housing mortgage loans on market terms.
- More than 200 institutions and organizations which support entrepreneurship and innovation, such as business incubators and business support centers, are flourishing.

During FY 1998, USAID will, in concert with the U.S. Treasury, play a strong supporting role in fiscal reform in Russia. Most observers agree that without drastic improvements in transparency, fairness, and efficiency of Russia's tax code, growth-stimulating investment --either domestic or external-- will continue to be constrained. Interventions in this area are necessary elements of the new PFF initiative, focusing on the enabling environment for trade and investment. In conjunction with other U.S. agencies (e.g. Overseas Private Investment Cooperation and the Export-Import Bank), USAID will implement a new trade and investment program to promote economic partnerships between the United States and Russia.

Support for business development will encompass legal and regulatory reform, client assistance for business activities through supporting organizations, and continued equity and debt financing actions of The U.S.-Russia Investment Fund (TUSRIF). Lack of transparency and enforceability in the range of laws and regulations governing economic activity and land and property ownership is frequently cited by would-be investors as a binding constraint. USAID will be combining its efforts in this area with its support for general legal and judicial reforms. These interventions also are designed to assist Russia in reducing the debilitating effects of crime and corruption on the business and investment climate. Privatized firms are still highly inefficient and often not competitive either on local or world markets. New entrepreneurs require informational and training support. USAID will consolidate its client-focused business efforts, particularly targeting U.S. business, volunteer assistance to business support organizations and financing instruments to selected regions. While TUSRIF will continue to receive broad oversight from USAID, the Fund will operate as an independent entity in developing a portfolio of investments in Russia.

USAID's work in the financial sector during FY 1998 will begin to phase down while other assistance providers --whose support for capital markets work USAID has "leveraged" (e.g. the World Bank)-- will become firmly engaged. USAID's plans are to focus on support to the Central Bank of Russia and the legislature, in support of banking supervision activities and legislation related to the banking sector. While USAID's funding for energy sector restructuring in Russia will also decline, beginning in FY 1997, some additional support may be provided in support of the PFF regional investment initiative, since electric power generation and distribution investments are likely to be attractive once competitive wholesale markets for power are established.

- Strategic Objective: Sound fiscal policies and fiscal management practices
- Strategic Objective: Accelerated development and growth of private enterprises
- Strategic Objective: A more competitive and market-responsive financial sector

Strategic Goal: Democratic Transition

USAID is helping Russian counterparts to establish and build the range of public and private institutions necessary to ensure a pluralistic, democratic society. Already established are a number of basic democratic institutions, including an election system, independent media, and literally thousands of grassroots non-governmental organizations (NGOs) which provide direct opportunities for citizen participation in solving a number of problems confronting Russia. In addition, USAID is working with both public and private organizations tasked with strengthening the rule of law. Complementary efforts have focussed on bolstering the capacity of democratically-elected municipal government to respond to the challenges accompanying a de facto devolution of power and responsibilities to the local and

regional level and to the demands of an increasingly empowered citizenry. Media development activities have concentrated nearly exclusively on the regions, and are helping to create a network of respected independent television stations capable of providing credible sources of objective information.

Political party-building activities are shifting their focus away from elections and campaigns toward grassroots organization-building and the nexus between local elected officials, community groups, and local political party structures. A program to strengthen the NGO sector is being recalibrated to increase support to Russian training and technical assistance providers and to expand the existing regional focus on Siberia, Southern Russia, and Central Russia into two new regions. In all programs, Russian trainers are being used for the majority of activities, thereby building indigenous, long-term training capacity.

Under this strategic goal, a number of important successes are attributable to USAID programs, as noted below.

- Leaders of political parties representing a wide spectrum of political views have been trained in techniques for building grassroots support, mobilizing voters and developing platforms. The 1996 Presidential elections demonstrated the use and effectiveness of such technical advice.
- Active regional NGO Resource Centers have been established in 15 cities throughout Russia, providing a focal point for information on networking, Internet access, civic advocacy, training materials and programs, and fund-raising.
- Independent broadcast and print media are delivering news throughout Russia, including objective reporting on Chechnya.
- The development of free labor unions and civic organizations has built the organizational capacity for citizens to participate in and influence public policy debates at both the local and national level.
- Judicial reform has resulted from workshops, training and exchanges, including a pilot program to reintroduce jury trials for serious criminal offenses in selected regions.
- Improvement in election administration has been dramatic; the two national elections in the past year (parliamentary and presidential) were deemed free and fair by nearly all domestic and international election observers.

During FY 1998, political process and independent media activities will continue. A new "community development initiative" will bring together NGO, local government, and private sector elements in communities in order to restructure relationships and increase participation among the three. USAID's previous support for effective, democratic local governance will not extend into FY 1998 as a separate objective, but will be subsumed under this new initiative on community development to achieve greater synergy among NGOs, municipal governments and the private sector. Rule of law activities will be combined with USAID's ongoing interventions in the legal and regulatory sphere in support of economic development to assure tighter focus and coordination of efforts. Within this, a key activity will be developing an independent judiciary. As part of the Partnership for Freedom, emphasis will be given to cooperative activities --such as partnerships and exchanges-- which promote democracy and civil society.

- Strategic Objective: Increased, better informed citizens' participation in political and economic decision-making

- Strategic Objective: Legal systems that better support democratic processes and market reforms

Strategic Goal: Social Stabilization

The entire economic and political reform effort could be jeopardized if, for example, citizens cannot access basic health and education services. Likewise, failure of Russia to address its serious problems of environmental pollution and unsustainable management of natural resources will both undermine long-term economic growth and produce substantial negative global environmental impacts. Therefore, USAID plans to continue support for health care financing reform. Other activities will focus on grassroots efforts in environmental reform.

Some examples of successes associated with USAID programs to date are noted below.

- Health reform has produced new policies, laws, regulations, practices, and models that are helping Russia improve the quality, organization, and financing of its health care system.
- U.S.-Russian hospital partnerships have taught Russian health professionals state-of-the-art practices in several specializations and contributed to improved hospital management.
- New low-cost techniques and approaches are reducing air and water pollution and improving sustainable forestry management in target areas.
- Modern economic tools are being incorporated in to environmental policy-making, e.g., introduction of user fees and regional forestry codes.
- Environmental NGOs are pursuing public education and clean-up projects, legal and legislative efforts, and information gathering and monitoring.

FY 1998 funding will continue to support partnerships between U.S. and Russian hospitals, including some continued work in family planning, and roll-out of lessons learned in environmental management. In response to the Gore-Chernomyrdin Commission's priority focus on the chlorofluorocarbon (CFC) production sector phase-out, USAID will support over three years the "Special Initiative for Supplementary Funding to Complete Ozone Depleting Substances (ODS) Phase-Out in the Russian Federation."

- Strategic Objective: Improved effectiveness of selected social benefits and services

- Strategic Objective: Increased capacity to deal with environmental pollution as a threat to public health

Cross-Cutting and Special Initiatives

Planned activities under Cross-Cutting and Special Initiatives include funding for targeted training and exchanges between American and Russian organizations, program design and evaluation, and the broad program of the Eurasia Foundation. In addition, funding will be provided for the Peace Corps --which specializes in English language education and in small enterprise development-- and the science centers program. Activities undertaken in support of the Gore-Chernomyrdin Commission (GCC) initiatives will also be funded. These address mutual concerns in the areas of health, energy, environment, agriculture, and capital markets/business. Most are undertaken on a multi-agency basis, with the relevant U.S. Government department or agency assuming lead responsibility for implementation.

RUSSIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring and Growth	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
Privatization	--	--	--	--	--
Tax Reform	7,000,000	--	--	--	7,000,000
Private Enterprise	112,500,000	--	--	--	112,500,000
Financial Sector	3,300,000	--	--	--	3,300,000
Energy	--	--	--	--	--
Citizens' Participation	--	58,300,000	--	--	58,300,000
Legal Systems	--	11,500,000	--	--	11,500,000
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	3,500,000	--	3,500,000
Environmental Health	--	--	9,000,000	--	9,000,000
Cross-cutting / Special Initiatives	--	--	--	36,400,000	36,400,000
TOTAL COUNTRY	122,800,000	69,800,000	12,500,000	36,400,000	241,500,000

*FREEDOM Support Act (FSA) funds

USAID Mission Director: Janet Ballantyne

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Fiscal Reform, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $ 7,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: To support the development of an efficient fiscal system in Russia which is adapted to the needs and functions of a market economy as well as to government's need to raise revenues sufficient for public expenditures.

Background: The privatization of the Russian economy and the substantial decentralization of government tax and spending responsibilities since 1991 require substantial changes in the design and implementation of the country's tax system. Potential investors report that the burden (to honest taxpayers) and unpredictability of the tax system is a major reason they remain reluctant to invest in Russia. At the same time, persistent declines in revenue collection (exacerbated during the 1996 presidential election campaign) are weakening the program of macro-economic stabilization that Russia has been undertaking within the framework of IMF stand-by arrangements since April 1995.

USAID Role and Achievements to Date : Since 1994 USAID has provided a range of technical experts and training opportunities to the Ministry of Finance, the State Tax Service (STS), the Russian Parliament (both the Duma and the Federation Council), and regional oblasts to support primarily initiatives in tax reform. The advisory services have included experts in drafting of tax legislation, administration of tax systems, projecting and monitoring of tax revenues (e.g. for negotiation and compliance with the economic stabilization program), and analysis of yield and impact of alternative tax rules. USAID has also supported municipal government efforts to introduce local property tax as a major revenue source, and to improve budget and revenue management at the local level.

The Ministry of Finance, assisted by U.S. legal and economic advisors, prepared a comprehensive draft Tax Code during 1994-96, but adoption has been stalled due to strong opposition in the Duma and from some GOR factions to many proposed changes. In the face of such opposition, the government since May 1996 has set more modest legislative goals for 1996-97, focusing its efforts on tax administration procedures, the VAT, and profits and excise taxes.

USAID has been assisting with the design of efficient, market-based local property taxes in two cities which, with the support of the MOF and Duma, are expected to be pilots for nationwide introduction of the property tax as a primary source of local revenue. With confidence in this revenue source, municipalities will become increasingly willing to privatize municipal property rather than hold onto commercial land and buildings in order to retain the flow of "leasing fees" that are now a major source of local revenue.

During 1996-97, a new major emphasis of the technical assistance program has been to help improve tax administration. U.S.-funded advisors are assisting the STS with an intensified program in areas of improved tax collections, monitoring arrears, audit selection and programs, and public education. In 1994-95, U.S. GOVERNMENT assistance had been limited mainly to classroom training of STS officials.

Description: USAID and its partner U.S. institution (Department of Treasury) consider tax reform to be a very high priority. During 1998, the U.S. assistance program will continue the recently expanded effort to help improve tax administration, while legal and economic advisors will continue to assist the MOF and Duma with problem-diagnosis, program design, and legislative action on the GOR tax reform program. That program will include a review and proposals for reform of individual income and payroll taxes and tax regimes for selected sectors as well as continued advice regarding changes to the VAT,

and to profits and excise taxes not completed in 1997. USAID will also support continued implementation of the new property tax system in pilot cities.

Host Country and Other Donors: USAID works with the Ministry of Finance, the State Tax Service, and Parliament and coordinates closely with other U.S. agencies (principally Treasury) and other supporters of Russia's reforms, particularly the International Monetary Fund and the World Bank, both of which are also providing technical assistance and training in fiscal issues and tax administration.

Beneficiaries: Business investors, recipients of state payments (pensioners, public employees, suppliers), and the general atmosphere of "financial discipline and fulfillment of payment obligations" will benefit from reform and improved administration of Russia's tax system. The current system imposes high tax burdens on honest taxpayers but suffers from poor tax compliance, excessive exemptions and arrears of major enterprises, and inefficient administration. Dwindling real revenue collection threatens the viability of Russia's macroeconomic stabilization program (which was successful in 1995-96), erodes the capacity of the government to deliver basic public services, and, through "sequestration of expenditures," results in state delinquencies to pensioners, state employees, and government suppliers that sets a bad example of payments arrears that permeates much of the economy.

Principal Contractors, Grantees, or Agencies: Fiscal reform activities are implemented under the overall direction of USAID. The Harvard Institute for International Development (HIID) is currently serving as the overall technical coordinator for the U.S. Government's tax reform activities in Russia. The Department of Treasury participates actively in the program through inter-agency transfers. HIID, KPMG's Barents Group, the Center for Financial Engineering and Development, the Soros Foundation, and Georgia State University are all deployed in different aspects of the program.

Major Results Indicators	Baseline	Target
Fixed capital formation increases	17.7% of GDP (1995)	22% (2000)
Tax revenue: actual as a percent of planned	79% (1995)	95-105% (2000)
Tax code adopted	0 (1995)	Adopted (1999)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Private Enterprise, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $ 112,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: To accelerate development and growth of private enterprise in Russia, thereby realizing the transformation of Russia from a centrally-planned economy to one based upon individual initiative and the operation of market forces.

Background: In 1993, Russia undertook a process of mass privatization which made it possible for nearly 150,000 enterprises of all sizes to become private companies. This transfer of state assets to private hands was, however, only the first step in the transformation of Russia into a market economy in which private ownership and management are dominant. Since 1993, many private as well as public initiatives have been launched to help the privatized enterprises become viable and competitive in both domestic and international markets and to foster the growth of new businesses, particularly small businesses. A critical mass of successful private enterprises is gradually developing. Managers who run struggling enterprises are learning what it takes to turn these companies around, while those at firms that did find success from the outset are realizing what must be done to stay competitive and to grow. Macroeconomic stability and political leadership have proven to be important even for small firms with domestic markets. Policies, legislation, and regulations conducive to broad-based competition and private sector growth are being developed, but are not yet adequate to provide entrepreneurs and managers with the incentives and structures they need to operate more profitably. A network of business support institutions providing advisory and training services as well as more specialized assistance has sprung up in nearly every region of the country, but still needs strengthening technically and financially before it can be considered a solid, sustainable resource.

USAID Role and Achievements to Date: USAID has made direct contributions to developing the policy, legislative and regulatory frameworks appropriate for private sector growth through the provision of expert technical advisors, training and study tour opportunities, and by financing experimental models which have demonstrated what can work in Russia. Successful models of private ownership and management in firms both large and small have been developed in collaboration with private Russian partners and the relevant lessons have been shared with policymakers at all levels of government. USAID has also contributed significantly to the growth of an increasingly viable network of business support institutions rendering services to entrepreneurs and businesses. The Morozov Project training network now offers business courses in 36 regions across Russia. The eight regional Business Support Centers offer advisory services, training, and trouble-shooting help to thousands of small business owners every year. The Business Collaboration Center was developed as a coordinating hub and information resource for both direct and peripheral members of the business support network. Further, USAID has supported the establishment and the functioning of factor markets critical to all entrepreneurs and managers: land and real estate markets and financial markets. Finally, in 1995 two existing enterprise fund activities were folded into The U.S.-Russia Investment Fund (TUSRIF), which has a total commitment of capital from USAID of $440 million and which has commenced equity and lending activities.

Description: Foci for USAID support for accelerating private enterprise growth in FY 1998 will be: strengthen and expand the network of Russian business support organizations (i.e. providing quality services and achieving financial viability); further develop the policy, legislative, and regulatory environment within which private enterprises operate (which is also linked to fiscal policy reform, our Strategic Objective 1.2); replicate or "roll-out" successful models of private ownership and modern, market-oriented management; and improve operation of the nascent factor markets (land, real estate, and capital) which are important to private enterprises. In addition, USAID is seeking ways to expand

the flow of equity and loan resources available through institutions such as TUSRIF.

During FY 1997, USAID consolidated a number of separate, though similar, business support activities into a single umbrella activity. By FY 1998, the U.S. GOVERNMENT, under the auspices of the Gore-Chernomyrdin Commission, intends to be engaged in a regional investment effort, concentrating technical assistance and financing resources in several selected areas of Russia. USAID's support for this regional initiative will involve existing activities under this Strategic Objective, such as those described above. Russia will also be a major participant in a new Trade and Investment Facility designed to promote the international links necessary for sustained growth.

Host Country and Other Donors: USAID works with private Russian institutions, the managers and owners of private enterprises and associations of private businesses, and with various Ministries and agencies of the government at both national and local levels. USAID collaborates with other donors seeking to support private sector growth, especially the British Know-How Fund, the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation, and the World Bank. EU-TACIS provides complementary support as do both private and public representatives of European governments.

Beneficiaries: Accelerated development and growth of private enterprises in Russia will benefit all stakeholders. GDP and productivity have been declining for years. Official unemployment is growing as large firms, especially those which have been part of Russia's impressive military industry, begin to downsize. More successful businesses will provide new jobs and new incomes, leading to further growth and stability of the Russian economy.

Principal Contractors, Grantees, or Agencies: USAID works with literally dozens of U.S. nongovernmental organizations as well as for-profit contractors in implementing a broad program of support to private sector growth.

Major Results Indicators:	Baseline	Target
Private sector production as % of GDP	20 (1995)	45% (1999)
% of Household income from private sector sources	27.8% (1995)	50% (1999)
Number of USAID-assisted firms receiving outside financing	0 (1992)	2000 (1998)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Financial Reform, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $ 3,300,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: A more competitive and market-responsive financial sector is a fundamental for accelerated private sector growth.

Background: The financial sector in Russia expanded rapidly in the early 1990s, as private commercial banks proliferated across the country and as privatization of state enterprises led to an explosion of new shareholdings. The basic regulatory and market infrastructure necessary for a capital market has been in place since 1994. Central bank regulations and measures to reduce risks and raise capital requirements of private banks are among the positive developments, although public confidence in the sector is periodically rocked by bank failures--including those of several larger banks in 1996. In the capital markets, the main problem areas have been restrictions on shareholder rights by entrenched enterprise managers and risks of fraud and deception against shareholders and investors. Continued regulatory and institutional development are key to realizing the objective of a market-responsive financial sector which actively mobilizes capital for investment, protects investors, and provides the range of financial services needed to support entrepreneurial growth.

USAID Role and Achievements to Date: As the principal donor to the development of financial markets in Russia, USAID has provided technical assistance in the development of legal frameworks and regulatory mechanisms for both the capital markets and the banking sectors. Advisory services to the Central Bank of Russia (CBR) have led to the establishment in 1993 of a capable bank inspection department. Training since 1994 in both the CBR and dozens of commercial banks has increased the capacity of middle- and upper-level managers to manage risks more prudently and boosted their lending skills. In 1993-94, USAID-funded advisors also provided support to the Central Bank to develop a Treasury bill market, thereby enabling the government to finance its budget deficits without recourse to inflationary credit expansion policies by the Central Bank. This resulted in a drop in inflation from 20% per month in 1994 to 20% per year in 1996. USAID advisors have been the central players in the establishment of the Federal Commission for the Securities Market, and in developing the institutional infrastructure for trading of shares in a secondary market. The Russian Trading System, which assures transparent operation of the secondary market, was initially funded by USAID, but has developed into a self-sustaining mechanism for over-the-counter trading. USAID's assistance has been crucial in the development of an increasingly well-regulated capital market and to increased confidence among foreign investors in Russia.

Description: By the end of FY 1997, USAID will have obligated all its funds dedicated to the capital markets sector. Support to enhance banking supervision --on-site inspection, improved accounting and regulatory standards, and rehabilitation/liquidation of failing banks-- will continue during FY 1998 with the goal of strengthening this currently weak but critical, component of the financial sector. Assistance to speed Russia's adoption of international accounting standards is planned for 1997 and may continue into 1998.

Host Country and Other Donors: USAID plays a critical role in the financial sector. Activities are used as practical laboratories for future funding by the World Bank, the EU, and other donors. The World Bank will be providing a two-tranche loan totaling $120 million to the capital markets sector because USAID technical assistance has provided the Russian Commission on the Securities Market with sufficient knowledge to manage the loan and implement policy. USAID works closely with the GOR on developing a regulatory and legal environment conducive to a robust financial sector.

Beneficiaries: Russian business, which creates jobs, Russian citizens, who will be able to count on understandable bank regulations, personal investment vehicles, and Russian banks are the principal beneficiaries of these activities.

Principal Contractors, Grantees, or Agencies: USAID implementers include: KPMG, Booz Allen, Intrados, HIID, IBTCI, PW, Burson Marstellar and Financial Services Volunteer Corps (FSVC), the latter primarily responsible for the continuing banking supervision work.

Major Results Indicators:	Baseline	Target
Total assets of banking system as % of economic output	40.7% (1993)	75% (2000)
Bank licenses revoked by the CBR	85 (1994)	1200 (1999)
Regional bank training centers established/licensed	0 (1994)	2 (1998)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Citizens' Participation, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $ 58,300,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased, better informed citizens' participation in political and economic decision-making.

Background: Free and fair elections, vibrant independent media, open and responsive political parties, a robust civil society, and confidence-building transparent political processes are essential steps on the path to free-market democracy. Few of these preconditions for democratic rule were in place until recently. Improvements in both areas were and are still needed to help guarantee that the reform process will continue. At the same time, the ability of citizens to understand public policy issues and to use this knowledge to influence economic and political decisions is essential in a well-functioning democracy. Independent media have grown exponentially in Russia since 1992 and have had a major, demonstrable impact on the quality, quantity, and availability of information about current events and issues. Russians now have the capacity to organize voluntarily around issues of common interest and do so frequently via nongovernmental organizations (NGOs). Social problems, environmental concerns, and a host of other interests have stimulated the growth of thousands of NGOs. Just as the independent media are attempting to survive and prosper in an increasingly competitive commercial market, NGOs are developing their own strategies for achieving sustainability by employing techniques of private fundraising as well as relying on foreign donors for start-up financing.

USAID Role and Achievements to Date: USAID works through grants and other financing mechanisms to provide technical assistance at the national, and increasingly the regional and local levels, to assure transparency, accuracy and integrity of Russia's election management system. USAID has provided training for political parties and has been instrumental in developing outreach and communication strategies for parties and Duma factions. The most recent Parliamentary and Presidential elections were judged to be free and fair by both domestic and international observers. Internews, an American NGO dedicated to strengthening independent media around the world, has, with USAID funding, played a key role in Russia through training and facilitating networking among both broadcast and print media. A clear demonstration of success was the direct access and objective reporting provided the Russian people on the events in Chechnya. USAID-funded NGO assistance provides training directly to citizens on how to communicate their concerns and demands to public officials. USAID has established NGO support centers in 15 cities around the country with the aim of ensuring long-term access to information and training in support of ongoing civic advocacy efforts.

Description: USAID-funded technical assistance will continue to target citizens, communities, NGOs, public officials, and various political party officials in order to expand public outreach efforts and to increase participation. Major grant programs will be administered directly by USAID (often through umbrella grants to U.S. NGOs) and by the Eurasia Foundation. Media partnerships between American and Russian entities were started in 1995 and will continue to be nurtured through the 1998 - 2000 period. A new "community development initiative" will bring together NGO, local government, and private sector elements in selected communities, to foster inter-sectoral partnerships and maximize program impact. As part of the Partnership For Freedom, funds will be provided to make change permanent by endowing key U.S. and Russian institutions.

Host Country and Other Donors: Russia has dozens of political parties. USAID has emphasized responding to requests for technical advice and training services from those parties generally viewed as "reform-oriented." Work with citizens' groups has generally been carried out through NGOs and in concert with local institutions, including municipal governments. Other donors have been active in electoral process issues; USAID has coordinated regularly with them in all election run-up periods and

will continue to do so. USAID also works cooperatively with other bilateral donors providing assistance to the media and, increasingly, to Russian civil society.

Beneficiaries: The entire citizenry stands to gain as a direct result of USAID programs under this strategic objective. The political process activities are of greatest importance to voters and public officials at the national and regional level. Both independent media and NGOs can reach a large portion of the Russian population. Independent media provides more objective news coverage essential for informed debate while NGOs offer an avenue for citizen participation in the policy making process.

Principal Contractors, Grantees, or Agencies: USAID is working with the following: International Republican Institute (IRI), Free Trade Union Institute (FTUI), International Foundation for Electoral Systems (IFES), National Democratic Institute (NDI), ISAR, Save the Children Federation, United Way, Helping Hand, Internews, Russian/American Press and Information Center (RAPIC), the U.S. Information Agency (USIA), and the Moscow School of Political Studies.

Major Results Indicators:	Baseline	Target
Access to independent TV	12% of viewers (1995)	21% (1998)
Percent increase in voters receiving campaign information through party campaign tactics	None	15% (1997)
Number of media partnerships that are self-sustaining	0 (1995)	3 (1999)
Share of domestic funding in monitored NGOs	15% (1995)	40% (1997)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Legal Systems, 110-SO 2.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $ 11,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Legal systems that better support democratic processes and market reforms

Background: As Russia lacks both an adequate base of commercial law and an equitable means of dispensing justice through an independent judiciary, it does not possess the necessary prerequisites to encourage investment and prevent recourse to non-judicial means of dispute resolution among its citizens.

USAID Role and Achievements to Date: USAID's Rule of Law program focuses on three principal aspects of legal reform in Russia: judicial reform (including enforcement of judgements and alternative dispute resolution), legal education and training, and commercial law drafting. Work in the area of commercial law drafting has been particularly successful, with numerous new laws and decrees being adopted in the past year. To complement these achievements in the legislative area, USAID has worked with the Rule of Law Consortium to ensure that all Russian Commercial Court judges are familiar with new legislation, including the Civil Code. USAID support assured that all 1600 commercial court judges in the country received Part 1 and 2 of the new civil code and other laws and that over 40% of these judges received training on substantive, Russian commercial law topics. USAID has started to work on improving enforcement of judgements and creating alternative dispute resolution mechanisms. USAID has provided funding for bringing together U.S. and Russian legal associations, resulting in improved continuing legal education programs and increased flow of information between the two countries. USAID is also funding the U.S. Department of Justice, which is helping Russia reform its criminal justice system, and has funded conferences on crime and corruption. Another important USAID supported effort is the work with many local NGOs to improve advocacy and outreach., helping Russians become more aware of their rights in such areas as housing, property, civil rights, and environmental protection. The Free Trade Union Institute works with local legal groups to provide citizens with the resources and encouragement to seek enforcement of their labor rights and to organize into effective, independent labor unions. A grant to the American Bar Association has provided technical expertise in the reinstatement of trial by jury after a 70 year hiatus.

Description: USAID will continue its dual focus on creating the requisite legal and regulatory environment to promote trade and investment while combating crime and corruption. Activities will include continuing support for commercial law drafting, judicial training and reform, alternative dispute resolution, enforcement of judgements, legal education, and legal rights advocacy by NGOs. Organizations such as the Institute for a Law-Based Economy (ILBE) will be used to work on progressive commercial laws and regulations. Support for the judiciary will also play an important role, especially as regards the creation of the new, independent Judicial Department. Training of lawyers will focus on new commercial laws and the development of advocacy skills with which to protect the rights of their clients.

Host country and other donors: The World Bank, the EU, and several bilateral donors are involved in Rule of Law activities for Russia. USAID also works closely with the Russian government, local governments, legal associations, and NGOs such as the Institute for a Law Based Society and the Sakharov Center.

Beneficiaries: Investors, both foreign and indigenous; Russian citizens desiring an open, transparent civil and commercial legal system; as well as the legal profession, all stand to benefit from activities that increase transparency and the soundness of new laws, and that ensure their even-handed

application and enforcement.

Principle Contractors, Grantees, or Agencies: In addition to DOJ technical assistance, USAID works with ABA/CEELI, ARD/Checchi, HIID, and the Institute for a Law Based Economy.

Major Results Indicators:	Baseline	Target
Percentage of people willing to use courts or alternative mechanisms in order to resolve disputes.	10%	25% (1999)
Number of people visiting Sakharov Institute and learning about their rights	1000 (1995)	5000 (1997)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Social Benefits, 110-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $ 3,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Improved effectiveness of selected social benefits and services.

Background: The Russian health care system is falling apart. In 1995, health care related expenditures were estimated to be less than 1.5% of GDP, very low by Western standards Budgetary pressures prevent the government from providing adequate health services to the population. Inefficient management systems and lack of alternative financing mechanisms virtually guaranteed that health service delivery would be unsustainable and of low quality. Improved efficiency in management and resource allocation, together with sound policies and regulations, are all needed to make service delivery sustainable and of adequate quality.

USAID Role and Achievements to Date : USAID has provided technical assistance and advice in several sectors, successfully demonstrating the benefits of a restructured, more market-oriented health system. This has been accomplished through support for the development of working models which integrate financial incentives for high quality with cost-effective service delivery. USAID has provided ground-breaking assistance in setting up total quality management (TQM) for physicians, piloted health maintenance organizations and other financing models, and proven approaches for improving systems for pharmaceutical management. USAID's women's reproductive health activities have supported the development of fourteen model family planning clinical sites in six oblasts and the training of over 2,000 service providers in modern contraceptive technology. USAID funding has also led to the improvement of disease control strategies and the development of information and education campaigns to promote immunization. USAID is also providing a system to upgrade service delivery for residents of recently privatized state farms and has completed a nation-wide policy for means testing for housing subsidies for low-income populations.

Description: New funding will be used to support (a) medical partnerships between U.S. and Russian health systems and (b) women's reproductive health activities. The partnership program will help upgrade Russian health care facilities and systems in such important areas as health care financing and management, infection control, emergency medical services, nursing skills, and pharmaceutical management. Funding for women's reproductive health will support dissemination of new family planning and clinical practices developed and tested under prior year funding. Prior year funding will continue to be used for health sector restructuring activities. These activities will focus on national and oblast-wide initiatives to reorganize the governance mechanisms of regional health authorities and regional financing authorities. They will also include support to legislative bodies to draft and implement laws and regulations that promote market-oriented reforms.

Host Country and Other Donors: Activities are closely coordinated with the World Bank, EU-TACIS, the British Know-How Fund and other donors. USAID normally pilot test activities which are later embraced and built on by other donors. The Ministries of Health, Agriculture, and Housing consider USAID activities to be very important and work closely with USAID in formulating policy.

Beneficiaries: Efforts to assure the sustainability of basic social services and benefits target users of the health care system, low-income populations, and members of recently privatized state farms. Achievement of this SO will result in more efficient and sustainable delivery of quality basic services.

Principal Contractors, Grantees, or Agencies: American International Health Alliance, Kaiser Permanente, Boston University, Lutheran Hospital, LaCrosse, American Medical Association, U.S.

Department of Health and Human Services, AVSC, and others to be determined.

Major Results Indicators:	Baseline	Target
Hospital days per thousand	1,260 (1994)	675 (2000)
Hospital mortality rates in pilot oblasts	30.0 (1994)	13 (2000)
Range of abortions/1000 in target areas	65-102 (1993)	58-92 (1998)
Use of modern cost accounting and financial planning systems in pilot oblasts	0 facilities (1994)	34 facilities (1998)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Environmental Health, 110-S003.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $ 9,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased capacity to deal with environmental pollution as a threat to public health.

Background: The acuteness of environmental problems in Russia, deepened by the difficult socio-economic conditions, has led to a substantial deterioration in the health of its population and undermines its drive towards economic reform. Environmental degradation and reckless depletion of resources have led to significant losses in economic productivity.

USAID Role and Achievements to Date: USAID has developed an active environmental program to foster economic and social development in an environmentally sound manner and to prevent and reduce environmental threats to human health. Significant progress has been achieved to date. USAID technical assistance has introduced new low-cost techniques and approaches which are reducing air and water pollution while also reducing energy demands and costs. Environmental policy and economic advice has led to the incorporation of economic tools in environmental policy making, such as introduction of user fees and regional forestry codes. Grants to environmental NGOs have led to public education and clean-up projects, legal and legislative efforts, and information gathering and monitoring. USAID's environmental health activities have resulted in the completion of seven environmental health risk assessments in selected cities; the development of a policy "Lead White Paper," which will form the basis for an intergovernmental action plan to address the problem of lead contamination; and the completion of a pilot blood lead level screening of children, which led to the development of recommendations on lead screening methodology and intervention strategies.

Description: USAID has recently initiated the second phase of the Russian/American Environmental Cooperation Program, which is designed to ensure program sustainability by providing resources to Russian partners to replicate and disseminate lessons learned. This comprehensive new project will be the principal focus of USAID's future environmental assistance efforts in Russia through the year 2000. USAID will also continue to be an active member of the Gore-Chernomyrdin Commission. To support the Commission's priority focus on the chlorofluorocarbon (CFC) production sector phase-out, USAID will contribute $6 million, over three years, providing grant resources to the World Bank-managed "Special Initiative for Supplementary Funding to Complete Ozone Depleting Substances (ODS) Phase-Out in the Russian Federation." USAID resources will be used to carry out sub-projects consisting of a number of actions, including the provision of appropriate technical assistance aimed at phasing out the production of ODS in Russia. The Department of Energy will continue its nuclear safety activities at selected power plants.

Host Country and Other Donors: USAID closely coordinates with host country government, non-government, and private sector counterparts at the national, regional, and local levels. USAID programs work with other donors and international financial institutions, particularly the World Bank and EBRD, to coordinate activities and to leverage additional resources. To date, USAID environmental assistance projects in Russia have leveraged at least $370 million in environmental investments, with the potential for a total of $400-500 million before the assistance program comes to an end.

Beneficiaries: The entire population of Russia will benefit if USAID-supported and other donor programs in this area have their intended impact. Large segments of the Russian citizenry are exposed to air and water pollution, and also live near unsafe nuclear plants. High pollution levels help to explain the marked decline in public health, which in turn has reduced people's ability to contribute to the country's economic and political renovation.

Principal Contractors, Grantees, or Agencies: USAID is working with the following: U.S. Environmental Protection Agency, U.S. Forest Service, U.S. Department of Interior, CH2 M Hill, Harvard Institute for International Development, ISAR, Institute for Sustainable Communities, Ecologically Sustainable Development, World Wildlife Fund/U.S., Center for International Environmental Law, and the Department of Energy.

Major Results Indicators:	Baseline	Target
Amount of environmental protection fund in targeted region	TBD	TBD
Number of people using new environmental information networks and data	0 (1993)	2600 (1997)
Number of self-sustaining environmental NGOs	5 (1993)	25 (1997)

SLOVAK REPUBLIC

FY 1998 Assistance to Central Europe Request: $8,000,000

Introduction.

The goal of U.S. economic assistance is to help root Slovakia firmly in the Western economic and political community and to accelerate its transformation toward a pluralistic society and a market economy. While significant progress has been made toward democracy and competitive markets, the picture has been marred by the centralizing policies of the current national government. An assistance strategy aimed at increasing pluralism, decentralization of decision-making and establishing a market economy will help counter these trends.

Significant strides have been made by Slovakia toward the development of the political and legal foundations on which a democratic system rests. Many of the political and legal institutions, including its own government and parliament, were present when independent Slovakia came into existence January 1, 1993. Other key political and legal institutions were created at independence including the Office of President of the Republic, a Constitution, a Supreme Court, a Constitutional Court and an Office of Financial Control. The Slovak Republic is a parliamentary republic whose Head of State is the President.

The Development Challenge.

The Slovak economy enjoyed an impressive turnaround with five percent real GDP growth in 1994 after a cumulative GDP decline of 24% between 1990 and 1993. In 1995, this growth continued with a GDP increase of 7.4%. Predictions are for six percent growth in 1996. The country also experienced solid export growth, resulting in a trade surplus for 1995. However, there was a trade deficit in 1996. Industrial production, which fell by more than 10% in 1993, rose by an estimated seven percent in 1994 and 8.4% in 1995. Prudent monetary and fiscal policies have resulted in a 7.2% inflation rate and a Government of Slovakia (GOS) budget deficit of 1.9% of GDP. Average real wages are increasing. Nominal interest rates are falling. At $730 million, foreign investment is small relative to some other Central European countries, but has begun to grow from that small base. The share of the GDP produced in the private sector is approximately 70% according to official statistics. Most prices are free, with foreign trade relatively liberal and thriving.

By 1998 Slovakia will be into a late phase of its economic transition whereby market forces and private investment should be expected to carry the reform forward. The second wave of privatization ended in 1996. Basic market institutions, legislation and policies are in place or pending legislative action. A "jump start" for a core of restructuring enterprises and banks has been advanced through USAID activities. These are expected to continue with a high level of European Union (EU) funding tied to the accession process. It is now time to turn these and other companies increasingly over to the market. More private foreign capital should become available during the "third wave" of privatization as new owners seek needed capital and new technology.

While the macroeconomic aggregates are improving, work needs to continue on democracy-building and environmental health. Forty years of communism left an apathetic, disenfranchised citizenry unaccustomed to believing individuals have a say in their government. Slovakia is struggling to find its place as a tolerant European country with a plurality of views, based on a strong civil society. While many individuals and most young people are convinced that the only way forward for Slovakia lies with early integration into Western institutions, the average citizen is somewhat ambivalent.

Current plans assume continued success for economic and democratic reforms and the phase out of Support for East European Democracy (SEED) Act assistance by September 1999. FY 1997 is the last year economic restructuring activities are being funded, with the thrust of the program thereafter

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focussing on democracy-building.

Other Donors.

The United States has very actively coordinated with other donors helping Slovakia transform into a democratic society and market economy. The other donors include the International Monetary Fund, the European Bank for Reconstruction and Development (EBRD), the Assistance Program of the European Union (EU PHARE), the British Know-How Fund, and the German Technical Assistance Agency. Close coordination among the British Know-How Fund and the German Technical Assistance advisors has been critical in banking and financial sector assistance.

USAID's activities are supplemented by those of privately-funded non-governmental organizations (NGOs) also working to ground Slovakia firmly within the Western tradition of democracy and pluralism. These NGOs include the Ford Foundation, the Open Society Fund, the Rockefeller Brothers Fund and the German Marshall Fund.

FY 1998 Program.

The FY 1998 program plans for phasing out three strategic objectives in economic restructuring and continues activities in three other strategic objectives where further work and expenditure of public funds can be justified in a late transition nation: citizens' participation; local government; and environmental health.

The USAID strategy is to consolidate and strengthen democratic transformation and responsive local government and to continue efforts to reduce environmental risks to public health. These are to be supplemented with appropriately targeted participant training and technical assistance provided through volunteer organizations, consistent with USAID's theme of support for grass-roots, decentralized development.

Strategic Goal: Democratic Transition

Since 1995, significant resources have been directed to assist decentralized decision-making, encourage the development of a diverse and independent media, strengthen the non-government sector, and deepen the general understanding and appreciation for democracy. Specifically, USAID focus has been on developing a dynamic civil society and viable independent media, two mechanisms which will ensure the gains already made will not be undone. With a vibrant civil society more firmly institutionalized to consistently represent citizen interests vis-a-vis government and act as a check on government actions, the major pieces are largely in place for the transformation to a healthy democracy. However, there are at least two reasons to continue support in this area. First, although the legal and political "infrastructure" are in place, the citizenry have not yet fully developed the knowledge, attitudes, skills, and mechanisms necessary to take full advantage of the new framework. Second, there has been some government backsliding on democratic reform. The past two years have been marked by U.S. and Western concern over the emergence of increasingly authoritarian style decision-making at the national government level. This suggests that assistance to consolidate and strengthen Slovakia's democratic gains is still needed. The FY 1998 program should achieve this goal.

USAID's assistance will continue to emphasize work at the grassroots level to deepen the general understanding and appreciation of democratic civic values, to foster pluralism and respect for diversity, and to promote broad-based participation in community problem-solving and decision-making. USAID will continue to seek to increase the willingness and ability of citizens to participate in the formulation and implementation of public policy; work with local governments to create more opportunities for citizens to participate in the policy-making process; and to increase local government's understanding of the need and benefit of involving citizens in the decision-making process

USAID's assistance will also continue to support work aimed at enhancing local level decision-making in health care and management of newly-privatized condominium housing. The U.S. will work to improve the management and organization skills of hospital administrators and condominium associations. Under a hospital partnership project, USAID is continuing its efforts to develop quality health care at the community level by providing technical assistance and training for physicians.

- Strategic Objective: Increased, better informed citizens' participating in community, political and economic decision-making

- Strategic Objective: More effective, responsive and accountable local government

Strategic Goal: Social Stabilization

The assistance program has supported initiatives and policy work aimed at reducing environmental health risks. Legislation was introduced at the local level to reduce public exposure to health hazards. As the Slovak economy moves through the transition process, transformations are occurring in both the industrial base and in the health care sector. This situation provides the opportunity for strengthening of the environmental, occupational, and public health capability of Slovakia for the long term benefit of workers and community residents.

In FY 1998, USAID will continue work on reducing negative health impacts of industrial manufacturing and processing facilities. Training will give Slovaks better ways to deal with environmental pollution. This complements the policy and investment activities of the Central Europe Environmental and Economics Policy Project, which were originally intended to reduce environmental risks to health and ensure that those goals are met by the addition of a third project component designed to ensure that Slovakia has the capacity to meet these challenges after USAID assistance ends. The environmental projects will help to ensure that Slovakia integrates with such organizations as the Office of Economic Cooperation and Development, EU and meets criteria of the International Standards for Environmental Friendly Production Process which will require demonstration of compliance with international standards in the areas of environmental protection, product safety and occupational health. By working with appropriate ministries, institutes and organizations, the assistance program will leave behind the capability of Slovakia to address systematically environmental, occupational and public health issues on an ongoing basis.

- Strategic Objective: Reduced environmental risks to public health

Cross Cutting and Special Initiatives.

On a continuing basis, USAID's training activities include providing improved capacity for English language for teachers; reforming the legal profession and legal education; increasing participant knowledge in areas such as banking, capital market development, taxation and finance; strengthening management capabilities and advocacy; and increasing local government capacity.

SLOVAKIA
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	--	--	--	--	--
Financial Reform	--	--	--	--	--
Energy	--	--	--	--	--
Citizens' Participation	--	3,300,000	--	--	3,300,000
Legal Systems	--	--	--	--	--
Local Government	--	2,175,000	--	--	2,175,000
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	1,100,000	--	1,100,000
Cross-cutting / Special Initiatives	--	--	--	1,425,000	1,425,000
TOTAL	--	5,475,000	1,100,000	1,425,000	8,000,000

*Support for East European Democracy (SEED) Act funds

USAID Representative: Patricia J. Lerner

ACTIVITY DATA SHEET

PROGRAM: SLOVAKIA
TITLE: Citizens' Participation, 180-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,300,000 SEED Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased, better informed citizens' participation in community, political and economic decision-making.

Background: Most of the political institutions needed by independent Slovakia, including its own government and parliament and a post-communist constitution, were already present when the nation came into existence on January 1, 1993. However, 40 years of communism has left behind an apathetic and disenfranchised citizenry uncertain of their rights and responsibilities in a democracy. The challenge now is to consolidate and maintain the democratic gains already made and to promote citizen participation and involvement in community, political and economic decision-making.

USAID Role and Achievements to Date: USAID support has helped increase the acceptance of democratic (civic) values in Slovakia through the University of Northern Iowa's (UNI) Orava Project which is introducing a "spirit of democracy" into the classroom. This activity, through the introduction of new teaching methods, is fostering the development of critical thinking and creative problem-solving skills, increased tolerance for diverse opinions, and the active participation of students, teachers, administrators, parents, university faculty and the community at large in the learning process. While the Orava Project will have its greatest impact on the students, and is therefore intended as an investment in the future, it is also producing substantial impact now by generating changes in the understanding, acceptance and utilization of democratic principles and values among the teachers, administrators, parents and other adults involved in the project.

USAID support is also contributing to the ability of citizens to participate in community, political and economic decision-making through its assistance to the NGO sector in Slovakia. Through the Democracy Network Program, grants in excess of $900,000 have been awarded to Slovak NGOs to carry out public policy activities. Additionally, USAID, through the International Center for Not-for-Profit Law, has contributed to the preparation of NGO legislation and to the national debate on this legislation in an effort to foster the development of a legislative environment supportive to the development of the NGO sector.

In 1996, USAID launched a major new initiative in support of the beleaguered independent media in Slovakia. The Professional Media Program is working with independent media in Slovakia to increase their financial viability - the key to their continued independence.

Description: USAID assistance in Slovakia will continue to focus at the grassroots level in an effort to deepen the general understanding and appreciation of democratic (civic) values; to foster pluralism and respect for diversity; to promote broad-based participation in community problem-solving and decision-making; and to strengthen the independent media so that the citizens of Slovakia will have access to the information they need to make objective, informed decisions.

Host Country and Other Donors: Major host country counterparts are Comenius University; the Slovak Judges' Association; the ORAVA Regional Administrative Office of the Ministry of Education; the Gremium for the Third Sector and the NGO community at large; the Ministry of Justice; various political parties; the Confederation of Trade Unions; and the independent media. Other donors include: the British Know-How Fund, the Open Society Fund, and EU PHARE.

Beneficiaries: *This assistance seeks to benefit all Slovak citizens by increasing their understanding of* the basic principles of democracy, their capability to participate in community and policy decision-making, and their ability to make objective, informed decisions.

Principal Contractors, Grantees, or Agencies: *These organizations include the University of Northern* Iowa, the International Republican Institute, the Foundation for Civil Society, the International Center for Not-for-Profit Law, the National Forum Foundation, the National Democratic Institute, the Free Trade Union Institute, the American Bar Association/Central and East European Law Initiative, the U.S. Information Agency, and the International Research and Exchanges Board.

Major Results Indicators:

	Baseline	Target
Voter turnout: national/local elections	75%/52% (1994)	85%/65% (1998)
Increased citizen participation in community/political activities	42% (1994)	50% (1998)
Teachers trained in democratic instruction methods	0 (1994)	4,000 (1999)

ACTIVITY DATA SHEET

PROGRAM: SLOVAKIA
TITLE: Local Government, 180-S002.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,175,000 SEED Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: More effective, responsive and accountable local government.

Background: There are more than 2,800 Slovak towns and villages, each with its own democratically elected Mayor and Council members. The current structure of local self-government is only five years old and many municipalities are struggling to develop their capacity to govern and manage themselves. Slovakia's attempts in reforming the health care delivery system it inherited from the centrally-planned predecessor have had limited impact on improving services. The local governments inherited a centralized delivery system which does not address basic health concerns of the community, is poorly equipped to handle the new responsibilities, and remains in crisis.

USAID Role and Achievements to Date: Beginning in 1994, the Health Markets Project focused on improving the quality of hospital operations by working with the Ministry of Health, a regional hospital and Slovakia's largest hospital. A successful collaboration to improve health care quality in pediatric cardiosurgery between the Children's Hospital of Boston and a facility in Bratislava was completed in 1995. Seven municipalities received technical assistance on privatization of municipal functions, expansion of waste water treatment plants, and asset management. Four regional centers have been established to provide consultation with municipal officials regarding establishment of a privatization program for municipally-owned housing, to provide information to tenants in buying their units and to assist groups of new owners form homeowners' associations.

Description: USAID's assistance will focus on building the commitment and capacity of local governments to provide the means through which citizens can actively participate in making decisions that affect their daily lives, and by facilitating the interest and ability of citizens to participate in community processes that shape those decisions. USAID will specifically focus on promoting enhanced technical, managerial and governance skills to officials, both elected and appointed; improved administrative, operational and policy systems for management and governance; enhanced capability to finance local needs; and increased decentralization of authority and resources.

Host Country and Other Donors: Major host country counterparts include the Kosice Faculty Hospital, Trnava University; Economics Faculty at the University of Banska Bystrica; the Health Management School; the Association of Towns and Villages; the City Managers' Association; and the Finance Officers' Association. The British Know-How Fund and EU PHARE have also been involved in these efforts.

Beneficiaries: This effort seeks to benefit Slovak citizens by contributing to the building of strong democratic institutions and traditions in Slovakia and by achieving effective, independent governance, directly and through municipal staffs.

Principal Contractors, Grantees, or Agencies: These organizations include the Children's Hospital of Boston; Women and Infants' Hospital, Providence, RI; the University of Scranton, PA; the International City/County Managers Association; Research Triangle Institute; and the Urban Institute.

Major Results Indicators:

	Baseline	Target
Citizens believing local government is more effective and responsive	0% (1996)	25% (1999)
Municipalities with officials using enhanced skills	0 (1996)	500 (1999)
Towns adopting improved management systems	0% (1996)	50% (1999)

ACTIVITY DATA SHEET

PROGRAM: SLOVAKIA
TITLE: Environmental Health, 180-S003.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,100,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Reduced environmental risks to public health.

Background: Slovakia has many of the critical environmental problems facing countries in transition which adversely affect human health. It is also one of the few countries in the world where every citizen has the constitutional right to a healthy environment. Therefore, there is a serious commitment on the part of the GoS to address environmental concerns.

USAID Role and Achievements to Date: Seven pilot projects in a Waste Minimization Program have been completed. As a result, industrial chemical pollution for employees, as well as for the general population living near chemical plants, has been reduced. This has created a substantial savings in production costs to companies. Major Slovak enterprises are adopting technology which results in substantial reductions in pollution in concert with production technology improvements, both of which are necessary to meet the requirements of international markets. Since 1993, USAID has been working to improve the effectiveness of environmental public policy by replacing outdated command and control regulation with market-based economic instruments. The revised legislation, regulations and policy will have a positive impact on mitigating the environmental risks to public health.

Description: USAID's activities focus on improving environmental quality, citizens' quality of life, and reduced related health risks by supporting economically viable pollution prevention and abatement activities. Remaining efforts will focus on planning, implementing and evaluating public health campaigns, policy development, and behavioral changes based on specific techniques for environmental health promotion.

Host Country and Other Donors: Over 24 municipalities, the Slovak Environmental Agency, the State Environmental fund and the Ministry of the Environment collaborate with USAID programs. In addition there is collaboration from the Ministry of Health, the Center for Epidemiology, and the Center for Occupational Hazards. USAID also seeks to incorporate EU PHARE and EBRD funding and technical expertise in collaboration of activities including planning for various workshops and other project components.

Beneficiaries: This effort seeks to benefit Slovak citizens by reducing serious environmental hazards which many citizens encounter in their daily life.

Principal Contractors, Grantees, or Agencies: Major organizations are the Harvard Institute for International Development, Chemonics, the University of Minnesota consortium, the Environmental Health Program, and the World Environment Center. Cooperating U.S. Agencies are the Environmental Protection Agency, Department of Energy, the Nuclear Regulatory Commission.

Major Results Indicators:

	Baseline	Target
Life expectancy increased	(M) 66.5 yrs (1993) (F) 75.3 yrs (1993)	70.9 yrs (1998) 78.2 yrs (1998)
New laws/programs dealing with environmental health risks in selected companies	0 (1993)	10 (2000)
Targeted companies initiating environmental health risk programs	10 (1993)	100 (2000)

TAJIKISTAN

FY 1998 Assistance to the NIS Request: $15,400,000

Introduction.

Tajikistan is the poorest of the five Central Asian Republics and the only one of the five in which underlying ethnic, regional, economic and ideological strains have led to open warfare and major population displacements. A cease-fire has continued to be in partial effect since late 1993, while UN-moderated peace talks appear to be making incremental progress in establishing a political consensus. The UN Mission of Observers in Tajikistan (UNMOT) monitors the cease-fire agreement, while Commonwealth of Independent States (CIS) Russian-led troops, at the request of the local government, guard the southern Tajikistan boundary and monitor the ceasefire. Donor efforts are making a difference in Tajikistan's situation. For example, the economy, in free fall since independence, achieved a measure of economic stability last year. U.S. interests are based on providing humanitarian aid, helping to establish a framework for sustainable economic growth, promoting regional stability in Central Asia and promoting an independent, democratic and market-oriented Tajikistan that is friendly to the U.S. and constructively engaged in international political and economic relationships.

The Development Challenge.

An average per capita GDP of approximately $400 places Tajikistan among the world's least developed countries. Even during the Soviet era, Tajikistan was the poorest of the Soviet republics with a per capita GDP of $1,100. Its economy was based almost entirely on aluminum exports and a cotton monoculture. Social services were maintained with subsidies from Moscow. The collapse of the Soviet Union, followed by the outbreak of civil war in May 1992, thus hit Tajikistan especially hard.

The civil war left at least 50,000 dead, displaced 700,000 within the country and resulted in an outflow of at least 75,000 refugees to Afghanistan. Many returning refugees were faced with rebuilding their homes, and the harsh economic consequences of civil war continue to extract a heavy toll. Thousands of homes and hundreds of schools and medical units were destroyed. The war also left 55,000 orphans, 25,000 widows and a legacy of hatred and suspicion that makes reconstruction difficult.

Political consensus and national reconciliation have yet to be achieved, despite cease fire agreements and continuing rounds of UN-mediated peace talks involving government and opposition groups. In January 1996, two groups of government supporters outside the capital rebelled in an effort to force personnel changes. The government quickly agreed to some changes in return for disarming the rebels. Nonetheless, the political situation remains fragile. Rule of law plays a role in regulating property and commercial rights, but considerable work still needs to be done to put into place the kind of legal and commercial environment needed to support entrepreneurs, minimize corruption, ensure transparency, and build and sustain a market economy.

The breakdown in economic links with other former Soviet republics hampers the flow of badly needed raw materials, consumer goods and food items. Gas supplies from Uzbekistan have been affected because of Tajikistan's inability to earn foreign exchange to pay its debts. The World Bank, which classifies Tajikistan as a less-indebted low-income country, has joined the IMF to provide assistance for economic reform. Youth unemployment is a major problem. Workers who do have jobs often go for months without being paid.

Productivity in the two major economic sectors, agriculture and industry, has dropped precipitously, and per capita industrial and agricultural production has been reduced at least by half. Prices for

food, non-food items and services increased sharply through 1995, with inflation reaching 2,000% that year. More recently, inflation rates have been lowered and in 1996 were estimated at around 50%, representing a remarkable turn-around. In May 1995, the government introduced a new currency to replace the Russian ruble, the last of the Central Asian republics to do so. The subsequent liberalization of prices and trade, implemented at the urging of the IMF and World Bank, have promoted stability and provided a favorable environment for developing a market economy.

The crisis has been especially severe in the social sectors. For example, the immunization program introduced and maintained during Soviet times has largely collapsed. The departure of many thousands of Russian-speaking professionals following independence left a gap in the health sector and other sectors that has yet to be filled. Infant mortality rates are high (47 per thousand live births). School enrollments have declined. Most families do not have dependable access to either heating or potable water. There is a widespread shortage of pharmaceutical and other medical supplies and many hospitals and clinics are either closed or barely functioning due to a lack of medical supplies, equipment and salaries. Malaria, eradicated during the Soviet era, has reappeared in southern Tajikistan. In the face of these significant social constraints, the government has attempted to start a social program aimed at alleviating poverty and providing basic social protection.

The government has attempted to deal with the crisis, most notably with the release of its "Five Year Economic Plan" in August 1995 that commits the country to "radical changes in economic policy" and states that the goal is to create a "socially oriented market economy." Tajikistan has reduced consumer and produce subsidies (from about ten percent of GDP in 1995 to one percent of GDP in 1996), liberalized the foreign exchange regime, and eliminated export duties and licensing requirements. Although privatization efforts remain erratic in both industry and agriculture, the elimination of price controls and the state order system represent important steps forward. Official figures indicate low levels of state-controlled imports, but private traders are increasingly active in filling the gaps left by a diminishing government presence. Indeed, a relatively weak central government sometimes provides opportunities for innovation and new approaches at a local level.

Given the lack of political consensus and the ongoing economic and humanitarian crisis, Tajikistan is likely to need foreign assistance for some time to come to meet some of the relief needs. At the same time, there is some hope that development programs can now finally move away from short-term humanitarian relief and lay the foundations for post-conflict stabilization and more long-term sustainable development. USAID supports this transition and, despite limited resources, intends to play a positive role in helping shape the reconstruction of Tajikistan. Programs thus far have entailed large-scale support for both international organizations and U.S. PVOs in carrying out relief and development programs. Modest technical assistance and in-country training related to economic restructuring, democratization, and health and family planning have also been provided, to expose Tajiks to alternative approaches and to mechanisms for introducing democratic processes and market-based economic reform.

Other Donors.

The United States was a lead donor in dealing with the immediate aftermath of civil war and responding to the humanitarian crisis which followed. Other countries, including Russia, Iran, Turkey and various EU countries have also been involved. The United Nations has had a significant presence, though with the end of the immediate crisis, UNHCR has reduced its presence and transferred responsibility for more long-term development programs to the United Nations Development Programme (UNDP). Other groups, including WFP, WHO and UNICEF, are also involved. Both the IMF and the World Bank concluded agreements with the government in 1996 for economic restructuring programs and stabilization. The Prime Minister signed a World Bank Agricultural Rehabilitation and Social Protection Credit of $50 million and the IMF has a $22 million

stand-by agreement with Tajikistan. The Red Cross (including both the IFRC and the ICRC) have growing relief programs, supported in part by the U.S. A number of private voluntary organizations (PVOs) from both the U.S. and elsewhere are active in Tajikistan, and on-ground coordination among the various donors and PVOs is regarded as excellent. Total U.S. assistance from all U.S. Government sources in 1996, including food aid, is estimated at $33.3 million.

FY 1998 Program.

USAID's strategy in Tajikistan will continue to concentrate on humanitarian assistance and political, economic and social reform. An important share of the funds will be channeled through U.S. PVOs, with a view toward building local organizational capacity and strengthening the ability of Tajiks to build and sustain their own economic recovery. The U.S. also plans to support programs in key areas such as economic restructuring and privatization, health, and development and strengthening of indigenous NGOs. The U.S. will seek to use scarce USAID resources to leverage other donor funding and help shape the broader donor effort. For example, both the World Bank and the UNDP have already concluded new initiatives which should increase funding for various PVOs working in the country.

Strategic Goal: Economic Restructuring

Tajikistan's first Consultative Group meetings, held in October 1996 in Tokyo and hosted by the World Bank, underscore the fact that opportunities exist to promote real economic change in Tajikistan. Despite adverse circumstances, Tajikistan made important progress in a number of areas over the last several months, especially in terms of reducing the inflation rate and encouraging greater macroeconomic stability. A serious privatization effort is also anticipated.

Already, USAID-funded training has helped lay the groundwork for this type of change. Also, modest technical assistance, including in the privatization area, has been provided as a precursor to a much larger World Bank-supported effort. Limited technical assistance for financial sector development and work on a legal and regulatory regime aimed at promoting investment, encouraging foreign trade, minimizing corruption, and encouraging private sector growth is also possible, as is legal and regulatory work related to energy sector development. The Central Asian-American Enterprise Fund (CAAEF) provides loan capital to potential Tajik entrepreneurs. USAID-funded American PVOs are also supporting a number of innovative pilot efforts in several areas, including agricultural development and microenterprise development. In FY 1997 and again in 1998, USAID will work closely with other donors to help bring about more lasting economic change through a combination of this type of training, technical assistance, and other support.

Limited assistance is also included in the Tajikistan program in support of the Central Asian regional energy initiative.

- Strategic Objective: Accelerated development and growth of private enterprise
- Strategic Objective: A more economically sustainable and environmentally sound energy sector (CAR Regional)

Strategic Goal: Democratic Transition

Modest efforts will continue that help promote reconciliation and introduce new democratic concepts, expand information flows, and ensure that local citizens play a greater role in the economic and political life of the country. USAID-funded training already has played a role in promoting these goals, as have such groups as Internews, the American Legal Consortium (ALC), and Counterpart Consortium. Probable initiatives that will take place in 1997 and continue into 1998 include encouraging civic participation through NGOs and promoting the legal and financial

availability of independent media channels. Also, a modest parliamentary support effort is being contemplated, along with other activities in conflict resolution.

- Strategic Objective: Increased, better-informed citizens' participation in political and economic decision making

Strategic Goal: Social Stabilization

Programming efforts will continue to focus on the ongoing economic and social crisis, with a view toward building local capacity and offering new approaches to development which can eventually be extended on a national level. USAID-funded American PVOs will remain as a significant programming vehicle for at least the next two years, but some resources may also be channeled through international agencies. An increased emphasis will be placed on developing Tajik partner groups and ensuring sustainable approaches to development.

Building on current PVO activities underway in Tajikistan, funding will be provided for further activities and expansion into other areas of the country. Much of the early PVO emphasis was on rebuilding houses, providing food to vulnerable groups, and making medical services available to needy returning populations. Future programs will directly address more long-term, sustainable development concerns, in part by strengthening partnerships with local communities and putting programs in place which can continue once donor assistance ends. This could include programs in housing, health, agriculture, and microenterprise development. Programs of this type have clear links to both economic restructuring and social transition goals.

USAID is already working with U.S. PVOs in Tajikistan and regionally to assist private farmers in the Leninsky region and Gorno-Badakhshan in exercising their new land use rights, acquiring seed and fertilizer inputs, training through short courses in farm management and technical subjects, developing private farmers' associations, constituency building to influence government policies toward private agriculture, exchanges with U.S. farm associations, visits to farmers' organizations in third countries within Central Asia, and technical assistance in marketing reforms (demonopolization to breakup the state system and design of competitive market structures). USAID is contributing to the beginning of private agriculture by providing models that can be replicated nationally. USAID is also working with American PVOs to support micro and small enterprise lending. As a result of the civil war, many households are headed by women who both need and welcome the opportunity to access capital and participate in market-oriented economic activity. In this area, as in other areas, programs of these types have links with the full range of strategic objectives being pursued in Tajikistan, including social transition, democratization, economic restructuring, and crisis impact.

In all five Central Asian Republics, attention will be focussed on the negotiation and preparation of draft laws, decrees, and long-term agreements concerning regional water use and sharing.

- Strategic Objective: Reduced human suffering and crisis impact
- Strategic Objective: Improved sustainability of social benefits and services
- Strategic Objective: Reduced environmental risks to public health (CAR Regional)

Cross-cutting and Special Initiatives

In the past, USAID has funded a modest range of specialized efforts, including the initiation of a medical partnership between hospitals in Dushanbe and Boulder, Colorado and reproductive health activities. Given the fluid nature of events in Tajikistan, it makes sense to retain flexibility and consider funding for a range of activities in order to be responsive and take advantage of possible

opportunities as they develop in order to have development impact.

A Memorandum of Understanding was signed in August 1995 initiating the USAID-funded medical partnership between Boulder Community Hospital in Colorado and City Clinical Hospital Number 2 in Dushanbe. The fact that Boulder and Dushanbe are "sister cities" helps strengthen the relationship. Also, a full program of training and technical assistance in reproductive health began in October 1994. As a result, modern family planning guidelines have been established. There are two fully staffed and equipped service delivery/clinical training sites, one in Khojent and one in Dushanbe.

USAID-funded advisors developed capacity in modern epidemiological methods with computerization of infectious disease surveillance to the oblast level. USAID-funded technical assistance was also critical in the identification and reporting of malaria cases, in turn attracting the attention of the World Health Organization in its efforts to control malaria in southern Tajikistan.

In the past, the NIS Exchanges and Training program provided U.S. short-term training for Tajikistan. Almost three hundred Tajik counterparts participated in such training programs in the U.S. during the 1994-1996 period. Under a new, follow-on training effort, some 37 Tajiks should participate in U.S.-based training programs in 1996, with many more benefitting from a variety of in-country and third-country training efforts. Already, the training program has been beneficial in exposing Tajik officials and private citizens to new ideas, which form an important resource for economic restructuring once political consensus is reached and national reconciliation leads to the restoration of stability in Tajikistan. This effort benefits Tajiks at all levels by training qualified public officials who are able to establish laws and regulations that are transparent and foster the growth of markets and democratic government. New entrepreneurs will benefit as they establish links with potential future U.S. commercial partners.

In-country training programs are based in part on a USAID-funded Resource Center in Dushanbe, where returning participants can utilize e-mail and fax facilities to keep in touch with U.S. trainers and contacts, and have access to duplicating equipment to reproduce reports and other materials. During the coming year, this in-country effort will be strengthened and expanded through a series of seminars, workshops and conferences, principally conducted by technical experts located in Central Asia. The government of Tajikistan has been highly appreciative of these training efforts, which are coordinated with programs offered by other donors such as the World Bank, UNDP and EU-TACIS.

TAJIKISTAN
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	6,000,000	--	--	--	6,000,000
Financial Reform	--	--	--	--	--
Energy	500,000	--	--	--	500,000
Citizens' Participation	--	1,000,000	--	--	1,000,000
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	400,000	--	400,000
Social Benefits	--	--	1,000,000	--	1,000,000
Environmental Health	--	--	1,000,000	--	1,000,000
Cross-cutting / Special Initiatives	--	--	--	5,500,000	5,500,000
TOTAL	6,500,000	1,000,000	2,400,000	5,500,000	15,400,000

*FREEDOM Support Act (FSA) Funds

USAID Mission Director: Patricia K. Buckles

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE: *Private Enterprise, 110-S001.3*
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $6,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Improved, more sustainable business operations

Background: During 1996, Tajikistan made substantial progress in stabilizing its overall macroeconomic situation. This was recognized at the country's first Consultative Group meetings in Tokyo in October 1996, which commended the country for its successful efforts to lower inflation and introduce liberalization measures in a number of sectors. Building on these early successes, additional training and technical assistance to promote economic restructuring and private sector development is envisaged.

USAID Role and Achievements to Date: So far, USAID has engaged with Tajik counterparts on economic reform and private sector development measures, mainly through NET training courses and modest, targeted technical assistance. Most recently, a USAID-funded privatization advisor has played a crucial role in setting the stage for a large World-Bank funded privatization effort scheduled to begin shortly. In-country training programs related to banking, economic restructuring, and privatization have also been effective in orientating Tajik policymakers to possible reform measures. Similarly, a tour of Tajik policymakers to observe the Kazakstan privatization program in 1996 helped set the stage for further progress on privatization in Tajikistan. Building on these initial activities, USAID believes it is appropriate to also move toward technical assistance to help plan and implement specific reform measures. This targeted technical assistance effort is due to take place in 1997 and continue into 1998.

Description: Modest technical assistance is planned in one or more of a number of possible areas, including banking, privatization, and the legal and regulatory environment needed to promote private sector growth. Similarly, a new regional oil, gas and electricity initiative may offer opportunity to engage on legal and regulatory issues related to investments in the energy sector. These technical assistance efforts would be supplemented by a variety of training "packages" involving in-country, third country, and U.S.-based training.

Host Country and Other Donors: USAID will continue to work closely with the various governmental entities involved in private sector development and economic restructuring issues. The World Bank and IMF are at this point directly engaged in this effort. USAID coordinates closely with these two institutions on their activities and in some instances, such as in the recent placement of a privatization advisor in Dushanbe, directly supports their programs. Activities are also coordinated with those of other donors such as EU-TACIS and UNDP which are interested in economic reform issues.

Beneficiaries: Entrepreneurs and those involved in private sector development stand to benefit from this initiative. More broadly, the citizens of Tajikistan would benefit from economic reform that leads to sustainable economic growth.

Principal Contractors, Grantees, or Agencies: To be determined. Mission plans to buy into existing assistance mechanisms or to competitively procure services depending on which will provide the best benefit to the U.S. Government, cost and other factors considered.

Major Results Indicators*:

*Indicators and targets will be finalized during the next planning cycle.

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE: Energy, 110-S001.5 (CAR Regional)
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more economically sound and environmentally sustainable energy system.

Background: Central Asia is rich in all major energy resources including oil, gas, coal and hydropower. The U.S. has a strong interest in the political and economic stability of this resource rich and strategically located region. The challenge is to develop a policy framework conducive to private investment and a market economy that will promote efficient, safe and environmentally sound resource recovery including the development of new transportation routes, thereby, assisting the region in realizing its potential as a significant contributor to world petroleum supply. Furthermore, energy has the potential to serve as the engine for future economic growth for the entire region.

USAID Role and Achievements to Date: USAID has provided advice in the preparation of an international oil and gas consortium for the Aral Sea Basin and has aided the Kazakstan state entity charged with development of Kazakstan's interests in the Caspian Sea, Kazakcaspishelf. In Kazakstan, consultants have also assisted in drafting rules and regulations for licensing and environmental safeguards, and preparation of a pipeline tariff methodology, critical in removing policy impediments for investment in and development of oil and gas. Monthly round tables between industry and the U.S. Government within a consultative framework developed jointly by the U.S. Embassy and USAID/Central Asia have been of great value.

USAID's continued work in the power sector of Kazakstan and Kyrgyzstan has contributed to policy reforms leading to the sale of over 50% of the Kazakstani electric power system to private investors including a U.S. corporation, and establishment of the first NIS independent regulatory commission in Kyrgyzstan. In Kyrgyzstan, assistance has been critical in passing energy and electricity laws, conditions for the World Bank and Asian Development Bank's $90 million loan for Kyrgyzstan power and district heating rehabilitation and modernization.

Description: USAID assistance is within the context of a U.S./Central Asian Republic Regional Energy Initiative focusing on (a) improving the legal and regulatory framework for oil and gas exploration, production and transportation; (b) identifying future markets for natural gas and defining investment opportunities for expanded and more efficient use of natural gas; and © further restructuring and regulatory reform in electric power and strengthening of regional electricity cooperation.

Building on work which has already begun in Kazakstan, oil and gas sector policy assistance is expected to begin in early 1997 in Turkmenistan and Uzbekistan. This assistance will develop a legal and regulatory framework promoting market competition, transparency, and accountability. Ongoing power sector work in the region is designed to further strengthen national and regional power markets, and facilitate intra-regional trade in electricity by introducing internationally acceptable commercial contracts and pricing practices. This is based on USAID's success in developing a regional power grid in the Baltic countries. This assistance will integrate the Central Asian power markets into larger and more viable markets for investment in new hydro and gas-fired generation, as well as transmission projects within and outside the region - - which may include markets in China and Pakistan.

Host Country and Other Donors: USAID works with counterpart ministries in the governments of Kazakstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and to a limited extent in Tajikistan. The other bilateral and multilateral agencies include the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and EU/TACIS.

Beneficiaries: This assistance will benefit local industrial and residential consumers in ensuring reliable and efficient energy resources and in expanding the diversity of their energy supply.

Principal Contractors, Grantees, or Agencies: Hagler-Bailly is the principal implementor, but assistance is also being provided by Burns and Roe, the U.S. Energy Association, and the U.S. Department of Energy.

Major Results Indicators:

	Baseline	Target
Number of independent regulatory agencies established.	0 (1994)	3 (1999)
Private investment in power systems increased.	0 (1994)	2 (1999)
Legal and regulatory framework established for oil and gas exploration and development.	0 (1994)	2 (1999)

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE: Increased, better informed citizens' participation 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Increased citizens' participation in political and economic decision-making

Background: Efforts to bring about political consensus in Tajikistan have proven to be both long and arduous. Nonetheless, opportunities do exist to promote reconciliation, enhance information flows, and increase the participation of Tajik citizens in the economic and political life of the country. Indeed, the aftermath of civil war and the economic decline have in a number of instances left vacuums that can be filled in part by local community groups working together to achieve common goals. Similarly, the presence of a large number of US and other foreign private voluntary organizations (PVOs) provide a graphic and often impressive demonstration of the importance of non-government organizations (NGOs), including local NGOs, in any society.

USAID Role and Achievements to Date: USAID has engaged with Tajik counterparts on civil society issues through a combination of U.S. training, in-country training, and modest technical assistance. Results have been encouraging. For example, a legal information center was established in Dushanbe and local NGOs have participated in a number of conferences and training sessions aimed at enhancing their role and effectiveness in Tajikistan. Also, following a seminar on independent media law, the government is putting forward a new media law that should promote independent media in Tajikistan. Already, at least one independent television station is operating in the country.

Description: The modest NGO and media support activities of the past will likely continue in FY1997 and again in FY1998. In many instances, examples and "lessons learned" from other countries in Central Asia will be brought to bear on the Tajikistan experience. If a political breakthrough is achieved and the ongoing peace talks involving the various Tajik political factions are successfully concluded, additional opportunities for work in the democratization/civil society arena may also emerge.

Host Country and Other Donors: USAID will work with both private citizens and government counterparts to undertake this effort. Other donors, including the EU and the various UN agencies, are also involved in a variety of activities that promote greater local participation, especially in the NGO sector. Donors meet regularly to discuss areas of common concern, and this coordination should continue in future.

Beneficiaries: All citizens of Tajikistan would benefit from activities that promote democracy, encourage a civil society, and expand the role that private individuals are able to play in the economic and political life of the country.

Principal Contractors, Grantees, or Agencies: Counterpart Consortium and Eurasia Foundation are engaged in promoting democratization in Tajikistan, among other groups. Additional groups may be funded later. Where appropriate, Mission would buy into existing assistance mechanisms or to competitively procure services depending on which will provide the best benefit to the U.S. Government, cost and other factors considered.

Major Results Indicators*:
*Indicators and targets will be finalized during the nest planning cycle.

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE: Reduced human suffering and crisis impact 110-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $400,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Reduced human suffering and crisis impact.

Background: Humanitarian relief programs funded by UNHCR, USAID and others have been largely successful in dealing with the aftermath of the 1992 civil war, which resulted in many deaths, the departure of tens of thousands of local citizens, and the destruction of many thousands of homes, schools, health centers, and other facilities. Much of the damage was concentrated in the Katlon area immediately south of the capital, Dushanbe. Although political consensus has not yet been achieved and the situation remains very fragile, most Tajiks who fled during the civil war have now been able to return home. Recognizing this, the UNHCR has reduced its presence and transferred responsibility for more long-term development programs to the United Nations Development Programme (UNDP).

A 1996 evaluation indicated that USAID resources have helped the U.S. Private Voluntary Organizations (PVOs) leverage resources from other donors. It also noted that U.S. PVOs were an effective means for delivering humanitarian assistance in the period immediately following the civil war. The PVOs working in Tajikistan have now made the transition from providing purely humanitarian assistance to development type programs, thus improving the likelihood for achieving sustainability in the social sector. As a result, USAID made a strategic choice to request proposals for the 1996 program which address larger development concerns in the areas of health, agriculture, and income generation in a cost effective manner.

USAID Role and Achievements to Date: USAID-supported work has been carried out through contributions to international organizations and American PVOs. Emergency funds provided major support for feeding programs, including food-for-work activities and the provision of food for especially vulnerable groups such as women and school children. Other types of humanitarian assistance were also provided. For example, approximately 500,000 people were provided with food, 40,000 people gained access to potable water in various project sites, 260,000 people had better access to basic health services and 62,000 people were provided with shelter. As USAID shifts towards more sustainable development projects, programs have been able to expand to include health, water, income generation, employment and agricultural development. Funding has also been provided for a small hydro generating plant in the isolated Gorno-Badakshan area of Tajikistan.

Description: USAID-funded American PVOs will remain a significant programming vehicle, but some resources may also be channeled through international agencies. Building on current PVO activities underway in Tajikistan, funding will be provided for further activities and continued expansion into other areas of the country. USAID plans to have future programs increasingly focus on more long term, sustainable development concerns, in part by strengthening partnerships with local communities and putting in place programs which can continue once donor assistance ends. This could include programs in housing, health, agriculture, and microenterprise development. Programs such as these will also provide important links to USAID social transition and market transition goals. If completely successful, this strategic objective will then be eliminated and replaced by activities directly linked to USAID objectives in the economic restructuring and social transition arena.

Host Country and Other Donors: Donor coordination in Tajikistan is excellent and is regarded as

among the most effective in the former Soviet Union. Various donor groups meet weekly to discuss programs and exchange information on important security issues affecting Tajikistan. Occasional sector-specific meetings are also held. Lead organizations include the United Nations (UNDP, UNICEF, WHO, etc.), bilateral donors including various European organizations, and a variety of American and international PVOs. Both the World Bank and the UNDP are supporting new initiatives that rely largely on local and foreign NGOs to manage and deliver badly needed goods and services to many areas of Tajikistan.

Beneficiaries: Direct beneficiaries include those who have benefitted from food, medical services, housing, and water provided by the various USAID-funded groups. In particular, tens of thousands of refugees and internally displaced persons have been helped as a result of the USAID program. Vulnerable groups, including women and children, have especially benefitted.

Principal Contractors, Grantees, or Agencies: American PVOs play a significant role in providing USAID-funded humanitarian assistance to Tajikistan. Groups that have received USAID funds thus far include Save the Children, Relief International, International Rescue Committee, CARE, Mercy Corps and the Aga Khan Foundation. Funds have also been provided to a number of international organizations, including the International Federation for the Red Cross, IOM, UNHCR, UNICEF, and UNDP.

Major Results Indicators*:

*Indicators and targets will be finalized during the next planning cycle.

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE: Improve the sustainability of social benefits and services 110-S003.2
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1998; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Improved sustainability of social benefits and services.

Background: The U.S. was among the most generous donors in responding to hardship resulting from the 1992 civil war and in the humanitarian crisis which followed. The relief programs funded by USAID and other donors were effective in dealing with the immediate aftermath of the civil war and in facilitating a safe return of most refugees. Current USAID-supported work, carried out through contributions to international organizations and American PVOs, is moving away from crisis management to address more long-term development issues. USAID's own support for such programs has also moved progressively in this direction.

USAID Role and Achievements to Date: USAID-supported work has been carried out through contributions to international organizations and American PVOs. USAID expects to build on the work of USAID-funded American PVOs currently underway in Tajikistan in the social sector.

Description: Building on the achievements associated with emergency humanitarian assistance--and assuming movement on the part of the Government of Tajikistan in the market transition area--USAID plans to concurrently address long-term, sustainable development concerns in the social sector. This could include programs in housing, health, agriculture, and microenterprise development. Such programs would also be closely linked to market transition goals. Given the Tajik context, mechanisms which address social sector issues by strengthening partnerships with local communities and ensuring programs which can continue once donor assistance ends are favored.

Host Country and Other Donors: Indigenous non-government organizations (NGOs) and various Government of Tajikistan ministries will be considered. Close coordination and collaboration will be maintained with the international donor community including the United Nations (UNDP, UNICEF, WHO, etc.), World Bank, bilateral donors, and a variety of American and international PVOs.

Beneficiaries: Ultimately, all citizens of Tajikistan benefit, especially those in that segment of the population classified as vulnerable (e.g., elderly pensioners, women, children).

Principal Contractors, Grantees, or Agencies: To be determined. Mission plans to "buy in" to existing assistance mechanisms or to competitively procure services depending on which will provide the best benefit to the US, cost and other factors considered.

Major Results Indicators:*

*Indicators and targets will be finalized during the next planning cycle.

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE: Environmental Health, 110-S003.3 (CAR Regional)
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1998

Purpose: Reduced environmental risks to public health.

Background: Following the period of Soviet central planning, a legacy of problems related to industrial pollution and environmental degradation remained. A prime illustration of such environmental degradation is the Aral Sea disaster zone, where several million people have been deprived of access to safe water and have experienced abnormally high rates of morbidity, non-specific diarrheas, and viral hepatitis. While much of USAID's early environmental efforts were focused on humanitarian assistance to the impacted Central Asian population, the challenge now is to focus on reform measures that will reduce levels of urban and industrial pollution in the region and to establish the policy and institutional framework to manage precious natural resources, including water.

USAID Role and Achievements to Date: USAID's Aral Sea program has provided safe drinking water for 1.1 million persons, improved the health/sanitation practices of 1.5 million persons, and already promoted significant policy changes needed for more efficient water use. The turnover to local officials of water treatment/transmission equipment combined with related training in Kazakstan, Turkmenistan and Uzbekistan are graphic demonstrations that USAID is one of the few donors delivering concrete results in the Aral Sea disaster zone.

In an effort to prevent the poor planning and resource utilization that lead up to issues like the Aral Sea disaster, all five republics have participated in seminars for regional water cooperation; are conducting analyses required for the introduction of water pricing; and have established short-term regional water sharing agreements. In Kazakstan, draft legislation is being prepared for establishing water user associations, a new national environmental law, and a pilot air pollution emissions program. While the first phase in developing a national environmental action plan in Kazakstan is now underway, legislation is now being prepared for establishing air pollution standards in Uzbekistan.

Description: USAID assistance appears critical for the Central Asians to maintain the needed focus on policy reform, including the introduction of rational water pricing schemes and regional agreements on water sharing and quality control among all the affected states in the Aral Sea basin. Additional emphasis is also being placed on the passage of reform legislation which would establish water user associations, waste management guidelines/requirements, and a pollution fines system. Strong coordination with other donors is essential as the Agency begins to phase down its own direct involvement. This coordination offers important opportunities for USAID to use its own field experience to leverage substantial resources and help shape the programs and policy agendas offered by other donors.

Host Country and Other Donors: The World Bank, United Nations Development Program, and EU-TACIS have been involved in these efforts. Major host country counterparts include the Interstate Council for the Aral Sea - Sustainable Development Commission, heads of state water agencies from each of the various republics, and various other ministries of each republic. In addition, there has been substantial collaboration with a wide range of other officials at the local and national levels.

Beneficiaries: This assistance seeks to benefit all Central Asia citizens by reducing serious environmental hazards which they encounter in their daily life.

Principal Contractors, Grantees, or Agencies: These organizations include CH2M-Hill Consortium, Harvard Institute for International Development, World Environmental Center, Moscow State University and ISAR Cooperative Agreement.

Major Results Indicators:

	Baseline	Target*
National water pricing strategies support policy changes at the local and national levels	0 (1994)	TBD
Critical watersheds subject to effective management and control policies/international treaties	0 (1994)	TBD
Agricultural water management investments leveraged by other donors (bilateral and multilateral)	$0 (1995)	TBD

*Target data will be developed during the next planning period.

TURKEY

FY 1998 Economic Support Fund Request: $50,000,000
FY 1998 Development Assistance Request: $4,000,000

Introduction.

Turkey is a close and valued ally of the United States. It occupies a strategic location between Eastern Europe, the Middle East and the New Independent States, and is a key member of NATO.

From the establishment of the Republic until 1980, Turkey was an insulated, state-directed economy. In 1980, however, the country embarked on a new course. Increased reliance on market forces, decentralization, export-led development, lower taxes, foreign investment, and privatization became the basis for the new economic philosophy. The U.S. has an interest in encouraging and supporting the growth and stability of a western-oriented Turkey following sound, free-market and democratic policies.

The Development Challenge.

The USG has not maintained a full-scale bilateral foreign aid program in Turkey since the mid-1970's. The country achieved an advanced standing in the developing world at that time and has continued to modernize. Nevertheless, the economic situation, while at times experiencing dramatic growth, has been unstable, rife with internal structural problems resulting from state intervention and bloated government bureaucracies. Economic problems are further exacerbated by excessive population growth, fueled by heavy rural to urban migration and relatively low prevalence of modern contraceptive usage. Turkey is also encountering a separatist and terrorist campaign from within the country, and this fight has resulted in alleged and confirmed human rights violations.

Turkey has made substantial progress towards implementing an ambitious program for correcting the underlying macroeconomic imbalances which have plagued the economy over several years. In 1994, the Government of Turkey (GOT) was able to achieve some measure of stabilization in terms of foreign exchange and external payments. The austerity package introduced in April 1994 was inconsistently applied and failed to eliminate Turkey's high inflation rates of over 65%. A severe currency crisis during the early months of 1994 put Turkey at risk of not meeting its external debt payment commitments. However, macroeconomic policy adjustments initiated by the government in April 1994, and supported by an International Monetary Fund (IMF) standby arrangement have led to a more favorable outlook for the sustainability of debt servicing by the country. By the end of 1994, the external currency account had improved significantly, foreign currency reserves restored to pre-crisis levels, and the composition of external debt had shifted further toward medium- and long-term commitments with average maturity of more than eight years.

In 1995, the Turkish economy grew robustly. For the year, GNP rose eight percent led by manufacturing production which increased by almost 14 percent. High growth continued into the first quarter of 1996, but the growth rate for the entire year is projected to be lower than 1995 due to a slowdown in export earnings. It is not clear whether the current coalition government will be able to take adequate measures to tackle the budget deficit and rein in inflation. Key areas requiring government action are privatization of state enterprises and social security reform.

Other Donors.

The principal form of U.S. assistance is through the cash transfer mechanism. The purpose is to support Turkey in implementing economic and democratic reforms. These resources, in conjunction with those provided by other donors and private lenders, enable Turkey to continue servicing its large debt, and help support its economic reform program and structural adjustment efforts.

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The International Monetary Fund (IMF) and World Bank have provided standby and project loans to the GOT to encourage and reward major economic reform measures. Moreover, the UN Fund for Population Activities and the International Planned Parenthood Federation support activities in less developed areas and with indigenous organizations respectively.

FY 1998 Program.

USAID supports an economic policy reform program under the Economic Support Fund (ESF) cash transfer program, which has spurred a dramatic increase in exports. The ESF program dwarfs all other activities USAID finances in Turkey.

The second largest program supports a focused population assistance program, which is guided by a five-year strategy. The strategy calls for a rational phase-over of activities to the GOT and the private sector by the end of the century. The strategy supports the U.S. Embassy's interest in broadening the bilateral US-Turkey relationship beyond military cooperation.

Strategic Goal: Social Stabilization

Population issues are developing into a major priority of the GOT, given that its current population of almost 61 million is expected to double by the year 2025. Surveys show that Turkish couples use less reliable traditional methods. Modern contraceptive prevalence, while increasing, is just approaching 35%, which is below countries like Bangladesh and Egypt. USAID donates approximately 90% of all GOT contraceptive commodities. Recently, the Government of Turkey has demonstrated a sense of commitment to reducing population growth. Together USAID and the GOT have developed a plan for enhancing private and public ability to meet consumer contraceptive demand independent of USAID support. Thus in FY 1995 USAID began implementing this agreed upon plan for enhancing contraceptive availability as part of a 5-year phase down strategy ultimately promoting Turkish private and public resources to take USAID's place as the main provider.

The USG-approved Population Strategy for Turkey 1995-99 contemplates the following activities. The USAID program is strengthening the GOT policy environment, forging ties among private firms and facilitating increased non-governmental organization (NGO) participation. The project works to train counselors and care providers to improve their quality of services and depth of knowledge. It seeks to expand access to services by integrating them into existing health care delivery networks. Finally, on a decreasing scale, USAID provides funding for contraceptive commodities.

The program, implemented by a number of U.S. Cooperating Agencies, has seen many gains. Family planning training has been integrated into eight university teaching programs, midwifery and nursing schools, as well as the Ministry of Health (MOH) in-service family planning sites. The MOH adopted the first-ever national family planning guidelines and operates model family planning clinics throughout the country. The MOH and social security organization agreed to begin purchasing contraceptives. The USG is working with the cooperating agencies to foment more synergistic implementation and sustainable impacts. The strategy, which includes a five-year phase down approach, will provide important guidance and impetus for results.

- Strategic Objective: Improved sustainability of social benefits and services

Cross-cutting and Special Initiatives.

This special initiative works to maintain economic and political strength and stability in Turkey. Turkey is a key ally and plays an important role in the region. While peace prospects have improved in some parts of the Middle East, hot spots are evident throughout the Caucasus, Central Asia, Cyprus and Iraq/Iran. The instability surrounding Turkey and the internal civil strife distract the government from major economic reforms. Growing religious conservatism could make reform more difficult. In

addition, the GOT must take much more drastic steps to reform the economy, for example, through full-scale privatization and reduced government expenditures. These significant changes in the economic system require international financial support to ease the burden and maintain stability.

USAID assistance will be used primarily for balance-of-payment support, including the servicing of nonmilitary U.S. and international lending institutions' debt. USAID's strategy is to provide resources, which, in conjunction with those provided by other donors and private lenders, will permit continued implementation of Turkey's economic reform program, while allowing it to continue importing the goods and services it needs for economic growth and stability.

TURKEY
FY 1998 PROGRAM SUMMARY

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Social Benefits	--	--	4,000,000 b/	--	4,000,000
Cross-cutting / Special Initiatives	--	--	--	50,000,000 a/	50,000,000
TOTAL	--	--	4,000,000b/	50,000,000a/	54,000,000

a) Economic Support Fund
b) Development Assistance

Director, Office of European Country Affairs: David Cowles

ACTIVITY DATA SHEET

PROGRAM: TURKEY
TITLE: Social Benefits, 000-S003.2
STATUS: *Continuing*
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $4,000,000 DA
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Improved sustainability of social benefits and services.

Background: Turkey's rapid population growth is a deterrent to its social and economic development. Turkey has a population of 61.8 million, which under current conditions will double in just 33 years. Desired fertility in Turkey is 2.1, while the actual fertility is 2.7. Although overall contraceptive prevalence is 63%, only about half of that represents modern method use. There are 11.5 million married women of reproductive age, 9.6 million of whom want to use contraceptives, but only 4.4 million of whom are using modern contraceptive methods. Thus over five million couples (over 40% of all Turkish couples) have unmet demand for modern family planning methods. The Government of Turkey (GOT) has recently demonstrated an elevated sense of commitment to population and family planning issues.

USAID Role and Achievements to Date: USAID has provided funds for population programs in Turkey since the 1960s. Today's USAID assistance focuses on sustaining a reduced rate of population growth and a financially sustainable program, able to continue in the absence of donor resources. To achieve this end, USAID and the U.S. Embassy in Ankara, developed a five-year strategy for 1995-1999. According to the strategy, the assistance budget will be phased down to insignificant levels by the end of 1999. The program focuses on policy, management development, training education, communication and service delivery. Thirty-five percent of the 1996 USAID population assistance budget was earmarked for contraceptive commodities for the public sector. The strategy also includes a phase-out plan for commodities, whereby the GOT will assume full responsibility for procurement of contraceptives by the year 1999. The convergence of a number of factors have created ideal conditions for impact in Turkey. The most salient factor is the GOT's elevated sense of commitment to population and family planning issues and the willingness to develop the role of the commercial and non-government sectors -- an endeavor seen to promote program sustainability. The GOT, commercial sector, and non-governmental organizations have all requested technical assistance in reaching their individual and mutual goals -- contributing to the increasingly productive partnership between USAID and Turkey. The coordination of the program rests with a Joint Programming Team comprised of USAID/Washington and U.S. Embassy representatives.

Description: USAID's activities focus on increasing the availability and effective use of quality family planning and reproductive health services; improving Turkey's self-reliance in family planning and reproductive health by enhancing the public and private sector ability to meet consumer demand for these services independent of USAID support. There are three USAID strategic approaches for achieving the program's strategic objectives: 1. Strengthen policy and GOT budgetary support for the family planning program; 2. Improve the quality of family planning and reproductive health services in the public and private sectors; 3. Expand access to family planning and reproductive health services and information in the public and private sectors.

Host Country and Other Donors: The Turkey's Ministry of Health, the Social Insurance Organization (SSK), NGOs and the commercial sector collaborate with USAID programs. With USAID as the lead donor both in financial and programmatic terms of the program, several other donors contribute to the program. The United Nations (UN) endorses an integrated approach to improve maternal, child and family planning services and focusses on underserved populations, covering the most remote 28 provinces in eastern and southeastern Turkey. The International Planned Parenthood Federation (IPPF) supports the Family Planning Association of Turkey (FPAT), its local affiliate, in supporting various

small projects, mostly educational activities, aimed to religious leaders, adolescents, men, and policy-makers. The Japanese International Cooperating Agency (JICA) plays a limited role, in funding the establishment of a high-tech studio for the development of audio-visual materials for the MOH. In addition, The European Union (EU) and the German Technical Cooperation Assistance (GTZ), have recently committed small grants to local NGOs to carry out small scale family planning service delivery projects. Finally, the World Bank supports a large five year health sector loan, however, it does not focus on population and family planning.

Beneficiaries: This effort seeks to directly benefit women of reproductive age, their husbands and children through helping them meet their desired family size and improving the health status of women and children. Indirectly, this effort seeks to benefit the entire population of Turkey by reducing the population pressures on the economy, environment, housing and social services.

Principal Contractors, Grantees, or Agencies: Cooperating groups are: the Johns Hopkins Program for International Education in Reproductive Health (JHPIEGO), the Johns Hopkins Population Communication Services (PCS), the Futures Group International through the Social Marketing Project (SOMARC) and through OPTIONS for Population Policy Project, Pathfinder International, Access to Voluntary and Safe Contraception (AVSC) International, Management for Sciences for Health through the Family Planning Management Development Project (FPMD), John Snow Incorporated through the Family Planning Logistics and Management Project (FPLM) and through Family Planning Service Expansion And Technical Support Project (SEATS).

Major Results Indicators:

	Baseline	Targets
National strategic plan for the family planning	None (1994)	Implemented (1999)
Modern contraceptive prevalence	35% (1993)	45% (1999)
Use of long-term methods (Depo-Provera, etc.)	3% (1993)	9% (2000)
Discontinuation rates of modern contraceptives	55% (1993)	30% (1999)
Abortion rates (per 100 pregnancies)	19 (1993)	reduced (1999)
Family planning line item in MOH annual budget	No (1994)	Yes (1999)
% of modern contraceptives provided by private sector	0% (1996)	95% (1999)

TURKMENISTAN

FY 1998 Assistance to the NIS Request: $6,000,000

Introduction.

Turkmenistan remains a resolute one-party state, with power invested in a communist-turned-nationalist leader. It has introduced limited economic reform including a privatization program. With a small population (approximately four million) in a country larger than California and significant reserves of natural gas, oil and other minerals, Turkmenistan has the potential to be a wealthy country. In fact, these factors account for the government's gradualist approach to market reform and avoidance of reforms that might entail significant loosening of state control of the economy or rapid political liberalization.

Turkmenistan's landlocked situation and a continuing Russian monopoly on energy resource export routes are obstacles which help prevent the country from achieving its potential. Russia continues to restrict Turkmen gas exports to other CIS countries (Ukraine, Armenia, Georgia) that lack hard currency and are unable to pay contracted prices for gas deliveries. Alternative routes--through Iran, across the Caspian Sea, or through Afghanistan to Pakistan--all present political or economic difficulties which will not be easily solved.

The United States has several important interests in Turkmenistan. The first and major goal is to support Turkmenistan's independence and sovereignty as part of a broader effort to ensure regional stability. The second is to assist in efforts to develop energy resources and identify multiple export routes thereby permitting Turkmenistan to solidify its own independence. A prosperous Turkmenistan achieving its economic potential will help expand world energy supplies and also attract U.S. trade and investment. A third interest is to assist Turkmenistan's transition to a more open, democratic society in the belief that a pluralistic system is the best guarantee of political independence in the long run.

In addition to energy resources, Turkmenistan is important due to its geographic location. With long borders with Iran and Afghanistan and proximity to the Caucasus, the Middle East and South Asia, it is at the crossroads of Asia. It has the capability to contribute significantly to stability in the entire region; or, conversely, to be a factor for instability. In particular, the U.S. has an interest in limiting the influence Iran exercises in Turkmenistan, with its potential implications for developments elsewhere in Central Asia.

The Development Challenge.

Although Turkmenistan tried to avoid the trauma of a rapid economic restructuring program, efforts to maintain an unsustainable status quo have had their own risks and costs. More than five years after independence, life for the average citizen in Turkmenistan remains difficult. Many complain of declining purchasing power since 1993, the year in which the country stopped receiving substantial hard currency revenues for its natural gas exports. Inflation in 1995 reached 1,260% and the national currency's nominal value fell from two per dollar in late 1993 to 3,000 per dollar at the end of 1995.

During 1996 the level of Turkmenistan's external debt increased substantially, reflecting the fact that long-term economic planning is still premised on expectations of substantial hard currency earnings from gas sales abroad. On the positive side, the average maturity of its debt also increased substantially, indicating that creditors' share confidence in the country's mid- to long-term potential. However, the inability of the country's gas customers to pay for deliveries and a drastic reduction in revenues from Turkmenistan's other main export, cotton, led to continued problems in servicing Turkmenistan's external debt. Although payments have been made on loans guaranteed by the Ex-Im Bank, private lenders report long delays in receiving payments.

There are encouraging indications that the government recognizes the failure of its former policy and is willing to begin economic reform. In 1996 the government applied macroeconomic reform measures recommended by the World Bank, including controlling credit expansion, managing the budget deficit, liberalizing foreign exchange conversion, and agreeing to a privatization program. These policies have helped rationalize economic decision-making and initial results have been encouraging. Monthly inflation fell from approximately 60% in January 1996 to three percent in July 1996 and the decline in the value of the national currency slowed significantly. A return to 12% per month inflation rates late in the year probably stems from a combination of a disastrous harvest and unusual expenses related to Turkmenistan's fifth anniversary celebrations. That said, the state sector continues to dominate the economy and major economic distortions remain.

The reforms instituted in 1996 have not yet turned around the decline in most economic sectors. Mismanagement and centralization of the agricultural sector have led to poor harvests of the critical wheat crop, in addition to cotton. In spite--or perhaps because of--the continued weak performance of the economy, the government remains committed to its policy of heavily subsidizing utilities, social services, and basic food commodities. While understandable from a political perspective, these subsidies are difficult to sustain under current economic circumstances.

The Turkmen government's desire to avoid the social trauma inherent in rapid change underlies its political as well as its economic decisions. The leadership exercises firm authoritarian control over a highly centralized government structure. However, during 1996 advances were made toward legal reform, the development of a more independent parliament and judiciary, and the formation of non-governmental organizations (NGOs). In October 1996, the President opened the Institute for Democracy and Human Rights which has a mandate to foster democratization of the state and society and to monitor the protection of human rights. The institute is led by members of parliament and will play a key role in developing legislation to modernize political institutions. Several small NGOs have emerged over the past year which are actively promoting citizen participation and civic education.

With the adoption of economic reforms and the development of structures to begin political reform, the modest USAID program in Turkmenistan is shifting its focus to provide limited technical assistance which will promote the process of change.

Other Donors.

The International Monetary Fund provides the Turkmen government and the Central Bank of Turkmenistan with technical assistance and consultancy services in all areas of macroeconomic policy. EU-TACIS focuses on agriculture, energy, privatization, and private sector development. The UNDP supports a public administration institute. Other donors include the Turkish International Cooperation Agency (TICA), the British Know How Fund, UNICEF, and UNHCR.

FY 1998 Program.

The FY 1998 USAID program will continue the previous year's limited initiatives in the areas of business climate development, budgetary reform, and the energy sector, with emphasis on gas and oil. Turkmenistan will continue to be exposed to the experience of other countries in developing their oil and gas industry by mobilizing foreign investment through a combination of technical assistance, training, internships, and partnerships with U.S. energy entities. Regional cooperation in areas such as water and power generation will also be encouraged. Technical training and study tours in the U.S. and third countries will complement these efforts. Modest programs in democratization (including further encouragement of NGOs) and the health sector are also planned, including increasing use of regional workshops to expose Turkmen to the benefits other countries in the region are having from reform.

Strategic Goal: Economic Restructuring

Recent steps by the Government of Turkmenistan to promote economic restructuring provide an opportunity to provide direct assistance in the area of market transition. Already, NET training programs have helped prepare the groundwork by exposing Turkmen policymakers to concrete examples of how market economies work. Other donors have cited this early work as one reason why Turkmenistan appears to be more open to change. Given this backdrop, USAID will fund further in-country training as well as on-site advisors to assist Turkmen counterparts in adopting and implementing new policies. Possible areas of interest include budget reform and trade and investment advice. Also, the Central Asian-American Enterprise Fund (CAAEF) can play an important role in assisting new private businesses to develop and expand business operations.

Finally, Turkmenistan's participation in a regional oil and gas initiative should offer many opportunities to discuss and implement legal and regulatory change in the energy sector. In May 1996, the government requested USAID technical assistance in the area of legal and regulatory reforms for the petroleum sector. The government's main aim is to establish a policy environment conducive to attracting foreign investment in oil and gas exploration, processing, and transport.

- Strategic Objective: Accelerated development and growth of private enterprise

- Strategic Objective: A more economically sustainable and environmentally sound energy sector (CAR Regional)

Strategic Goal: Democratic Transition

Modest efforts are planned that would introduce new democratic concepts, expand information flows, and ensure that local citizens play a greater role in the economic and political life of the country. USAID-funded training has already played a role in preparing the groundwork for this type of initiative. The new Institute for Democracy and Human Rights represents one welcome development which USAID can help support through technical assistance and training. Also, NGO development programs active elsewhere in Central Asia are finding increasing opportunities to work in Turkmenistan. Expanded in-country training programs will also support this objective.

- Strategic Objective: Increased, better-informed citizens' participation in economic decision-making

Strategic Goal: Social Stabilization

Building on past efforts in regional water resource cooperation, USAID will continue to help the Central Asian Republics focus on the negotiation and preparation of draft laws, decrees, and long-term agreements concerning regional water use and sharing.

- Strategic Objective: Reduced enviironmental risks to public health (CAR Regional)

Cross-cutting and Special Initiatives

To the extent possible, USAID has shaped activities under past Congressional earmarks to contribute to health sector reform. The medical partnership, established in 1993 and currently in the graduation phase, has trained staff at 31 institutions in modern hospital management. It also helped establish a cost accounting department at its partner Turkmen institution which led to a marked reduction in the average length of hospital stays. Fee-for-service medical care now accounts for ten percent of the partnership hospital budget.

USAID is using FY 1996 and 1997 family planning earmark funds to focus on the social marketing for contraceptives. Under this initiative, USAID will foster an environment for commercial distribution and sales of contraceptives and other pharmaceuticals. To enhance the likelihood of success in this area, USAID plans to use these funds to address more general regulatory issues related to trade restrictions and to address policy reform in the commercial and marketing sector. A more open and competitive commercial sector will increase the likelihood of success in marketing contraceptives.

Under the USAID regional productive health program, Ashgabat now has two fully equipped service delivery/clinical sites for reproductive health. These sites have the institutional capacity to train clinicians throughout the nation in reproductive health.

Farmer-to-farmer represents another special initiative that is also shaped to address more long-term development concerns, in this case related to private farmers. By the end of 1997, the farmer-to-farmer program managed by Winrock will have funded 75 volunteers to assist private farmers and agribusiness in planning, managing and financing their business interests. In some cases, these activities can also be linked to the investment programs of the CAAEF.

Finally, participant training represents another cross-cutting program. During the initial stages, the program focused on U.S.-based training. A new program is now being launched that would include an emphasis on less expensive third country and in-country training. Courses have been offered in a variety of areas, including drafting legislation, international contracting, and national budgeting. Training programs are coordinated closely with other donors as part of a broader effort to enhance the impact of technical assistance. In addition, training programs help introduce Turkmen counterparts to Western systems and approaches to political and economic reform.

In 1996, nearly 130 Turkmens participated in short-term, U.S.-based training programs. Approximately 300 participants are anticipated in 1997 in a combination of in-country, third country, and U.S. based training. While highly appreciative of U.S.-based training, Turkmen officials have expressed interest in expanding in-country training programs and in long-term technical assistance that will help them achieve specific reform goals. The training program will be adjusted in 1997 and 1998 to respond to this concern, and will include considerably more opportunities for both in-country and third-country training.

TURKMENISTAN
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	3,000,000	--	--	--	3,000,000
Financial Reform	--	--	--	--	--
Energy	200,000	--	--	--	200,000
Citizens' Participation	--	400,000	--	--	400,000
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	400,000	--	400,000
Cross-cutting / *Special Initiatives*	--	--	--	2,000,000	2,000,000
TOTAL	3,200,000	400,000	400,000	2,000,000	6,000,000

*FREEDOM Support Act (FSA) Funds

USAID Mission Director: Patricia K. Buckles

ACTIVITY DATA SHEET

PROGRAM: TURKMENISTAN
TITLE: Private Enterprise, 110-S001.3
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1997; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Improved, more sustainable business operations

Background: Turkmenistan has been slow to effect serious economic restructuring measures. Since independence, USAID along with other donors such as the World Bank and the IMF have conducted an ongoing dialogue on the need for change and on the types of approaches needed to embark on serious reform. There are clear indications that the Government of Turkmenistan is more serious about taking the kind of economic reform steps needed to promote sustainable development.

USAID Role and Achievements to Date: So far, USAID has engaged with Turkmen counterparts on economic reform measures mainly through NET training courses. Topics covered thus far include tax policy, budgeting, privatization, and banking. These have been supplemented by a variety of in-country seminars and workshops covering such topics as legal reform in a market economy. Building on these initial activities, USAID believes it is appropriate to also move toward technical assistance to help plan and implement specific reform measures. This targeted technical assistance effort is due to begin in 1997 and continue into 1998.

Description: Modest technical assistance is planned, especially in the area of budget reform and trade and investment. As other Central Asian countries move forward in terms of their application to the World Trade Organization (WTO), Turkmenistan may well be interested in following their lead. As occurred elsewhere in Central Asia, this would almost certainly also provide an entry for serious discussion on a range of trade and investment issues, including the types of policy changes needed to ensure greater private foreign investment. Similarly, a new oil and gas initiative should offer many opportunities to engage on legal and regulatory issues related to investments in the energy sector. These technical assistance efforts would be supplemented by a variety of training "packages" involving in-country, third country, and U.S.-based training.

Host Country and Other Donors: USAID will work closely with the various governmental entities involved in private sector development and economic restructuring issues. Leading donors that support and are involved with this effort include the IMF, World Bank, and EU-TACIS.

Beneficiaries: Entrepreneurs and those involved in private sector development stand to benefit from this initiative. More broadly, the citizens of Turkmenistan would benefit from economic reform that leads to sustainable economic growth.

Principal Contractors, Grantees, or Agencies: To be determined. Mission plans to buy into existing assistance mechanisms or to competitively procure services depending on which will provide the best benefit to the U.S. Government, cost and other factors considered.

Major Results Indicators:*
Number of new laws or policy changes approved
Share of GDP generated by private enterprise
Level of private foreign investment in Turkmenistan

*Indicators and targets will be finalized during the next planning cycle.

ACTIVITY DATA SHEET

PROGRAM: TURKMENISTAN
TITLE: Energy, 110-S001.5 (CAR Regional)
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $200,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more economically sound and environmentally sustainable energy system.

Background: Central Asia is rich in all major energy resources including oil, gas, coal and hydropower. The U.S. has a strong interest in the political and economic stability of this resource rich and strategically located region. The challenge is to develop a policy framework conducive to private investment and a market economy that will promote efficient, safe and environmentally sound resource recovery including the development of new transportation routes, thereby, assisting the region in realizing its potential as a significant contributor to world petroleum supply. Furthermore, energy has the potential to serve as the engine for future economic growth for the entire region.

USAID Role and Achievements to Date: USAID has provided advice in the preparation of an international oil and gas consortium for the Aral Sea Basin and has aided the Kazakstan state entity charged with development of Kazakstan's interests in the Caspian Sea, Kazakcaspishelf. In Kazakstan, consultants have also assisted in drafting rules and regulations for licensing and environmental safeguards, and preparation of a pipeline tariff methodology, critical in removing policy impediments for investment in and development of oil and gas. Monthly roundtables between industry and the U.S. Government within a consultative framework developed jointly by the U.S. Embassy and USAID/Central Asia have been of great value.

USAID's continued work in the power sector of Kazakstan and Kyrgyzstan has contributed to policy reforms leading to the sale of over 50% of the Kazakstani electric power system to private investors including a U.S. corporation, and establishment of the first NIS independent regulatory commission in Kyrgyzstan. In Kyrgyzstan, assistance has been critical in passing energy and electricity laws, conditions for the World Bank and Asian Development Bank's $90 million loan for Kyrgyzstan power and district heating rehabilitation and modernization.

Description: USAID assistance is within the context of a U.S./Central Asian Republic Regional Energy Initiative focusing on (a) improving the legal and regulatory framework for oil and gas exploration, production and transportation; (b) identifying future markets for natural gas and defining investment opportunities for expanded and more efficient use of natural gas; and © further restructuring and regulatory reform in electric power and strengthening of regional electricity cooperation.

Building on work which has already begun in Kazakstan, oil and gas sector policy assistance is expected to begin in early 1997 in Turkmenistan and Uzbekistan. This assistance will develop a legal and regulatory framework promoting market competition, transparency, and accountability. Ongoing power sector work in the region is designed to further strengthen national and regional power markets, and facilitate intra-regional trade in electricity by introducing internationally acceptable commercial contracts and pricing practices. This is based on USAID's success in developing a regional power grid in the Baltic countries. This assistance will integrate the Central Asian power markets into larger and more viable markets for investment in new hydro and gas-fired generation, as well as transmission projects within and outside the region - - which may include markets in China and Pakistan.

Host Country and Other Donors: USAID works with counterpart ministries in the governments of Kazakstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and to a limited extent in Tajikistan. The other bilateral and multilateral agencies include the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and EU/TACIS.

Beneficiaries: This assistance will benefit local industrial and residential consumers in ensuring reliable and efficient energy resources and in expanding the diversity of their energy supply.

Principal Contractors, Grantees, or Agencies: Hagler-Bailly is the principal implementor, but assistance is also being provided by Burns and Roe, the U.S. Energy Association, and the U.S. Department of Energy.

Major Results Indicators:

	Baseline	Target
Number of independent regulatory agencies established	0 (1994)	3 (1999)
Private investment in power systems increased	0 (1994)	2 (1999)
Legal and regulatory framework established for oil and gas exploration and development	0 (1994)	2 (1999)

ACTIVITY DATA SHEET

PROGRAM: TURKMENISTAN
TITLE: Increased, better informed citizens' participation 110-S002.1
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $400,000FREEDOM Support Act
INITIAL OBLIGATION: FY 1997; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Increased citizens' participation in political and economic decision-making

Background: Turkmenistan remains a one-party state in which the president has almost absolute authority. That said, there have been recent indications of a willingness to expand participation and allow greater citizen involvement in the political and social life of the country. For example, a parliamentary structure is in place which can provide a forum for discussion on important issues. A number of non-governmental organizations (NGOs) have developed and do operate outside formal government channels. In addition, the establishment of an Institute for Democracy and Human Rights represents a new institution that may well emerge as the setting for more serious discussion on moving Turkmenistan more toward international democratic norms and practices.

USAID Role and Achievements to Date: As in the economic arena, USAID has engaged with Turkmen counterparts on issues of democratic reform mainly through NET training courses. Examples cover a range of activities such as judicial reform, farmers associations, civic participation, institutional contracting and budget reform. Building on these initial activities, USAID believes it is appropriate to also move toward expanding NGO development programs and providing a modest level of technical assistance in one or two key areas.

Description: As noted, USAID hopes to expand its NGO support effort in Turkmenistan and place at least one advisor at the new Institute for Democracy and Human Rights in Ashgabat. If this proves successful, other opportunities could emerge in other areas related to democratization and civil society development in Turkmenistan. In-country, third-country and U.S.-based training efforts that support these areas would also continue.

Host Country and Other Donors: USAID will work closely with both private citizens and government counterparts to undertake this effort. Other donors are also somewhat involved, including EU-TACIS which assists in drafting legislation and UNHCR which is setting up a law library at the Institute for Democracy and Human Rights. Both UNDP and EU-TACIS are also involved in programs which relate to governance.

Beneficiaries: All citizens of Turkmenistan would benefit from activities that promote democracy, encourage a civil society, and expand the role that private individuals are able to play in the economic and political life of the country.

Principal Contractors, Grantees, or Agencies: To be determined. Mission plans to buy into existing assistance mechanisms or to competitively procure services depending on which will provide the best benefit to the U.S. Government, cost and other factors considered.

Major Results Indicators:*

Number of new laws or policy changes related to democratization approved
Number of indigenous NGOs involved in advocacy or information activities
Extent to which new Institute for Human Rights and Democratization contributes to political and social life of Turkmenistan

*Indicators and targets will be finalized during the next planning cycle.

ACTIVITY DATA SHEET

PROGRAM: TURKMENISTAN
TITLE: Environmental Health, 110-S003.3 (CAR Regional)
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $400,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1998

Purpose: Reduced environmental risks to public health.

Background: Following the period of Soviet central planning, a legacy of problems related to industrial pollution and environmental degradation remained. A prime illustration of such environmental degradation is the Aral Sea disaster zone, where several million people have been deprived of access to safe water and have experienced abnormally high rates of morbidity, non-specific diarrheas, and viral hepatitis. While much of USAID's early environmental efforts were focused on humanitarian assistance to the impacted Central Asian population, the challenge now is to focus on reform measures that will reduce levels of urban and industrial pollution in the region and to establish the policy and institutional framework to manage precious natural resources, including water.

USAID Role and Achievements to Date: USAID's Aral Sea program has provided safe drinking water for 1.1 million persons, improved the health/sanitation practices of 1.5 million persons, and already promoted significant policy changes needed for more efficient water use. The turnover to local officials of water treatment/transmission equipment combined with related training in Kazakstan, Turkmenistan and Uzbekistan are graphic demonstrations that USAID is one of the few donors delivering concrete results in the Aral Sea disaster zone.

In an effort to prevent the poor planning and resource utilization that lead up to issues like the Aral Sea disaster, all five republics have participated in seminars for regional water cooperation; are conducting analyses required for the introduction of water pricing; and have established short-term regional water sharing agreements. In Kazakstan, draft legislation is being prepared for establishing water user associations, a new national environmental law, and a pilot air pollution emissions program. While the first phase in developing a national environmental action plan in Kazakstan is now underway, legislation is now being prepared for establishing air pollution standards in Uzbekistan.

Description: USAID assistance appears critical for the Central Asians to maintain the needed focus on policy reform, including the introduction of rational water pricing schemes and regional agreements on water sharing and quality control among all the affected states in the Aral Sea basin. Additional emphasis is also being placed on the passage of reform legislation which would establish water user associations, waste management guidelines/requirements, and a pollution fines system. Strong coordination with other donors is essential as the Agency begins to phase down its own direct involvement. This coordination offers important opportunities for USAID to use its own field experience to leverage substantial resources and help shape the programs and policy agendas offered by other donors.

Host Country and Other Donors: The World Bank, United Nations Development Program, and EU-TACIS have been involved in these efforts. Major host country counterparts include the Interstate Council for the Aral Sea - Sustainable Development Commission, heads of state water agencies from each of the various republics, and various other ministries of each republic. In addition, there has been substantial collaboration with a wide range of other officials at the local and national levels.

Beneficiaries: This assistance seeks to benefit all Central Asia citizens by reducing serious environmental hazards which they encounter in their daily life.

Principal Contractors, Grantees, or Agencies: These organizations include CH2M-Hill Consortium, Harvard Institute for International Development, World Environmental Center, Moscow State University and ISAR Cooperative Agreement.

Major Results Indicators:

	Baseline	Target*
National water pricing strategies support policy changes at the local and national levels	0 (1994)	TBD
Critical watersheds subject to effective management and control policies/international treaties	0 (1994)	TBD
Agricultural water management investments leveraged by other donors (bilateral and multilateral)	$0 (1995)	TBD

*Target data will be developed during the next planning period.

UKRAINE

FY 1998 Assistance to the NIS Request: $225,500,000

Introduction.

Ukraine's transition from a centrally planned economy to one that responds to the dynamics of the marketplace has been slow and difficult, as have political and social change. But more than ever before in the five year history of independent Ukraine there is reason to be optimistic about the prospects for lasting economic, political and social transformation.

The United States and Ukraine have a shared interest in Ukraine's independence, stability and prosperity. Straddling East and West, Ukraine is trying to assert its national identity while at the same time establishing and balancing relationships with Russia, its fellow newly independent states, and the rest of the world. In regard to the latter, over the past several years, Ukraine has taken important steps that have led to greater global security and furthered economic and political integration with the West. Of critical importance were the decisions to rid itself of nuclear weapons and to become a leading member-state in the Partnership for Peace. Further demonstrating its position as a member of the world community, Ukraine has also participated in peacekeeping efforts in Bosnia-Herzegovina. On the economic side, Ukraine has successfully kept pace with an ambitious and politically difficult economic reform program negotiated with the International Monetary Fund (IMF) and supported by the donor community. Although much remains to be accomplished, considerable strides have been made, including monetary stabilization, trade liberalization and a substantial reduction in inflation. Recently, Ukraine has undertaken to broaden and deepen its efforts with the introduction of a comprehensive economic reform program. If this is successfully implemented, Ukraine will have made substantial headway toward achieving a sustainable and stable market-based economy. Furthermore, with the recent passage of a new constitution and Ukraine's determination to use the occasion as impetus for further economic, political and social change, Ukraine's stability and its role as an important new member of the world community are greatly strengthened.

The Development Challenge.

The transformation of Ukraine's economic and social structure is a daunting task, requiring steadfast support both from within the country and from the international community. USAID is assisting Ukraine to put in place the basic building blocks of a market-oriented economy, involving the transfer of a significant proportion of command-controlled assets to private ownership and comprehensive change in economic policies and supporting institutions. Another enormous challenge for the Government of Ukraine (GOU), however, is to maintain popular support for the reform effort. As long as the quality of life continues to deteriorate for most Ukrainian citizens, the promise of a brighter future associated with economic reform will ring hollow. Therefore, USAID is assisting Ukraine in building political and civil institutions that will supplement and balance the efforts of government. Attention is also being given to restructuring basic social protection programs so that government social service expenditures are targeted to the most needy and can become sustainable within the confines of Ukraine's budgetary strictures.

A strong impetus for undergoing radical reform is Ukraine's enormous debt burden, which now stands at close to $9.9 billion, or about 26% of GDP. More than half is owed to countries of the former Soviet Union, mainly Russia, for oil and natural gas. The GOU well understands the importance to its future solvency of reducing this drain on the economy.

Just two years into its serious economic reform program, Ukraine has far to go in its journey. While the pace of privatization has picked up considerably, that is only the first step in the larger process of enterprise restructuring to adapt to a market-oriented economy. Critical to the functioning of the transformed economy is the establishment of a business environment conducive to enterprise

development and domestic and foreign investment. This includes a supportive legal and regulatory environment, a sound financial infrastructure, and full integration into world markets through accession to the World Trade Organization (WTO). It also includes addressing such serious constraints as corruption and moving forward in areas that have been slow to undertake reform, most notably agriculture. Continued progress in energy sector reform is fundamental to achieving Ukraine's economy and security objectives, as is action to reverse the legacy of environmental mismanagement to promote sustainable development.

In terms of Ukraine's democratic transition, the enactment of a new constitution was a ground-breaking first step. Implementing legislation is now required in many areas, and a new legal system will have to be instituted to secure a democratic future. Developing effective and accountable local governments and strengthening civil society institutions are critical to the proper functioning of a democracy as well. Ensuring the long-term viability of independent media is also key.

The scope of Ukraine's social transition has yet to be fully defined, but is crucial for sustaining popular support for the transition to a free market and democracy. If affordable methods are not developed to protect Ukraine's most vulnerable citizens from the fall in real incomes, and to arrest the deterioration of basic public services, political support for economic reform in Ukraine will evaporate.

Given Ukraine's progress on reform so far, it will both participate in the cooperative activities of the Partnership for Freedom (PFF) initiative and continue to receive technical assistance in support of its transition to a market economy. Already, U.S. assistance provided to date is reaping tangible results. More than 3,500 large enterprises have been privatized to date. Seventy-five percent of Ukrainians have either picked up their certificates or opened a privatization account, and over 13 million certificates have been traded for shares in privatized companies. An over-the-counter (OTC) trading system and a self-regulatory organization to govern it have been established and live trading began in July 1996. With USAID support, Ukraine has registered a self-regulatory organization of accountants, a giant step toward the adoption of international accounting standards, which is critical to promoting business and investment. USAID has helped establish four Farm Service Centers to supply U.S. technology and inputs and provide a private alternative to state systems for marketing output.

Ukraine's energy sector has seen the break-up of monopolies and the establishment of a decentralized power system including four joint stock generating companies that now compete with one another in a wholesale market. There are also 27 local joint stock electricity companies to distribute and sell electricity to consumers and an independent National Electricity Regulatory Commission. Under a USAID-designed pilot project, 16 cities have registered condominiums and 59,000 units in 14 cities now have private maintenance contracts. The USAID-supported housing subsidy program has enabled Ukraine to target benefits to low-income families while raising prices for housing and communal services and reducing the budget deficit by $600 million in 1995 and by an estimated $1 billion in 1996.

USAID provided substantial support to the development of Ukraine's constitution, from materials on comparative constitutional systems to a public education campaign on the constitutional process. Finally, USAID humanitarian assistance has substantially helped the most vulnerable members of society. For instance, more than $11 million worth of medical supplies and relief items was supplied in commemoration of the tenth anniversary of the Chernobyl Nuclear Power Plant explosion, and the 32 million doses of vaccine provided to support Ukraine's campaign to combat the diphtheria epidemic have contributed to a significant reduction in this disease.

Other Donors.

In addition to the United States, major donors to Ukraine include the World Bank, the European Union (EU), the European Bank for Reconstruction and Development, the United Kingdom, Germany and Canada. USAID maintains close contact with the major multilateral and bilateral donors working in

Ukraine. Collaboration on determining and implementing conditionality is especially strong. Effective donor collaboration has resulted in the increased pace of mass privatization, a well-coordinated multi-donor effort to strengthen central bank functions, complete restructuring of the power sector, a monthly multi-donor forum aimed at increasing the effectiveness of local government assistance efforts, and a coordinated approach to helping Ukraine mitigate impacts of the economic reform program on health, housing, and other social factors.

FY 1998 Program.

In FY 1998, the USAID program in Ukraine will continue to assist in the fundamental restructuring of Ukraine's economic and political system and support the efforts of the government to alleviate the privations imposed on the most vulnerable members of society during the economic transition. The Partnership for Freedom's new programs to encourage economic growth and develop links between Ukrainians and Americans also will begin in FY 1998.

Strategic Goal: Economic Restructuring

Economic growth is critical to Ukraine's future as a stable and prosperous country, but growth requires investment. Without the transfer of assets to the private sector and the appropriate policy, legal and regulatory framework conducive to broad-based competition and private sector growth, Ukraine will not be able to foster investor confidence and attract meaningful investment. Also key to successful economic and social stability are efficient and safe energy systems and environmentally sound practices and environmental sustainability. As a result, Ukraine has committed itself to a comprehensive economic reform program, and USAID is playing a significant role with a multi-faceted assistance program to foster these reforms. Specifically, USAID is assisting Ukraine in privatization of enterprises, land and housing; creation of capital markets; development of macro-economic and monetary policies; reform of financial and fiscal systems; development of sound commercial law; restructuring the energy sector; fostering new business development and investment; reinvigorating agriculture; and promoting environmentally sustainable growth.

To date, Ukraine has privatized approximately 30,000 small companies and over 3,500 medium and large enterprises. Progress in implementing mass privatization has picked up considerably, with new share packages in over 400 enterprises offered each month for privatization and compensation certificates (which compensate citizens for lost savings due to hyperinflation). The challenges for the future involve continuing the momentum for mass privatization until the process is complete, including the agro-industrial sector; encouraging citizens to pick up and use their compensation certificates; and ensuring that the share registrar process devolves to a private, independent function.

Capital market infrastructure development is being sequenced to reflect the needs of the market. To date, USAID technical assistance has supported the development of a broad strategy for the long-term evolution of capital markets, a self-regulating organization of independent registrars, a securities commission and an over-the-counter trading system, which opened with 40 firms operating an on-line system out of four cities in Ukraine with trading volume of approximately $320,000. In addition, under USAID auspices, more than 450 directors of private enterprises have received training on the principles of shareholder rights. The next steps involve the strengthening of the securities commission as the sole regulatory authority, the establishment of a stronger legal requirement for the use of independent share registrars, and the institution of depository, clearing and settlement and transfer agent functions.

Over the past year, USAID technical assistance has been instrumental in the development of the legal and regulatory framework for land privatization and land market creation. USAID-supported local demonstration projects also provide technical assistance to cities and collective farms for designing and implementing pilot urban land auctions, tenders, zoning projects, titling and registration pilot projects, and agricultural land privatization projects. Over the next two years, USAID technical assistance will enable Ukraine to hold up to 75 land auctions/tenders and establish a routine auction process and

permanent auction staff in ten cities. Additionally, a national land title and registration system is slated to be approved, and legislation based on market-oriented principles contained in three draft laws (land code, titling and registration, and territorial planning) is expected to be enacted. The GOU is expected to begin privatizing land on which enterprises and condominiums are located, and a land taxation system will be designed by the GOU. Procedures for agricultural land privatization will be replicated throughout Ukraine, and land mortgage procedures will be developed, tested and adopted by banks for nationwide use.

USAID's housing privatization program integrates national and local efforts to encourage the private ownership of housing units and to improve the delivery of maintenance and communal services. The country's housing stock is being privatized to further lessen the drain this sector has placed on local and national government resources and to improve the sector's responsiveness to local needs. Assistance includes work on national policy issues, as well as local projects in four regions to demonstrate ways to carry out reform. To date, 60 cities have passed resolutions to implement the condominium program and more than 33,000 households are participating in the conversion process in 20 cities. Twenty-six cities have held transparent pubic bids to contract out maintenance services for more than 140,000 apartments to private companies. The challenge for the future is to increase the rate of housing privatization, in part through the enactment of a real estate tax law.

With USAID's technical support, the National Bank of Ukraine (NBU) has moved forward in developing the infrastructure for a safe and sound banking sector. With recently developed guidelines, Ukrainian bank inspectors are beginning to examine banks in a systematic way. An off-site early warning system will soon be functional, as will a new organizational unit to systematically deal with problem banks. The NBU/Bankers Association National Center for the Training of Bankers is one of the premier institutions in the region, with more than 2,000 bankers trained to date. An innovative train-the-trainers program has begun in association with the International Management Institute in Kiev, which will result in roughly half the National Center courses being taught by Ukrainian graduates of the Institute's program. Finally, Ukraine is acknowledged to have one of the most sophisticated electronic funds payment systems in the entire region. Hardware and software for this system was funded by USAID. Work in the coming year will focus on the development of the NBU's capacity to analyze and monitor risk and enforce prudent regulations; revision of banking law and NBU regulations; and the development of a system for government securities issuance and management. USAID will also focus on further development and strengthening of bank supervision, funds transfer and accounting systems, and the government securities market. New training courses will address critical areas such as problem loan management and accounting.

A significant start has been made in fiscal reform efforts. A national training center for tax collection officials has been established; a budget policy and macroeconomic analysis unit has been created within the Ministry of Finance; monthly budget reports on major revenue and expenditure items are issued and widely circulated within and outside of the Ministry of Finance; electronic databases have been established and are being used in the government budgetary process; and an intergovernmental fiscal model has been developed for use in analyzing different revenue and expenditure arrangements between central and local governments. In the future, USAID assistance will focus on tax legislation, taxpayer assistance, and tax law enforcement; further development of databases and models for budget preparation, analysis and monitoring, including the development of analytic tools to assess the "underground economy" and its budgetary implications; and improving fiscal arrangements between oblast and central government levels. USAID has begun providing technical assistance to senior level Ukrainian ministers in the development of economic policy, focussing on macro-economic policy, monetary policy implementation, and tax and budget policies.

A legal and regulatory environment that nurtures the growth of businesses and ensures the security of savings and investments will be of great benefit in promoting long-term growth. USAID assistance has helped Ukraine make some progress toward adoption of international accounting standards and the formation of self-regulatory organizations among business groups, as well as in improving anti-

monopoly enforcement, developing a functioning bankruptcy system, and bringing Ukrainian customs practice to World Trade Organization standards. Over the next few years, USAID will continue to work with Ukraine to develop a civil code, reshape the bankruptcy system, strengthen the Anti-Monopoly Committee, develop an open trade regime and promote Ukraine's integration into world markets. Under the PFF, Ukraine will also be a participant in a new Trade and Investment Facility designed to promote the international links necessary for economic growth.

Energy sector reform is critical to achieving macroeconomic objectives. Power sector reform is well along, coal reform is starting, and oil and gas reform is needed. With USAID assistance, Ukraine's thermal power sector has been dramatically transformed from monopolies to a decentralized, competitive system. USAID's assistance for the new system focusses on four joint stock generating companies, 27 electricity supply companies and an energy market regulator. The wholesale energy market --phasing in since April 1996-- will give generators strong incentives to reduce costs, improve performance and reduce prices. For the future, USAID will focus assistance on commercialization of the generation and distribution companies and preparation for privatization, and the strengthening of the regulatory agency. USAID will also work in conjunction with the World Bank on helping Ukraine to restructure its coal sector, given the important economic, political and social issues involved.

USAID will continue to be actively involved in the effort to assist Ukraine in closing the Chernobyl Nuclear Power Plant by 2000 pursuant to the Memorandum of Understanding signed by the G-7 countries and Ukraine in December 1995. Among the areas addressed by this program, in addition to power sector restructuring, are energy investments, a significant energy efficiency initiative, thermal power, nuclear safety and the social impact of closing Chernobyl. The United States considers the initiative to close Chernobyl to be of major importance and will continue to play a prominent role in the context of the G-7 to assist Ukraine in this complex and difficult undertaking.

Experience shows that the small and medium-sized enterprise (SME) sector is the primary contributor to economic growth and job creation. Through a variety of vehicles, USAID is assisting SMEs to improve business skills while providing services and access to information that will strengthen their competitiveness. With USAID support, three Ukrainian business service centers have been established to provide SMEs with technical assistance, training and education, information, research and introduction to modern business practices, and other assistance in conducting business in a market economy. Linkages to USAID-funded venture capital and lending programs, such as the Western NIS Enterprise Fund and the Eurasia Foundation, are also being established to complement the full range of business services. USAID is also working with such other donors as the European Union, the International Finance Corporation and the World Bank on activities to promote SME development in Ukraine.

Representing nearly 30% of GDP and 20% of employment, a reformed and strong agriculture sector is critical to the success of Ukraine's new market economy. USAID supports U.S. private sector investment in Ukraine's agricultural production, marketing and input supply via farm service centers created through partnerships between Ukrainian and U.S. concerns. These centers, providing private, profit-oriented alternatives to the old system of state monopolies, have introduced new cultivation methods to Ukraine, increasing yields in the areas served by the centers, saving energy, and reducing pesticide runoff. Even more importantly, they have introduced a new model of doing business. To address other important constraints to increased agriculture production, USAID is also assisting Ukraine in the privatization of collective and state-owned farms and in increasing capital for investment.

A major focus of USAID's environmental program is improved management of natural resources as the foundation for economic development. USAID is strengthening environmental institutions within government, the private sector, and the non-governmental organization (NGO) community to create an institutional framework that will support a transition to a market economy that is environmentally sustainable. One element of USAID's program involves identifying investor costs, obligations (including potential liability) and opportunities in a number of industries across Ukraine to enable and facilitate

the privatization process. Other activities include environmental assessments for heavy industry in Donetsk to identify opportunities to reduce waste and improve efficiency, and eco-efficient business development in Ivano-Frankivsk, focusing on sound resource management to enable long-term, sustainable economic development.

- Strategic Objective: Increased transfer of state-owned assets to the private sector
- Strategic Objective: Increased soundness of fiscal policies and fiscal management practices
- Strategic Objective: Accelerated development and growth of private enterprises
- Strategic Objective: A more competitive and market-responsive private financial sector
- Strategic Objective: A more economically sound and environmentally sustainable energy system

Strategic Goal: Democratic Transition

The development of democracy is key to the success of sustained economic and social reform in Ukraine. A stable democracy in Ukraine requires transparent and accountable governance and the empowerment of citizens through democratic political processes and civil society institutions. As decision-making is decentralized and democratization proceeds, Ukraine's citizens will increasingly assume the responsibilities and reap the benefits of participation in the political, economic and social decisions that form their society. The success of this process will depend on the existence of appropriate institutions, laws, and processes, as well as the availability of relevant information.

USAID's democracy program in Ukraine is focused on strengthening these building blocks of democracy. USAID's programs help develop competitive and fair political processes, including elections; promote the active participation of citizens in political and economic decision-making through NGOs; strengthen independent media; put in place laws and legal institutions that support democratic processes; and strengthen local government to make it effective, responsive and accountable to its citizens.

Improving the relationship between the citizens and their representatives --especially central legislators and local governments-- is fundamental to establishing a stable democracy in Ukraine. USAID assistance is helping political parties in Ukraine's new multi-party system to strengthen coalition building and improve political party and election campaign management skills. USAID is also supporting the development of civic action groups and NGOs working in public policy. For the future, USAID will assist with the development of new draft legislation, including laws that facilitate the work of NGOs and improve election law shortcomings. Another area of emphasis will be to help Ukraine ensure better independent news coverage, as well as stronger, self-sustaining independent media. Independent media are critical to building and maintaining a strong democracy.

The move from an authoritarian past to a democracy has required many fundamental changes in Ukrainian political institutions, procedures and attitudes. One such essential change was accomplished with the June 28, 1996 adoption of a new constitution. The U.S. Government's programs in Ukraine contributed significantly to the development of the new constitution by sponsoring town meetings to encourage wide public debate; providing lawmakers with information on comparative constitutional systems; assisting Ukraine's independent media, which provided extensive coverage, analysis and opinions throughout the Constitution's development and adoption; and supporting a public education campaign on the constitutional process. Passage of the Constitution was only the first step in ensuring the rule of law in Ukraine. Implementing legislation is required in many areas, and USAID has agreed to provide assistance in developing it. Specifically, USAID will be working in the following areas: drafting new criminal and civil codes, empowering and increasing the independence of the court

system and rationalizing procedural codes for all courts; increasing citizen participation in the legal system; permitting and strengthening non-government organization advocacy capabilities; and educating the population about the substance of the new Constitution. As part of the Partnership for Freedom, emphasis will be given to cooperative activities --such as partnerships and exchanges-- which promote democracy and civil society.

USAID has been working with the Parliament and local governments to make them more efficient and responsive to their constituents. USAID-supported activities have provided members of Parliament with research and analysis on draft laws, and have helped establish computer-based systems that streamline municipal operations. USAID has also assisted the Ukrainian Association of Cities to become an effective advocate of municipal governments. As a result of a bus maintenance project that USAID plans to replicate elsewhere, public transportation capacity in the city of Ternopil increased by 40%, while increased fares produced revenue increases that will promote the sustainability of the system. Using mechanisms such as more open budgeting, town meetings, citizen task forces, constituency outreach and local government watchdog groups, local governments, with USAID assistance, are becoming the venue for the development of democratic leaders and governance. USAID will continue these efforts, with the overall objective of helping develop more effective, responsive and accountable local government.

- Strategic Objective: Increased, better-informed citizens' participation in political and economic decision-making
- Strategic Objective: Legal systems that better support democratic processes and market reforms
- Strategic Objective: More effective, responsible, and accountable local government

Strategic Goal: Social Stabilization

The objective of USAID's assistance in this area is to help make social services work for the Ukrainian people, both during and after the country's economic and political transition. USAID support for social sector restructuring is designed to protect the most vulnerable members of society during the economic transition, reduce government budget expenditures in the social sector, and facilitate the price increases necessary to improve social service quality. Political support for economic reform in Ukraine will evaporate if affordable methods are not developed to shelter the poor from rapid price increases, falling incomes, and the deterioration of basic public services. USAID activities are designed to address the urgent humanitarian needs of the people of Ukraine, support the government in moving from universal price subsidies to those based on income, and to lay the foundation for a sustainable system of social insurance. They are also designed to reduce the public health risks caused by environmental mismanagement.

USAID provides humanitarian assistance to address critical needs of the most vulnerable groups and to respond to emergency situations. Ukraine has benefited greatly from the distribution of excess U.S. military supplies. Since 1993, USAID assistance has facilitated the distribution of roughly $25 million worth of these supplies to the needy through local Ukrainian NGOs. USAID has also assisted in the provision of humanitarian aid to orphanages and boarding homes for the elderly and disabled throughout Ukraine.

USAID has been the largest donor of vaccine to combat the diphtheria epidemic in Ukraine, providing 32 million of the 50 million doses needed and related technical assistance. This campaign is showing dramatic results in decreasing the incidence of diphtheria throughout Ukraine. The program has also demonstrated that Western vaccines work, that mass campaigns work, and that Ukraine can safely modify its immunization protocols. Pursuant to the provision of a one-year supply of insulin for Ukraine's child diabetics, USAID is now focused on assisting Ukraine in such areas as identifying

alternative methods of controlling juvenile diabetes and reducing the costs associated with diabetic care.

Since Ukraine's independence, NGOs increasingly have found important roles to play - as social service providers, catalysts for the development of civil society and promoters of continued economic and political reform. The number of NGOs has grown markedly, from roughly 40 in 1990 to an estimated 5,000 in 1995, with almost half working to provide social services that the government may no longer be able to afford or chooses not to provide. USAID programs have trained over 1,000 NGO leaders, partnered U.S. private and voluntary organizations with Ukrainian NGOs, and provided critical support to social service, public policy, human rights, and women's NGOs and civic organizations. Recently, USAID launched a new program to strengthen social service and advocacy NGOs and to improve the legal and regulatory environment for NGOs.

To promote social sector restructuring, USAID is providing technical assistance to help refine and build support for the new income-based benefits program on housing and utilities, and to help develop a broader program of means-tested benefits for the needy. Since November 1995, over four million families (out of eight million families paying for housing and communal services) have received subsidies. Two and a half million people currently receive subsidies, over half of whom are pensioners. This program has enabled the GOU to raise prices to cover actual costs and has resulted in a savings of $600 million in 1995 and a projected $1 billion in 1996.

USAID is the only international donor providing significant technical assistance to improve the sustainability of the health care system and improve the health care being delivered to its citizens. Since 1994, USAID has supported technical assistance and training in U.S.-based health care management, finance, and information to enable Ukrainian counterparts to use existing resources more effectively and to generate new revenues for the health sector. Health care finance and service delivery reform is focused at local level structures, including intensive demonstration sites in Lviv and Odessa, where USAID is working to reduce the cost of health care by supporting reorientation of health care delivery away from long hospital stays and toward clinic visits, and by introducing market incentives. Reducing health care costs is also a goal of the reproductive health project, which aims to reduce the rate of abortion through physician training in modern family planning methods. As a result, Lviv and Odessa have instituted user fees for some services and over 100 doctors have been certified in family medicine.

In addition to addressing the economic implications of Ukraine's environmental problems, USAID's environment program also focuses on the public health risks caused by Ukraine's deteriorating municipal infrastructure. For example, in the city of Lviv, where water quality does not meet minimum U.S. health standards, USAID is helping the city re-engineer its water utility and establish consumption-based billing and cost-recovery for sustainable system maintenance. This is expected to lead to the city's eligibility for a World Bank loan based on demonstrated ability to generate revenue to repay bank loans. USAID is also providing technical assistance to improve the registration, safe use, transportation and storage of agrochemicals, as well as working with enterprises on waste minimization and energy efficiency. Finally, USAID is coordinating with other donors to address social, environmental and energy efficiency issues related to the closure of the Chernobyl Nuclear Power Plant.

- Strategic Objective: Reduced human suffering and crisis impact
- Strategic Objective: Improved sustainability of social benefits and services
- Strategic Objective: Reduced environmental risks to public health

Cross-Cutting and Special Initiatives

Under this category, funding is provided for targeted training and exchanges between American and Ukrainian organizations. USAID also funds a number of discrete initiatives which address key problems and support a number of activities that complement USAID programs.

The Eurasia Foundation is an independent, grant-making organization which uses public and private resources to foster the process of economic and political reform in the New Independent States. Eurasia's USAID-supported small grants program complements USAID's larger development program in Ukraine, specifically in the areas of economic and government reform, small business lending, nonprofit sector support, media and communications. Key objectives of U.S. support for the Eurasia Foundation are to reach a wide range of groups quickly with targeted assistance and to increase the number and diversity of groups receiving U.S. Government funds.

USAID sponsors five medical partnerships in Ukraine under a cooperative agreement with the American International Health Alliance. Each partnership has its own area of specialty, including obstetrics/gynecology, surgery and infection control, ophthalmology, paramedic programs, and emergency medical services. Partnerships focus on quality improvements and results dissemination. USAID support is aimed at addressing significant mortality and morbidity issues, improving health care organization and introducing market-oriented solutions to hospital and health system delivery and finance problems.

The Women's Reproductive Health Initiative is designed to respond to the high maternal/infant mortality and morbidity in Ukraine. Approximately 45% of maternal mortality is caused by obstetrical conditions and the dependence on abortion rather than contraceptives for fertility control. This activity seeks to improve the access and quality of Ukrainian reproductive health services through the introduction of modern contraceptives to medical providers and women clients as safer, more effective alternatives to abortion. Activities focus on the training of trainers, curriculum development, clinical training, service delivery management and increased public awareness to assist the oblasts to expand and institutionalize reproductive health services beyond the centers and into other oblasts. Assistance in safe maternity care practices and improved breast-feeding practices, which reduce infant and maternal mortality and morbidity, is also provided.

Where activities implemented by other U.S. agencies do not directly support USAID's strategic objectives, but warrant U.S. assistance support --such as the State Department Science Centers program-- they are also included as a special initiative.

UKRAINE
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	8,250,000	--	--	--	8,250,000
Fiscal Reform	5,750,000	--	--	--	5,750,000
Private Enterprise	75,500,000	--	--	--	75,500,000
Financial Reform	10,000,000	--	--	--	10,000,000
Energy	49,900,000	--	--	--	49,900,000
Citizens' Participation	--	17,700,000	--	--	17,700,000
Legal Systems	--	11,500,000	--	--	11,500,000
Local Government	--	2,600,000	--	--	2,600,000
Crises	--	--	3,350,000	--	3,350,000
Social Benefits	--	--	1,000,000	--	1,000,000
Environmental Health	--	--	4,700,000	--	4,700,000
Cross-cutting / Special Initiatives	--	--	--	35,250,000	35,250,000
TOTAL	149,400,000	31,800,000	9,050,000	35,250,000	225,500,000

*FREEDOM Support Act (FSA) Funds

USAID Mission Director, Gregory Huger

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Privatization, 110-S001.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $8,250,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased transfer of state-owned assets to the private sector.

Background: Economic reform in Ukraine began in earnest with the administration of President Leonid Kuchma. Key to this reform is the privatization of industries, housing and land. While mass privatization got off to a slow start, USAID, the World Bank and the EU have worked closely with the GOU to successfully accelerate the pace of the program. Agro-industrial privatization remains a major hold-out, but the GOU has made a commitment to move forward in this area. On the other hand, the small-scale privatization program has largely been completed, with the pace starting to abate as remaining enterprises are being sold through the slower, more transparent auction process. The housing privatization program, while poised for further growth, is somewhat hampered by lack of a housing code, inconsistencies in other laws and the lack of incentives which the government could provide to encourage people to privatize their apartments. Land privatization, urban and agricultural, remains a major challenge, with the impetus for change residing largely at the local level.

USAID Role and Achievements to Date: USAID has worked very closely with the Government of Ukraine and other donors to develop a certificate privatization program that is rapid and transparent, and that elicits popular participation and support. Forty-eight million privatization certificates and 205 million savings certificates were designed, printed and delivered to Ukraine for use in the program. Close to 84% of the population has either picked up their certificates or opened a privatization account. Twenty-seven auction centers operate around Ukraine, reliably processing auction results nationwide, and over 1,000 bid collection centers are providing widely distributed chances to the public to participate in the auction process. The number of enterprises auctioned each month has tripled, from an average of 114 per month during September-December 1995 to an average of 375-400 during February-November 1996, by which time over 3,500 companies had more than 70% of their shares sold. This number should increase to 5,000 by early 1997.

USAID supports small-scale privatization in 25 cities in 22 oblasts throughout Ukraine, and most USAID-funded cities have privatized between 50%-90% of available small-scale objects. Approximately 33,000 businesses have been privatized to date, with the rest to be auctioned through a fully functioning auction system.

USAID has also developed and is helping implement procedures for competitive privatization of urban land parcels, titling and registration, and zoning procedures. Sixteen cities have held 27 auctions; one city has been zoned and a second is in process. Five pilot sites will receive equipment to set up title and registration offices, of which two municipalities will be assisted in setting up agricultural land titling and registration systems. To date, seven pilot collective farms have issued land certificates to individual members and reorganized into "Western" structures. Another eight farms in each of six oblasts are slated to undergo the same process. The program is expanding to include a component for developing enterprise land privatization mechanisms.

With USAID support, 60 cities have passed resolutions to implement the condominium program and more than 33,000 households are participating in the conversion process in 20 cities. To generate additional interest, 200,000 information flyers are being distributed. Twenty-six cities have held transparent public bids to contract out maintenance services in buildings covering more than 140,000 apartments to private companies.

Description: The United States is the principal source of funding and technical assistance for implementing Ukraine's privatization program. USAID finances and provides technical assistance to 1) operate a nationwide network of enterprise auction centers and bid collection centers, 2) prepare state enterprises for auction, 3) calculate and disseminate auction results, 4) advise the State Property Fund (SPF) and its regional affiliates on a wide range of issues regarding improving the implementation of the privatization program, 5) assist local government to carry out small scale privatization, 6) roll out pilot privatization of agricultural land to 70 collective farms, 7) improve procedures for the privatization of housing units and formation of condominiums, and privatization and development of urban land, and 8) inform and advise the public about privatization and market reform.

Host Country and Other Donors: USAID activities in privatization are coordinated with the World Bank, the technical assistance arm of the European Union (EU-TACIS), and the Government of Ukraine.

Beneficiaries: The participating Ukrainian public benefits from the privatization program through direct ownership in the country's productive and commercial capacity. The GOU and local governments benefit by being able to eliminate subsidies to state industries and increase revenues from privatization auctions and increased tax revenue.

Principal Contractors, Grantees, or Agencies: USAID implements its activities through the International Finance Corporation (IFC), Price Waterhouse, Gavin Anderson, Bancroft/Planning and Development Collaborative International (PADCO) and RONCO Consulting Corporation.

Major Results Indicators:

	Baseline	Target
GDP generated by private sector	37% (1995)	65% (1999)
Medium/large companies at least 70% privatized	0 (1995)	10,000 (1998)
Urban land privately used (land parcels)	40 (1995)	400 (1999)
Privately-owned agricultural land used by collective farms (hectares, millions)	0 (1995)	15 (1999)
Surplus land sold or leased by state-owned enterprises to private companies (land parcels)	0 (1995)	160 (1999)
Condominiums registered with local governments	7 (1995)	1,000 (1999)
Small-scale companies privatized	22,000 (1995)	35,000 (1997)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Fiscal Reform, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $5,750,000 FREEDOM Support Act
INITIAL OBLIGATION: *FY 1994;* ***ESTIMATED COMPLETION DATE:*** *FY 1999*

Purpose: Increased soundness of fiscal policies and fiscal management practices.

Background: Development of a market economy in Ukraine requires fundamental changes in the approach to government taxation and expenditure. The tax system must be restructured to encourage economic activity and taxpayer compliance and also to ensure fairness and consistent application. Modern techniques of macroeconomic forecasting and budget preparation are needed, along with budget analysis to promote efficient use of resources and efficient budget execution. Technical assistance under this strategic objective aims to make the process of fiscal reform more comprehensive, systematic and transparent so that informed policy level decisions will be made and implemented and the implications of these decisions will be clear to all. The intent is to strengthen the fiscal sector and the institutions involved with it, including the Ministry of Finance, Ministry of Economy, relevant committees of the Parliament (Rada) and units of local government. Over the past year, modest progress has continued in efforts to institute macroeconomic and revenue forecasting; reform intergovernmental finance; improve tax law, policy and administration; and gain tighter control over the budget in order to reduce budget deficits and meet other fiscal targets set by the IMF as a condition for continuing to receive financial assistance. If proposals for major reforms in tax law and budget expenditure are adopted and supported by needed technical assistance, this progress should be accelerated.

USAID Role and Achievements to Date: With advice from USAID and U.S. Treasury advisors, the GOU is creating a tax system that will encourage economic growth and reduce the tax burden on businesses through pending reforms in the value-added tax, corporate income tax, payroll tax and other taxes to reduce rates, broaden the tax base by removing exemptions, and encourage compliance. More cost-effective and user-friendly tax administration systems are being created by putting taxpayer services departments in local tax offices, assigning taxpayer identification numbers, creating a broader range of enforcement tools to shrink the shadow economy, and establishing a national tax training center to instruct tax officials in new laws and techniques on an on-going basis. USAID has provided training to officials of the State Tax Inspectorate of the Ministry of Finance in the areas of tax collection procedures, tax law enforcement, audit and internal control mechanisms. The Ministry of Finance is improving its budget preparation and reporting processes with the help of revenue forecasting, expenditure and intergovernmental finance models developed by USAID advisors and assistance with database formation and computerized monthly reporting of revenue and expenditure results. The Parliamentary working group on tax law reform has received advice and assistance, while the Parliament's budget committee has been helped to strengthen its capabilities in creating and adopting a national budget.

Description: USAID's fiscal program focuses on improving overall tax structure and administration, developing tools for budget preparation, analysis and monitoring, formulating alternative approaches to inter-governmental finances, and strengthening the ability of institutions, particularly the Ministry of Finance, to function effectively in a market economy.

Host Country and Other Donors: USAID activities are coordinated with the IMF, the World Bank, EU-TACIS, German Technical Assistance, and the Soros-Asland Group.

Beneficiaries: The Ministry of Finance, the State Tax Administration and the Parliamentary tax and budget committees are the immediate beneficiaries, and by extension the tax payers and voters of Ukraine.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented by KPMG/Barents and Harvard Institute of International Development (HIID). In addition, USAID-funded advisors from the U.S. Department of Treasury are advising counterparts in the Government of Ukraine.

Major Results Indicators:

	Baseline	Target
GOU meets IMF deficit targets	No (1995)	Yes (1996)
Reduced number of budget revisions due to inaccurate budget forecasts	3 (1995)	1 (1999)
A taxpayer identification number system established, and number of taxpayers in the system (cumulative, millions)	0 (1995)	19 (1996) 26 (1997) 30 (1999)
Law establishing Audit Control Chamber (milestones)	Drafted (1995)	Enforced (1998)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Private Enterprise, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1997: $75,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Accelerated development and growth of private enterprise.

Background: Business development in Ukraine is essential to create jobs, generate income, expand the availability of goods and services, increase tax revenues and achieve other economic benefits, especially at the local level. However, Ukrainian entrepreneurs have difficulty exercising the business skills required for a market environment and getting together with investors. Support services, especially financial services, are inadequate. The regulatory and local political environment does not yet encourage the growth of competitive businesses. Agriculture remains a major contributor to production in Ukraine, comprises nearly 30% of GDP and 20% of employment, and is a major export earner. Agriculture was central to the structure and functioning of the previous planned economy and its transformation is critical to creating a successful market economy. Elsewhere, the economy is marked by a high level of insolvency, yet the country lacks a bankruptcy system that provides for reorganization of enterprises. In all sectors, Ukraine is making mixed progress in developing a framework for institutionalizing rules regarding property relations, and an enforcement system for ensuring that contracts are adhered to. In the area of antimonopoly and unfair competition, the Anti-monopoly Committee (AMC) of Ukraine has moved aggressively to develop necessary statutes, internal and investigative procedures, and enforcement mechanisms, gaining international recognition for its progress. Ukraine is moving toward accession to the World Trade Organization (WTO) yet has recently raised a number of tariffs and taken other protectionist measures that are inconsistent with the goal of WTO accession.

USAID Role and Achievements to Date: USAID is promoting entrepreneurship through the establishment and support of three regional Business Services Centers (BSCs), which are staffed by Ukrainians and provide a wide range of business consulting services and training, as well as access to a computerized business information network for its clients. USAID is also assisting local business advisory organizations in their efforts to improve the business environment and, in collaboration with the Ministry of Economy, has established a National Small and Medium Enterprise (SME) Policy Task Force to develop effective and productive SME support structures on the national and regional levels. USAID has a second program to develop and establish new business centers to support small businesses in Ukraine. This second effort features three main services targeted to small business owners: business training, information services and business consulting. In addition, the project Central Coordinating Unit coordinates the activities of the business centers, including providing training and information resources and contacts with central government officials.

Four Farm Service Centers have been established to provide an alternative to state-run input supply and marketing with strong U.S. private sector participation, and a private farm finance company is under development. Ten more service centers and 20 agro-processing enterprises will be established in the next three years. Nine commodity exchanges, as well as an exchange association, have been established. Volume from the exchanges is being reported via the Internet to Reuters in exchange for information on trade volumes and prices in other markets.

In real estate, four regional and two national associations have been established, and training in ethics and advocacy is being initiated. USAID has also supported the development of regulations and procedures to form condominium associations of privatized housing owners, as well as the private provision of housing maintenance and management services.

A self-regulating, self-sustaining Ukrainian accounting and auditing association has been formed and officially registered in September 1996, the first of its kind in the former Soviet Union. This association anticipates a membership roster of 1,000 by December 1996. USAID has also helped introduce international accounting standards into five pilot enterprises and these are serving as models for other enterprises in Ukraine.

USAID is continuing assistance to the AMC, which it has helped in drafting anti-trust legislation and procedural and administrative laws and regulations, and in initiating several hundred cases of violations of monopoly statutes, unlawful agreements, unfair competition and discrimination by state agencies and executive authorities in restraint of competition. USAID is also continuing its work to assist Ukraine complete the remaining prerequisites for admission to the WTO.

With USAID assistance, seven pilot collective farms have been restructured and the program will be expanded to about eight farms in each of 10 oblasts. The Phase II Agribusiness Partnership Program continues the successful marriage of U.S. and Ukrainian firms to reinvigorate Ukrainian agriculture, with a new aspect requiring each partner firm to make special efforts to reach small, private farmers.

As part of an effort to develop environmentally sound small businesses, including eco-tourism, an action plan has been developed identifying barriers to developing businesses in wood processing, energy, agro-products and tourism. The next phase will target several of these areas for further enterprise development.

The West NIS Enterprise Fund has booked some $12 million in investments to date, and the pace is expected to accelerate. Through June, the Eurasia Foundation funded 10 loans through its small business loan program for a total of $370,000.

Description: Business Services Centers will continue to provide advisory services directly to enterprises. This activity works in collaboration with other USAID-funded activities such as the Enterprise Fund. Through the Small Business Loan Program and the Micro-Lending Program of the West NIS Enterprise Fund, enterprises will receive loans and equity financing. Other USAID activities will work with organizations such as the Association of Cities and the Council of Regions, under the President of Ukraine, to support policy development and improve the environment for business. The Association, and potentially other Ukrainian institutions, will also use USAID assistance to promote a private housing market, including condominium formation. Ukraine's Realtors' Association will tap USAID support to promote the management and maintenance of multiple occupant buildings by private firms. USAID will also continue to support the development of market driven, private sector agricultural production, including private marketing and input supply and farm supply centers, which provide farmers with alternative sources of inputs and marketing channels, new technology and technical and managerial support. USAID has initiated a bankruptcy reform program to provide the legal infrastructure for the restructuring of insolvent enterprises and to conduct one or more pilot restructurings. Ukraine will also be a major participant in a new Trade and Investment facility designed to promote the investment and trade links necessary to economic growth.

Host Country and Other Donors: GOU participants include the AMC and the State Customs Committee. The British Know How Fund has provided certain short term assistance to the AMC, as has the World Bank. The bankruptcy program will directly foster compliance with planned conditionality for bankruptcy reform to be included in the IMF's medium term facility expected in 1997.

Beneficiaries: Proprietors and employees of small and medium-sized businesses benefit from the various firm-level assistance activities described above. The business community at large will benefit from bankruptcy reform and the introduction of restructuring procedures for insolvent businesses. The business community and the public at large will benefit from vigorous antitrust enforcement being promoted by USAID assistance to the AMC. All participants in Ukraine's international trade will benefit from WTO accession. Producers and consumers benefit from agricultural activities under the program.

Principal Contractors, Grantees, or Agencies: The contractor for the bankruptcy program is IRIS. Assistance to the AMC is being provided under an Interagency Agreement with the Federal Trade Commission and Department of Justice. Other contractors and/or grantees include: the Alliance, DAI, the Department of Commerce, the World Council of Credit Unions, the Eurasia Foundation, the Eastern Europe Real Property Foundation, and the International Finance Corporation.

Major Results Indicators:

	Baseline	Target
Growth of legally registered firms	240,000 (1996)	20% increase (1999)
Number of businesses assisted through networks	400 (1996)	1,200 a year (1997-99)
% increase in yields from land areas using new technologies	30% (1996)	50% (1999)
Number of foreign joint ventures	50 (1995)	700 (1999)
Anti-monopoly enforcement: cases decided in favor of preserving competition	31 (1995)	120 (1999)
Collective farms restructured/rationalized	0 (1995)	3,000 (1999)
Private housing maintenance contracts	4 (1995)	100 (1999)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Financial Reform, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998 $10,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more competitive and market-responsive private financial sector.

Background: The National Bank of Ukraine (NBU) has made some progress in developing the infrastructure for a safe and sound banking sector in which banks are able to play a true intermediation role. Specifically this means development of bank supervision capacity, accounting and reporting, the legal infrastructure and government securities markets. This work is critical to developing a larger number of viable banks as opposed to the current fragmented situation in which many of the banks may not be solvent and some serve as little more than adjuncts to company treasuries. A key law governing the extent and institutional responsibilities for government oversight of capital markets was passed by the Parliament. It eliminates the dispersed and overlapping responsibilities of many Ministries and agencies, concentrating sole authority in Ukraine's recently-established Securities Commission. Under its agreement with the IMF, Ukraine is keeping its budget deficit in a manageable range -- a condition crucial to support market reform by dampening expectations of inflation. A major impediment still to be overcome is the Government's use of the banking system to sustain state enterprises that are not financially viable.

USAID Role and Achievements to Date: The law governing oversight of capital markets was drafted largely with USAID assistance. USAID is assisting the NBU in issuing government securities and in several bank supervision areas: on-site inspections, off-site early identification of problem institutions, licensing rules and regulations, developing a Troubled Bank Unit for merging or liquidating troubled banks, and enforcement mechanisms that can be implemented without changes in legislation. This is important, as the implementation of such mechanisms would meet the conditionality that is expected to be tied to upcoming World Bank loans. The NBU's Interbank Payment System (EFPS), partially funded by a USAID grant, is fully functioning, and technical execution of payments is now minutes rather than weeks. Approximately 2,000 bank employees from over 100 banks have attended training at the National Center for Training Bank Personnel, which was created with substantial investment and support from the NBU. Also, the Governor of the NBU is receiving macroeconomic advice and assistance. A collateral law program has been initiated to provide the legal infrastructure for rational secured credit transactions. A collateral registry has been launched. The Association of Investment Businesses has been established, uniting 140 investment funds and trust companies that subscribed to its code of conduct. Temporary share registries compiling initial shareholder lists are operating at 26 privatization auction centers around Ukraine, and over 50 private, independent share registries are now established, as is a registrar support center. Work to improve the operations of nine share registrars has been completed. More than 450 directors of private enterprises have received training on the principles of shareholder rights. A major campaign to inform shareholders of their rights and to explain corporate governance principles is underway with USAID support. An over-the-counter stock trading system opened in 1996 with USAID financing.

Description: USAID is assisting the new Securities Commission with development of its regulations and oversight capacity with the support of full time legislative regulation drafting, monitoring and enforcement advice. USAID is also providing it with up to date information and market analyses through the Capital Markets Monitoring Unit. Most of its board members are also receiving specialized training courses in the United States and in other NIS countries along with a program that provides ongoing support to the Commission via a cooperative program of orientation and training with the U.S. Securities and Exchange Commission. USAID is also providing technical assistance, training and equipment establishing independent share registries in Ukraine, educating managers of privatized enter-

prises and the public on shareholder rights, and establishing a national over-the-counter share trading system, owned and operated by a broker/dealer self-regulatory organization.

Host Country and Other Donors: Financial reform activities are coordinated with EU/TACIS, the World Bank, the IMF, the British Know How Fund, the National Bank of Netherlands and the GOU.

Beneficiaries: The entire private financial sector will benefit directly from these activities, as will, by extension, shareholders, bank account holders and the people who need and use capital to finance the economy's growth.

Principal Contractors, Grantees, or Agencies: USAID's activities in financial reform are implemented by KPMG-Barents, Financial Markets International, Intrados, Ukrainian Center for Certificate Auctions, IRIS and Financial Service Volunteer Corps.

Major Results Indicators:

	Baseline	Target
Investment in private sector (as % of total investment)	36% (1995)	55% (1999)
Capital of largest private banks (as % of capital of former and current state-owned banks)	35% (1995)	68% (1999)
Securities market capital (as % of GDP)	0% (1995)	TBD (1999)
Continued adherence of GOU to IMF quantitative performance criteria	Yes(1996)	Yes (1999)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Energy, 110-S001.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $49,900,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more economically sustainable and environmentally sound energy sector

Background: Ukraine inherited inefficient industries from the former Soviet Union that require enormous energy consumption; fully 60% of all energy produced is consumed by industry. Ukraine depends heavily on foreign sources, particularly Russia, for fuel, importing more than 80% of its gas and more than 95% of its oil; the costs of importing so much fuel are a serious drain on the economy. Nuclear energy plays an important role in Ukraine electricity systems and the G-7 and Ukraine have signed a Memorandum of Understanding for a program to close Chernobyl by 2000. Restructuring of the important coal industry also is critical, and the government introduced policy changes to accomplish this; the policies must now be implemented. Ukraine's Ministry for Environmental Protection and Nuclear Safety needs to revise environmental regulations and standards to those of a free market economy. Ukraine's power sector is rapidly transforming from a state-owned and operated regionalized monopoly system into a reconfiguration of privately-owned and operated companies, reorganized to maximize the play of free market forces.

USAID Role and Achievements to Date: Ukraine's eight former vertically-integrated regional monopolies, which had combined the basic utility functions of power generation, transmission and distribution, have been reconfigured into over 33 companies with the aim of pulling out the naturally competitive elements of the industry into separate competing companies, while retaining and corporatizing the system's natural monopolies. With the break up of the monopolies, four new power generating companies (GENCOs) were formed with USAID assistance in a wholesale market leading to increased operating efficiencies and lower electricity costs for the country. Competition at the retail end - sales and distribution of electricity to consumers - is now being provided by 27 local companies, of which 12 are receiving USAID assistance to improve their structures and operations. A new entity, Energomarket, has been created to operate the wholesale competitive market and serve as a national financial clearing house/electricity dispatch center for the reconfigured system. USAID assistance has helped leverage a planned $300 million loan from the World Bank for power sector development. A National Electricity Regulatory Commission (NERC), the first of its kind in the NIS, is now fully operational with USAID assistance. Its purpose is to oversee fair competition in the GENCOs and to ensure an equitable system of retail tariffs. USAID has a major role in designing an action plan to ameliorate the social impact on Ukraine of the Chernobyl facility's closure. USAID also is rendering support to ensure an ecologically-sound sarcophagus at Chernobyl, safety parameter display systems, and increased nuclear energy efficiency. In the coal sector, assistance is being provided to strengthen the industry's viability and to address environmental and regulatory problems.

Description: In concert with the Ministry of Power and Electrification, the World Bank and other donors, USAID developed an energy program for Ukraine focused on (I) energy sector restructuring, including power, coal, oil and gas; and (2) improving energy production and efficiency through the introduction of new practices and technologies and assistance in applying market principles. Power sector assistance, specifically, is helping transform the power sector from a vertically integrated monopoly to a market system, with separate, competing components, a national regulatory body to set tariffs and grant licenses in response to market costs and efficiencies, and a national dispatch center to oversee power distribution based upon financial bids.

Host Country and Other Donors: USAID works with the Ministry of Power and Electrification of Ukraine, and coordinates with the activities of the British Know How Fund, the EU, the World Bank,

the European Bank for Reconstruction and Development, and the EU-TACIS. The governments of Switzerland, the Netherlands, Canada and Japan also provide energy assistance.

Beneficiaries: USAID energy reform assistance benefits newly corporatized electric generating and distribution companies, the NERC, industrial and municipal energy users and the coal industry.

Principal Contractors, Grantees, or Agencies: Hagler-Bailly and Partners in Economic Reform (PIER) are USAID's energy activities implementors, with support from USAID-funded advisors from the U.S. Department of Energy.

Major Results Indicators

	Baseline	Target
Elimination of budgetary subsidies for power and energy resources production	No (1995)	Yes (1999)
Foreign energy debts ($ billions)	7.5 (1995)	6 (1999)
Revenue collection (% of amount owed)	50% (1995)	95% (1999)
Private investment in sector ($ millions)	0 (1995)	750 (1999)
Adequate fuel reserves at primary plants (as % of 30 days' reserves)	30% (1995)	90% (1999)
GOU costs of social impact of Chernobyl accident (as percent of GDP)	TBD(1996)	TBD(1999)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Citizens' Participation, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $17,700,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased, better-informed citizens' participation in political and economic decision-making.

Background: During 1994, free and fair elections were held for the Presidency, the Parliament, and councils at the oblast and local level. However, new legislation governing elections and political parties is needed to improve the political process and the public's trust in it. Scores of independent newspapers, radio stations, and local TV stations now exist, and advertising revenues are increasing to the extent that it will soon be possible for independent media to be profitable. However, the government still exerts considerable influence over the media through ownership of the two national TV channels, legal regulation, licensing oversight, and distribution of vital resources. Non-Governmental Organizations (NGOs) are forming rapidly and the sector is developing with associations of NGOs forming in some cities and with foundations being established to allow businesses to support charitable activities. The lack of legislation concerning taxation and registration of NGOs, as well as the citizens' lack of experience with a civil society, continue to hinder the development of NGOs.

USAID Role and Achievements to Date: Public policy and human rights NGOs are being strengthened through training and small grants. Their activities include: organizing town hall meetings in support of a new constitution, a civil code and other legislation; lobbying the GOU for greater decentralization; investigating human rights violations; conducting regular and well-publicized opinion polls; providing indigenous poll monitors for elections; and publishing a public policy journal and a popular political TV program. Women's NGOs are being fostered and assisted to address key issues involving women such as domestic violence, legal inequality and women's entrepreneurship. A total of 26 press clubs serve as forums for journalists and public officials to periodically dialogue about economic reform issues like privatization, thus enhancing the media's role in a civil society. Weekly meetings at the Kiev Press Club are shown nationally during the main news program on UT-1, providing a very effective means for GOU officials to reach a large audience. A daily television news program, free market economics program, and other informational programs are being produced independently and broadcast nationwide. Independent local TV and radio stations are being supplied with high-quality programs, while a USAID-funded press center provides journalists with access to a wide range of resources including Internet, legal databases, and Ukrainian and Western wire services. TV, radio, and print professionals are receiving training in business management, investigative journalism, and other technical areas. A loan fund has been established to support the development of self-sustaining and independent media-related enterprises. Independent trade unions receive training and information in areas such as collective bargaining, and pension reform. Political party activists have received training in areas such as campaign management, coalition-building, and fund raising, and have been supported in their efforts to be informed participants in the constitutional debate and the drafting of new election laws. Democratically-elected officials hold office in all branches of government throughout Ukraine, *an achievement to which comprehensive USAID support contributed.*

Description: USAID is promoting the active participation of citizens in political and economic decision-making through support to civic action groups, public policy NGOs, political parties, and democratic free trade unions. USAID assists government entities with improving election administration, drafting electoral legislation, and educating the public about the democratic process. USAID supports the production of non-state daily and weekly news programs which are broadcast nation-wide. With the support of a USAID grantee, Ukrainian independent TV stations are in the process of forming the country's first independent television network. As part of the Partnership for Freedom, funds also will be provided to make change permanent by endowing key U.S. and Ukrainian institutions.

Host Country and Other Donors: USAID works in concert with the Central Election Commission, committees of the Parliament (Rada), the Eurasia Foundation, EU/TACIS, United Nations Development Program (UNDP) and the Canadian International Development Agency (CIDA). The Renaissance Foundation is also active in citizen participation activities.

Beneficiaries: The Central Election Commission, Ukrainian NGOs, political parties, independent media and trade unions all benefit from USAID support for and promotion of citizen participation and education activities.

Principal Contractors, Grantees, or Agencies: USAID programs in this area are implemented by Freedom House, Internews, the Free Trade Union Institute, the National Democratic Institute, the International Republican Institute, IREX, Eurasia Foundation and the International Foundation for Electoral Systems.

Major Results Indicators:

	Baseline	Target
Citizens who understand the political process (percent of citizens)	28% (1994)	36% (1999)
Citizens who participate in NGO activities (percent of citizens)	TBD (1995)	TBD (1999)
Citizens who believe their elected official represent them	12% (1995)	35% (1999)
Citizens who believe that elections are free, fair, transparent	40% (1994)	49% (1999)
TV exposure of citizens to non-government and politically-unaffiliated news sources (hours per week)	0 (1994)	25 (1999)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Legal Systems, 110-S002.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $11,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Legal systems that better support democratic processes and market reforms.

Background: The June 28, 1996 adoption of Ukraine's new constitution marked a critical turning point in the country's efforts to proceed with economic and democratic reforms. The ongoing challenge is to draft, revise and adopt laws under the new constitution dealing with every aspect of Ukrainian life, including the criminal justice system, the economy, and civil society. The Parliament is still passing laws without adequate analysis and research, although the quality of debate and of new laws continually improves. It is generally agreed that the leaders of the court systems and the new Minister of Justice are committed to the independence of the judiciary, upholding new laws and protecting individual rights. But due to antiquated technology, poor training and resistance to change in the regional and local courts outside of Kiev, Ukrainian citizens still do not think of the courts as the venue to redress grievances or press for respect for their rights. Furthermore, citizens are not fully aware of their rights and responsibilities under the new constitution.

USAID Role and Achievements to Date: The term "rule of law" was difficult to translate three years ago; now it is a basic tenet. USAID programs supported the drafting process which led to the adoption of the new constitution. Policy-makers, legislators, students and the general public were kept informed of the drafting process through USAID-supported conferences, publications, and TV shows. Students, teachers, and professors are learning about the new constitution through a comprehensive public education program supported by USAID. USAID-supported activities have provided Rada members with research and analysis on draft laws, and an information system was designed for and delivered to the Parliament to increase access by lawmakers and the public to information, connect Ukraine with the Internet, and improve research and analysis of information. An analysis of the 1996 draft budget of Ukraine was prepared for the Parliament and distributed to MPs. The five largest law schools, representing 80% of law students, have each received in-house publishing equipment so that their curricula can be revamped and students will have post-Soviet material to study. A Ukrainian Law Student Association has been established and plans for an Association of Law Schools are underway. The Supreme Court and Supreme Arbitration Court have established in-house continuing education for all judges. USAID programs have supported the work of NGOs that monitor human rights, and helped to initiate and win court cases to protect the environment and the rights of workers.

Description: USAID programs provide technical assistance, training and access to information, and to a lesser extent commodities, to counterparts in the Ministry of Justice, the courts, Ukraine's top law schools, the Rada, including key committees and political factions, the Presidential Administration, legal associations, and municipal governments.

Host Country and Other Donors: The Ministry of Justice, Presidential Administration, Council of Advisors of the Rada and the courts are all actively engaged in the reform process. USAID coordinates its activities with those of EU-TACIS, the Government of the Netherlands, Canadian International Development Agency, the Ukrainian Legal Foundation, and other international donors. USAID is also coordinating efforts with the World Bank to ensure complementarity with the Bank's planned Legal Reform loan.

Beneficiaries: The Ministry of Justice, Supreme Court, Higher Arbitration Court, law schools, students, judges, lawyers, legislative drafters, and the Rada all directly benefit from USAID's activities in legal system reform. The common citizen when dealing with the legal system also benefits from system

improvements and more knowledgeable jurists and lawyers.

Principal Contractors, Grantees, or Agencies: USAID's legal system reform activities are implemented by Associates in Rural Development (ARD), Checchi, American Bar Association/Central and Eastern Europe Law Initiative (ABA/CEELI) and the US - Ukraine Foundation/Indiana University.

Major Results Indicators:

	Baseline	Target
Administrative Law Code established (milestones)	No (1995)	Implemented (1998)
Laws on municipal revenue generating authority are rationalized (Civil Code sections corrected)	TBD (1995)	TBD (1999)
% of Citizens familiar with privatization laws	TBD (1995)	50% over base (1998)
Filing of criminal charges of common theft and fraud (as % of all criminal charges)	TBD (1995)	30% over base (1999)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Local Government, 110-S002.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,600,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: More effective, responsive, and accountable local government.

Background: Ukraine is a highly centralized country and oblasts are currently administrative units designed to facilitate central government administration. This highlights the need for developing a transparent, consensus-based intergovernmental system that ensures revenue-expenditure balance and an independent revenue privilege. There are therefore two considerations to address: the need for local governments to be autonomous in order for power to be decentralized, and the need for new local government laws to be passed and enforced defining national-local relations and decentralization in order to reinforce democratic practices at the level most accessible to citizens. Currently, the law on Local Self Government is being drafted by a working group appointed by Parliament and is expected to be debated in Parliament in early 1997. In addition to this Law, the Law on State Administration and State Power needs to be re-written and passed by Parliament in order to clarify the jurisdiction and powers of local government. Currently, municipal governments consist of an elected Council of People's Deputies acting as the legislature and having general oversight of the management of city affairs; a city administration headed by an elected Head of City Council ("mayor") in which executive powers are vested; and a Presidential appointee, Head of Oblast State Administration, which administers state executive power. Nearly all local government officials lack knowledge and experience in public administration, e.g. human resource management and financial management. Local governments are responsible for many municipal services, such as transportation, housing, health, and education. However, all staffing, office and administrative expenses of the finance departments in cities are financed directly by the national government, in the budget of the Ministry of Finance. Thus, municipal finance systems lack incentives for effective, cost sensitive program budgeting and monitoring.

USAID Role and Achievements to Date: Local governments are becoming the venue for the development of democratic leaders and governance, through the introduction of a variety of mechanisms such as more open budgeting, town meetings, citizen task forces, constituency outreach and local government watchdog groups. The Ukraine Association of Cities (UAC), modeled after the U.S. National League of Cities, is composed of mayors from over 80 cities lobbying the central government for greater decentralization with an agenda covering local level policy, intergovernmental relations and municipal service. The UAC represents the needs and concerns of Ukrainian cities at the national government level as well as in different Ukrainian and international organizations. With USAID assistance, municipal governments are improving their financial management while becoming more transparent and accountable to their citizens. For example, Kharkiv marked the centennial of its very first municipal bond issue with its first post-Soviet bond sale. The bond issue totaled approximately $800,000, appealing to both individual small investors and businesses looking for a tax-exempt, interest bearing security. Proceeds from the bond sale are at work to improve heating service in at least five districts. In Ternopil, an Economic Development Office was chartered to: assist small business and entrepreneurs to start new ventures; assist existing businesses as they privatize and seek new markets; help manufacturers achieve the quality in production necessary for global competition; secure joint venture partners for local enterprises; and create a legal and regulatory environment to allow business to prosper. In addition, public transportation management and services in four new western cities will be improved in 1997, replicating a USAID-funded project in Ternopil which improved public transportation management and increased capacity by 40% in 1996. In Lviv, computer literacy among the city employees has improved and the city approved a proposal to earmark funds to finance computer training. In addition, 24 U.S. - Ukraine Community Partnerships plan to be electronically linked.

Description: USAID originally developed pilot projects in three Ukrainian cities (Lviv, Kharkiv, and Ternopil) which focused on municipal finance management, improving municipal administration and increasing transparency. In 1996 this program was rolled out into six additional cities. USAID's program also supports the UAC, which advocates on behalf of municipal governments, especially with regard to new local government legislation being considered by Parliament. Additionally, USAID supports training local politicians on the importance of and techniques for responding to constituents' problems. Finally, Ukrainian cities have been partnered with U.S. cities for educational and training exchanges.

Host Country and Other Donors: EU-TACIS has a technical assistance project in the area of self government and a city twinning program focusing on cooperation between cities and the EU; the UN Habitat II program conducts training courses for self-governance leaders in management; the World Bank reviews intergovernmental finances and sector loans and has an Urban Transportation Project; The Canadian International Development Agency assists the Ukrainian Academy of Public Administration in becoming a self-sustaining institution; Pylyp Orlyk Institute for Democracy supports local government officials in Ukraine under a Pew Grant; and the British Know How Fund is planning to strengthen regional government focusing on Crimea in 1997.

Beneficiaries: Mayors, city administrators, local government officials and policy makers are the primary beneficiaries of these programs through increased local authority and improved management. The secondary beneficiaries are the citizens through improved services and greater transparency of government operations.

Principal Contractors, Grantees, or Agencies: USAID's activities in local government reform are implemented by the Research Triangle Institute. USIS conducts a Community Connections exchange program; the Academy for Educational Development conducts training under the NIS Exchanges and Training program for local government officials; IREX has a partnership program between the University of Georgia and Uzhorod State University, which created a center for public administration reform and assistance; USIA and Eurasia Foundation funded a Public Policy Program in Odessa with an exchange program sponsored by the University of Maryland at College Park and the Johns Hopkins University School of Advanced International Studies; and ACCELS conducts a Muskie Fellowship program including public administration.

Major Results Indicators:

	Baseline	Target
Public approval of local government (as % of population)	TBD (1995)	30% over base (1999)
Budget deficits of municipalities (%)	TBD (1995)	TBD (1999)
Locally generated revenues (as % of all municipal revenues)	TBD (1995)	20% over base (1999)
Citizen participation in planning (number of the 27 target cities using such participation)	0 (1995)	24 (1999)
Public archival information of local government operations (number of cities in which volume of information increases)	0 (1996)	12 (1999)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Crises, 110-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $3,350,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Human suffering and negative consequences of crises are reduced.

Background: Upon Ukraine's independence from the Soviet Union in 1991, the government was no longer able to provide adequate social services for the population and an emergency situation ensued. The international community, including USAID, responded by providing critical humanitarian assistance to temporarily sustain the population. A nationwide diphtheria epidemic and seasonal outbreaks of cholera are a continuing threat to the nation's health. Flooding in Kharkiv in July 1995 resulted in a breakdown in sewage and water treatment systems. The poor state of public health is seen as potentially undermining Ukrainian stability.

USAID Role and Achievements to Date: The number of social service NGOs in Ukraine has increased from a handful in 1990 to approximately 5,000 in 1996, many of which are providing urgently needed social services. USAID has provided over $25 million worth of DOD excess property and in-kind donations as humanitarian assistance through local NGOs and social service providers to meet the critical needs of vulnerable populations. Critical supplies provided include medical supplies, basic living supplies and capital goods. In response to the floods in Kharkiv in Summer 1995, chloride disinfectant was provided to render household water potable and five cargo planes of U.S. excess military supplies were distributed as emergency relief through local NGOs. During the Spring 1996 floods, USAID provided humanitarian relief items to assist the Civil Defense Department to respond to the disaster. In order to maximize emergency preparedness, USAID has trained government officials and NGO staff members in the United States working in this area and created a stockpile of emergency supplies. The Ukrainian National Emergency Medical and Disaster Medicine Training Center, supported by the hospital partnership program, opened in December 1995. Over 1,000 budding NGO leaders have received training in basic NGO management and sustainability. The Ukrainian campaign against diphtheria has been provided with 32 million doses of American vaccine and related supplies. USAID also provided a year's supply of insulin for diabetic children who otherwise would receive no treatment.

Description: In order to help make social services work for the people during and after the country's very difficult economic and political reform, USAID supports the institutional development of local NGOs whose efforts are critical as part of the private sector network of organizations providing social protection services. Furthermore, in order to alleviate to the extent possible the hardships imposed on the most vulnerable populations during the country's difficult transition, USAID has continued to provide humanitarian assistance through local NGOs and social services to meet the critical needs of these groups.

Host Country and Other Donors: Activities to help Ukraine develop a sustainable NGO sector are on the agenda of many international donors and organizations active in Ukraine. NGO donor coordination meetings are held regularly to discuss different aspects of NGO development in Ukraine. Participants include USAID, EU-TACIS, Canadian Government, British Know How Fund, SOROS Foundation and MOTT Foundation. Recent examples of donors combining and leveraging resources to address needs in the NGO sector are activities to improve NGO legislation and to develop regional NGO resource centers.

Beneficiaries: Ukrainian NGOs and charity organizations, hospitals, orphanages, invalids, the elderly, and most other vulnerable groups benefit in some way from USAID activities in this area.

Principal Contractors, Grantees, or Agencies: Major providers under this strategic objective are Counterpart Foundation, World Learning, Eurasia Foundation, Program for Appropriate Technology in Health (PATH), and American International Health Alliance (AIHA).

Major Results Indicators:

	Baseline	Target
Vulnerable target populations served by NGOs in selected oblasts (number of elderly and disabled persons)	0 (1991)	20,000 (1999)
Government social service institutions receiving USAID support (number of institutions)	454 (1995)	1,300 (1998)
Adults vaccinated against diphtheria (percent)	44% (1995)	90% (1999)
Continuing response by USAID to national disasters (percent of disasters responded to)	100% (1994)	100% (1999)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Social Benefits, 110-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Improved sustainability of social benefits and services.

Background: President Kuchma and Vice Prime Minister Victor Pynzanek have proposed radical economic reforms for Ukraine for 1997. The proposed reform package, which is likely to be adopted, will require a wide variety of reforms in the social protection system to ensure the fiscal sustainability of benefits and services and protect the neediest citizens. General subsidies to the population are to be replaced in large part by targeted, means-tested subsidies for low income families. Price increases for government services and utilities are scheduled to be increased from 80 to 100% by mid-1997. The government has also set a goal of reforming the system of social insurance; in September 1996 it resubmitted a fundamental law on social insurance to the Parliament, and debate has begun. The government also plans to establish a regulatory system for private pension funds. A law on health insurance is being debated within the GOU, and its provisions may be tested through health insurance demonstration projects. The GOU has taken the first steps toward making its health care system more efficient, but substantial additional reform is needed. Political support for economic reform in Ukraine will evaporate if affordable methods are not implemented to shelter the poor from rapid price increases, falling incomes and deteriorating basic public services.

USAID Role and Achievements to Date: In May 1995, an income-based housing subsidy program was implemented and 754 housing subsidy offices opened around Ukraine. USAID provided 355 computers to the GOU to computerize the housing subsidy application process. The GOU expects that, by the end of 1996, five million Ukrainian families will be receiving subsidies for part of the cost of their housing and utility bills. In 1996, the GOU raised prices of housing and related services from 40 to 80% of costs. Though the new Constitution promises free health care to all Ukrainians, in late August the Cabinet issued a decree making clear those services for which fees may be charged. The decree included abortion and other voluntary procedures as services that are expected to officially become fee-for-service on a national level.

Aspects of USAID's special initiatives in medical partnerships and reproductive health also support this strategic objective. The Kiev partnership hospital, the Center for Maternal and Child Care, has reduced the mortality rate for newborn babies by 62% since 1993. The cost of health care has been reduced at partnership hospitals through 45% to 65% reductions in the length of hospital stays. A hospital partnership neonatal program was adopted by the Ministry of Health for national dissemination, thereby providing Ukrainians increased access to neonatal care. Additionally, the Ministry of Health adopted a national infection control program based on the hospital partnership activity which serves to reduce nosocomial infection and related expenditures in facilities throughout Ukraine, thus allowing reallocation of scarce resources. As part of the hospital partnership program, an Emergency Medical Training Center opened in December 1995 and trained 500 health professionals to respond to emergency medical situations in its first year. As a result the Ministry of Health adopted emergency medical service guidelines that have been disseminated throughout Ukraine allowing for improved emergency medical care for Ukrainians.

Demonstration sites for training and delivery of family planning services were established in Odessa, Donetsk, and Lviv. In Donetsk, the length of postpartum hospital stays was reduced by 42% for normal and caesarian births, representing substantial progress in cost containment. Donetsk and Odessa regions report nearly 100 percent rooming-in (mother and newborn in the same room) at major regional facilities resulting in improved infant health, fewer complications, and reduced reliance on

infant formula. This success was accompanied by a Ministry of Health decree in January 1996, declaring that rooming-in and breast feeding is recommended for good maternal and child health and is cost-effective. The Ministry of Health attributed to USAID assistance in family planning, an 8.6% decrease in abortion from the first half of 1995 to the first half of 1996. As a clear demonstration of second generation training, family planning training activities spontaneously spread through out Odessa and Donetsk regions and into neighboring regions.

Description: USAID is providing technical assistance to help refine and build support for the new income-based subsidy program on housing and utilities, and to help develop a broader program of means-tested subsidies for the needy. The health financing reform project is working to reduce the cost of health care by supporting reorientation of health care delivery away from long hospital stays and toward clinic visits, and by introducing market incentives. Reducing health care costs is also one goal of USAID's special initiative in reproductive health, which aims to reduce the rate of abortion through physician training in modern family planning methods. In 1991, the Ministry of Health estimated that the cost of treating abortion complications was four times that of supplying the population with contraceptives. Other activities of the USAID program also contribute to the goal of reducing health care costs. Partnerships between U.S. hospitals and hospitals in Kiev, Lviv, Donetsk and Odessa are focusing on improving the prevention and treatment of disease, the reduction of nosocomial infection, improved hospital management, and cost containment. In early 1997, USAID will initiate a breast cancer assistance program which aims to improve screening, diagnosis, and treatment of breast cancer among women in Ukraine, including those affected by the Chernobyl accident in 1986. USAID assists social service NGOs throughout Ukraine that help the disabled, large families, women, orphans, the elderly, Chernobyl victims, and HIV/AIDS sufferers.

Host Country and Other Donors: Price increases for housing and communal services are a requirement of Ukraine's agreement with the IMF; EU-TACIS has a two year social protection assistance project; the Government of Germany is working in Ukraine on pension and other social insurance legislative reform.

Beneficiaries: Low-income Ukrainian children, and adults (especially pensioners) at selected sites in Lviv, Odessa, Donetsk and Kiev are among the beneficiaries. The social sector health activities impact all levels of society, particularly women and children, in the above mentioned regions.

Principal Contractors, Grantees, or Agencies: USAID social protection activities are implemented through Chemonics, Planning and Development Collaborative International, Smith-McCabe, Abt Associates, American International Health Alliance (AIHA), AVSC International, Johns Hopkins Population Communication Services, JHPIEGO, Social Marketing for Change Project (SOMARC) and the POLICY Project at The Futures Group International, MotherCare/John Snow Incorporated, and the Centers for Disease Control and Prevention.

Major Results Indicators:

	Baseline	Target
GOU spending on social sector (as percent of GDP)	24.5% (1995)	20% (1999)
Legislative reform: fundamental law on social insurance (law enacted)	No (1995)	Yes (1999)
Public support for targeting subsidies for the poor vs. all citizens	45% (1995)	70% (1999)
Number of pension funds registered	0 (1995)	TBD (1999)
Cost recovery for utilities and housing (as % of total cost)	4% (1994)	100% (1999)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE: Environmental Health, 110-S003.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $4,700,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased capacity to deal with pollution as a threat to public health.

Background: A legacy of the former Soviet Union was complete disregard for the environment, a lack of social awareness of the costs of natural resources, and an inability to manage natural resources as the foundation for economic development. The major environmental risks to public health in Ukraine -- identified by Ukrainian counterparts and U.S. experts alike -- are unsafe water, waste, and agricultural chemicals. Chernobyl is a prime example of resource mismanagement that has resulted in environmental degradation and significant human health and economic costs.

USAID Role and Achievements to Date: USAID has established a Ukraine-U.S. Council and Work Group Program to Promote Sustainable Development. The program includes six work groups on: urban water and waste water; industrial environmental management; sustainable agriculture; energy efficiency; environmentally sound business development; and international cooperation and biodiversity. It has been adopted by the Gore/Kuchma Commission on Sustainable Economic Development as the vehicle for identifying and addressing environmental and energy issues. One example of the results of the Council's work is that proposals to reduce barriers to improving Lviv's water supply and quality are being developed for action by the Cabinet of Ministers. Related to this, USAID is also providing equipment and technical assistance to significantly improve water delivery (from three hours or less a day to 24 hours a day) and quality to 35,000 residents of the Pasichna district of Lviv, and to indirectly improve water services to 70,000 more in the neighboring district. USAID's housing program is collaborating on this project to advance the privatization of condominium maintenance to further reinforce and institutionalize incentives for residents to pay for improved water and other residential services. This project is also assisting the City of Lviv water utility to qualify for a World Bank loan for operational and capital improvements, and provides a model for replication in the other 64 water utilities in Ukraine. As a result of other assistance activities, a mobile radiation laboratory is being delivered to Ukraine to improve the availability and access to reliable data on radioactive and other contamination. A comprehensive project is providing training and a range of technical assistance to improve Ukraine's pest and pesticide management. USAID is also assisting with waste minimization in Donetsk oblast, the largest industrial center in Ukraine; a pilot program has provided four enterprises with control and monitoring equipment resulting in estimated annual reductions in emissions of pollutants into water of 86,300 tons and reductions into air of 3,400 tons, as well as a return on investment ratio of 8:1 with an average pay back period of four months. USAID is also assisting in the dissemination of information on industrial waste minimization and management and pollution prevention, as well as assisting the citizens of Ukraine to communicate concerns and aspirations regarding environmental issues. Local line production of water purification units has begun based on two prototypes designed and installed with USAID support. USAID is assisting Ukraine to increase investment in environmentally sound small business. One example of this is the "Green Carpathian" journal. USAID is also assisting in identifying opportunities for and barriers to developing businesses in wood processing, energy, agribusiness and eco-tourism. Finally, USAID is helping Ukraine address the social impact of closing Chernobyl by the year 2000; an Action Plan was completed in December 1996, and includes an assessment of the health and ecological status of the town of Slavutych, where Chernobyl workers and their families live.

Description: USAID is strengthening environmental institutions within government, the private sector, and the NGO community to create an institutional framework that will support Ukraine's transition to a market economy. Activities include environmental assessments for heavy industry in Donetsk to

identify opportunities to reduce waste and improve efficiency, eco-efficient business development in the Carpathian region focusing on sound resource management for sustainable economic development, and lowering the environmental impact of agriculture through improved pesticide and herbicide technologies, training and regulations. In addition, USAID is helping with the re-engineering of the City of Lviv's water utility, including focusing on consumption-based billing and cost-recovery to enable long-term system maintenance. USAID is also assisting Ukraine to effectively manage the closure of Chernobyl as outlined in the G-7 comprehensive program.

Host Country and Other Donors: USAID coordinates with the Ukraine-U.S. Council and Work Group Program to promote sustainable development for Ukraine. Council members are drawn from the Government of Ukraine, including six Cabinet Ministers, and from local and international private sector companies, NGOs, and the international community. USAID cooperates with the World Bank on the upgrade of Lviv's water supply and industrial waste management in Donetsk. EU-TACIS is a partner on the Chernobyl Social Impact Study.

Beneficiaries: In this phase, the citizens of Lviv, Donetsk, Dnipropetrovsk, Kiev, Crimea, Slavutych, Ivano-Frankivsk, Kharkiv, and Odessa are the primary beneficiaries.

Principal Contractors, Grantees, or Agencies: CH2M-HILL is USAID's principal implementor, with assistance from USAID funded advisors from the U.S. Environmental Protection Agency and the Department of Energy. Other implementors include Virginia Tech, City University of New York, Planning and Development Collaborative International, World Environment Center, Hagler Bailly, Winrock, Management Systems International, ISAR, Burns & Roe, Alliance to Save Energy, and Biodiversity Support Project.

Major Results Indicators:

	Baseline	Target
Environmental laws and regulations include market incentives	0 (1995)	7 (1999)
Number of environmental NGOs that have effectively influenced policy	80 (1995)	200 (1997)
Increased access to potable water by hospitals and other public services in pilot areas (# of units)	0 (1995)	1,000 (1999)
Number of environmental education centers established	1 (1995)	4 (1998)
Number of independent energy efficiency and waste reduction organizations	0 (1995)	20 (1999)

UZBEKISTAN

FY 1998 Assistance to the NIS Request: $32,500,000

Introduction.

Uzbekistan is situated in the geographical heart of Central Asia, and is the only country that borders on all four other Central Asian republics. It boasts a proud history and lays claim to representing the historical, cultural, and even political core of post-Soviet Central Asia. It has 22 million inhabitants and is the largest of the Central Asian republics (and the third most populous of the former Soviet republics). Over the last five years, the Uzbek leadership has actively sought to assert and strengthen its sovereignty and independence. It also clearly aspires to play a regional leadership role. As for the economic reform process, Uzbekistan has adopted a program of gradual, step-by-step reform in which the state remains dominant. Political power rests almost exclusively with the president and an active opposition is not tolerated. At the same time, the government is sensitive to international perceptions about human rights and other issues and, with growing frequency, responds positively to outside pressures for improvements.

United States interests reflect a combination of commercial and strategic concerns. Uzbekistan remains the largest single market in Central Asia. Its economic base is relatively diverse, reflecting a combination of agricultural, industrial and energy resources. Uzbekistan has emerged as the world's fifth largest producer of cotton (it is also the world's second largest exporter of cotton, trailing only the U.S.). It ranks seventh internationally in terms of gold production, attracting the attention of foreign investors. It is already a significant regional gas exporter, and hopes to become self sufficient in crude oil. It has an extensive, if outmoded industrial sector, based chiefly on the processing of minerals and agricultural commodities. Improving and expanding domestic processing of these commodities, particularly cotton, is a key to economic prosperity. Uzbekistan's regional importance and strategic location will also play an important role in determining regional stability in the years ahead. It has significant interests of its own, has played a role in shaping events and in responding to crises in both Afghanistan and Tajikistan, and has an obvious interest in what happens in Iran to the south and Russia to the north. From a U.S. perspective, a democratic and economically sound Uzbekistan that plays a positive and constructive role in regional and world affairs is desirable, both for the well-being of the people of Uzbekistan and for maintaining stability in Central Asia.

The Development Challenge.

Higher cotton prices combined with growth in the oil and gas industry have to some extent cushioned Uzbekistan from the most severe impacts of the breakup of the Soviet Union and the economic dislocations that followed. The country was slow to undertake economic reform in 1992-1994, but the pace has quickened since mid-1994, particularly on the macroeconomic policy front. Inflation, the budget deficit, and consumer subsidies have been cut sharply. The government signed a Transformation Facility with the IMF in January 1995 and a Standby Agreement in December 1995. Progress in privatization has been slower. Small retail shops were almost completely privatized in 1993-1994, but true medium and large-scale privatization has barely begun.

As for the country's debt, Uzbekistan has benefitted from the "zero option" agreement whereby Russia assumes both the debt liabilities and certain assets of the former Soviet Union. Uzbekistan's debt service burden is expected to rise modestly over the medium term because of the short-term nature of its initial financing.

Agriculture accounts for about 35% of Uzbekistan's GDP, employs 40% of the labor force, and accounts for nearly 75% of its foreign exchange earnings, mainly from cotton. Scarce water and land resources make further expansion in cropping acreage difficult, but market-based approaches to pricing and marketing would go a long way toward increasing productivity. Nineteen ninety-five was an

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exceptional year in terms of both wheat and cotton harvests. Cotton production has stabilized at around 3.9-4.0 million metric tons a year and remains an important source of foreign exchange. Wheat production has increased sharply in recent years, as Uzbekistan shifted irrigated land out of other crops in a drive to reach self-sufficiency by 1997. However, 1996 will probably not be as good, especially for cotton, due to poor weather conditions.

Energy represents a second significant sector for future growth. Natural gas provides two-thirds of the country's primary energy supply, and Uzbekistan is the third largest producer of natural gas in the former Soviet Union after Russia and Turkmenistan. Oil reserves are also believed to be considerable. At this point, energy production is geared mainly toward making Uzbekistan self-sufficient. Regional gas sales within Central Asia represent a potential source for energy export growth, but are stymied to some extent by the inability of Uzbekistan's regional customers (Tajikistan, Kazakstan, and Kyrgyzstan) to meet market prices or pay in hard currency. The decision in 1995 to sell off 158 state-owned petrol stations had a positive impact, at least in terms of enhancing efficiency and introducing the concept of private marketing and distribution channels within the energy sector. In April-May 1996, the Government of Uzbekistan verbally requested U.S. technical assistance in the area of legal and regulatory reform for the petroleum sector. The government's primary interest is to establish a policy environment conducive to attracting additional foreign investment in the petroleum sector.

Social policies developed during the Soviet era are unsustainable and increase the need for a more targeted social safety net and an expansion of market-based approaches to social service delivery. Currently, social expenditures account for around 40% of government expenditure. The health system is inefficient and highly centralized. The tightening of monetary and fiscal policy means that wage rates have not kept pace with inflation, while progress in economic restructuring is bound to increase unemployment rates, at least over the short term. The Aral Sea and related environmental disasters such as the excessive use of pesticides in cotton production have a large and adverse effect on Uzbekistan. There is a serious lack of potable water in some regions and health indicators point to serious health problems in some of the worst affected areas.

Uzbekistan's relatively large domestic market, combined with its potential in the agricultural and energy sectors, offers a number of attractive opportunities to potential foreign investors. Turkey, South Korea, Germany, Japan and the U.S., along with Russia, are the largest foreign economic players. The South Korea firm DAEWOO has invested several hundred million dollars in an automobile production plant in the Fergana valley and an electronics plant in Tashkent. Total direct foreign investment is probably on the order of $1.5-$2 billion. U.S. direct investment is estimated at $150-$200 million, with the Newmont Mining Joint Venture ($120 million invested) representing the single biggest investment so far. Other U.S. companies are negotiating joint ventures in such areas as oil and gas, agricultural machinery, and aerospace. The U.S. has also been a major seller of wheat, agricultural machinery and aircraft to Uzbekistan.

From a USAID perspective, the main goal is to engage reform-minded elements in the Uzbekistan government and assist where possible in putting in place the basic building blocks of a market-oriented economic system. Establishment of these basic structures should in turn facilitate the private trade and investment needed for Uzbekistan to reach its considerable economic potential. Engagement at an international level also means adherence to internationally accepted norms and practices in key areas related to human rights and a civil society. Here too, USAID can play an important role in exposing Uzbek policymakers to a wider world and in suggesting alternative approaches as they shape their own economic and political future.

Other Donors.

The IMF and the World Bank are both heavily engaged in Uzbekistan on key reform issues. As noted, as a result of progress on the reform front the IMF signed a Standby Agreement with Uzbekistan in December 1995. The World Bank signed a rehabilitation loan agreement with Uzbekistan in March

1995 and its board is expected to approve a follow-on enterprise reform credit in December 1996. It has also signed a cotton sector project loan and a technical assistance loan, and is considering further loans for the agriculture and banking sectors. In addition, the World Bank is developing a health restructuring loan. EU-TACIS has the largest country program after the World Bank, focusing on technical assistance in agriculture, private business development, and energy. The European Bank for Reconstruction and Development (EBRD) portfolio includes loans for textile plants and energy, as well as a small enterprise credit loan.

FY 1998 Program.

USAID programs in Uzbekistan have concentrated in several areas, including the Aral Sea initiative; technical training in the United States; health and family planning; and a low-key but important democratization effort emphasizing the importance of non-governmental organizations (NGOs) in building and sustaining a civil society. The 1998 program will likely include a special emphasis on fiscal reform, financial sector restructuring, energy sector legal and regulatory reform, and training. Continued modest programs in electoral reform, democratization and social sector transition are also envisaged. Cooperative activities under the Partnership for Freedom will complement technical assistance efforts and specifically focus on developing links between Uzbekistanis and Americans in support of trade and investment and civil society objectives.

Strategic Goal: Economic Restructuring

Although the government's own economic assessment is relatively upbeat, Uzbekistan has still not taken some of the most decisive measures needed to open up the economy and allow a strong private sector to flourish. The IMF and the World Bank have taken a major role in acquainting Uzbek officials with some of the main elements required for such change to take place. While USAID has engaged with counterparts on these same issues, it has been reluctant to invest resources in privatization without indications from them of a clear commitment to transparency and meaningful reform. In some areas, such as fiscal reform, Uzbek counterparts have expressed a strong interest in using technical advisors to effect needed change. Most recently, the November 1996 foreign exchange crisis in Uzbekistan underscored both the importance of macroeconomic stability and the fact that Uzbek policymakers still have a ways to go in understanding and maintaining an effective foreign exchange regime.

Fiscal policy is one area in which Uzbek policymakers have demonstrated a commitment to reform. In particular, tight budgetary controls have reduced deficits and helped meet IMF targets. Revenue generation represents the other side of the fiscal coin, and in this area USAID worked closely with counterparts in the Ministry of Finance and the State Tax Committee to draft a new tax code which was sent to parliament in November 1996. Efforts are also underway to put into place a more modern tax administration system. Additional technical advice is being provided to draft a new budget law, reorganize budgetary classification systems and to strengthen the budgetary planning and execution process. As new policies are adopted, further hands-on training is needed to ensure that the policies are properly implemented. Work on pension reform represents another part of the USAID effort to address fiscal concerns. Sound fiscal management should in turn help maintain macroeconomic stability, an essential precondition for sustained economic growth.

New banking decrees have been issued, but real banking and broader financial sector reform continues to lag. Although Uzbekistan recently established a stock exchange, it lacks transparency and offers few attractive opportunities to potential investors. The development of an effective securities market still seems a long way off. The government tendency to stifle private sector initiative when it appears to undermine or conflict with a state-owned enterprise causes special concern. USAID will offer technical advice and training in bank supervision to encourage the development of an efficient private financial sector.

Uzbekistan offers important opportunities for potential private investors, both local and foreign. Uzbekistan's interest in joining the World Trade Organization (WTO) provides a possible lead-in to technical assistance aimed at improving the legal and regulatory environment for business and for promoting trade and investment. As in neighboring Kazakstan and Kyrgyzstan, the WTO accession process provides many opportunities to dialogue with counterparts on ways to meet international trading standards and continue the reform process. Legal and regulatory reform is also needed to promote private sector growth, encourage transparency and minimize possibilities for corruption. Finally, the Central Asian American Enterprise Fund (CAAEF), headquartered in Tashkent, provides loan and equity capital aimed at promoting private sector development.

Given that a significant part of Uzbekistan's future growth will be energy-sector led, work will be conducted in legal and regulatory reform in the energy sector with particular emphasis on the petroleum industry. Specifically, support will be provided for establishing a legal and environmental framework conducive to production sharing agreements; a simplified and rational licensing regime; and environmentally sustainable rules and regulations governing petroleum exploration, processing, and transport. In the electricity sector, as the regional dispatch center for the Central Asian electricity grid, Uzbekistan will play a key role in facilitating regional energy trade among the five republics. Sound pricing based on cost of service is needed to put the grid on a financially sustainable footing and to further integrate the economies of Central Asia.

- Strategic Objective: Increased soundness of fiscal policies and fiscal management practices
- Strategic Objective: Accelerated development and growth of private enterprise
- Strategic Objective: A more competitive and market-responsive private financial sector
- Strategic Objective: A more economically sustainable and environmentally sound energy sector (CAR Regional)

Strategic Goal: Democratic Transition

Political control in Uzbekistan rests almost exclusively with the President. Media outlets are controlled by the government and open dissent is forbidden. Nonetheless, the government has shown itself more open to dialogue in the past year. Significant opportunities exist to address human rights concerns, to engage NGOs to promote grassroots organizational skills, to promote new views about what it means to adhere to the rule of law, and to expose a potential future generation of Uzbek policymakers to more democratic modes of governance. Recent approval for a survey of voter attitudes, similar to ones conducted earlier in Kazakstan and Kyrgyzstan, represent a step forward and also suggest a greater degree of receptivity to USAID programming in the democratization arena.

Activities aimed at introducing new notions of civil society and democratization will continue in a low key but unmistakable way. For example, the program of grants and technical support to local NGOs will continue, as part of an effort to enhance their management capacity and make their own programs more sustainable. Similarly, USAID work with local lawyers and judges provides an opportunity to enhance legal independence, while presenting models of democratic governance. An increase in requests for legislative commentary from the parliament, and assistance with parliamentary procedures, presents an opportunity for increased participation in the decision-making process and hints at a new level of openness within the legislature. As Uzbekistan begins to think about elections in 1999, USAID is also assisting the government in preparing a new election law.

- Strategic Objective: Increased, better-informed citizens' participation in political and economic decision-making

Strategic Goal: Social Stabilization

The political environment in Uzbekistan limits the scope and opportunity for market-based reforms in the social sector. The view that the government must play a central role in all aspects of national life is still widely held. Progress has nonetheless been made in the health arena using earmark funds in medical partnerships and family planning. These achievements are discussed in the next section. USAID, in cooperation with the World Bank, has been working to create the setting for advancing the health reform agenda. Recent overtures from the Government of Uzbekistan indicate that it is ready to pursue a health reform agenda more consistent with a market-based economy, including addressing issues related to financing health care services. The World Bank has indicated interest in supporting nation-wide roll out of a model to be developed and tested with USAID support. USAID also plans to continue to strengthen and develop NGOs engaged in social services.

Remaining activities under the Aral Sea initiative will focus on the negotiation and preparation of draft laws, decrees and long-term agreements concerning regional water use and sharing.

- Strategic Objective: Improved sustainability of social benefits and services
- Strategic Objective: Reduced environmental risks to public health (CAR Regional)

Cross-Cutting and Special Initiatives

Special Initiatives related to medical partnerships and reproductive health will continue to be shaped to introduce market-based approaches that increase individual choice and rely on the private sector. As the result of the medical partnership program, the Ministry of Health regards the Tashkent State Medical Institute as a demonstration site for new management approaches for providing health care. As a result of this successful partnership, an American private pharmaceutical company has donated insulin and will provide technical assistance to the partnership hospital.

Other reforms have been supported through the FY 1996 and 1997 reproductive health earmarks. Under contraceptive social marketing initiatives, advertising programs for the commercial sale of contraceptives were developed and more than 1,000 pharmacists have been trained in modern contraceptive technology and customer service techniques. Because of the successful training of pharmacists and marketing by the social marketing project, 90% of the pharmacies in the two project areas are now selling quality brand contraceptives.

USAID is also supporting the 1996 Uzbekistan Demographic and Health Survey. Through this process, the Ministry of Health is being exposed to modern survey methodology as well open dissemination of health data. Once complete, government, NGOs, and the donor community should all have reliable data for formulating health policy and directing health interventions where most needed.

As part of the reproductive health program, three model training sites (one each in Tashkent, Samarkand, and Andizhan) are now established. UNFPA will continue work started by USAID in strengthening the capacity of service providers in modern clinical practices.

USAID-supported technical advisors worked with the Ministry of Health to develop national capacity to conduct more effective immunization procedures. Also, USAID-funded technical assistance through a PASA with the Centers for Disease Control and Prevention (CDC) has helped establish an improved disease surveillance and reporting system thus contributing to a more modern epidemiologic capacity. In conjunction with Operation MECACAR, directed toward eradication of polio, USAID funds are supporting the upgrade of a polio laboratory in Tashkent to serve as a sub-regional reference laboratory for polio eradication activities.

Participant training is another cross-cutting activity used across all areas of the project portfolio. It offers important opportunities to strengthen ongoing technical assistance programs and allow Uzbek counterparts to directly observe the situation and experience of other countries. These programs must continue, though they will be reshaped over time to respond to the changing situation in Uzbekistan.

The NIS Exchanges and Training program provided U.S. short-term training for more than 300 counterparts during the 1994-1996 period. Training slots for another 150 Uzbeks are anticipated for 1997 as a result of a new training initiative that also increases opportunities for third country and in-country training. Training participants have been instrumental in bringing about changes in tax policy and administration, national budgeting, pension reform, and health reform. This effort benefits Uzbeks at all levels by providing training for qualified public officials who are able to establish laws and regulations that are transparent and foster the growth of markets and democratic governance.

The training program covers U.S. short-term training as well as in-country seminars, workshops and conferences. In-country programs have been strengthened by the establishment of a resource center where returning participants can utilize e-mail and fax facilities to keep in touch with U.S. trainers and contacts, as well as duplicating equipment to reproduce reports and other materials.

The USAID-funded training initiative has been instrumental in assisting the Government of Uzbekistan in moving ahead in areas related to the reform process. Programs are coordinated closely with those of other donors to ensure complementarity and avoid duplication.

The special initiatives category also includes other U.S. agency activities that do not directly support USAID's strategic objectives.

UZBEKISTAN
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	1,500,000	--	--	--	1,500,000
Private Enterprise	14,000,000	--	--	--	14,000,000
Financial Reform	1,500,000	--	--	--	1,500,000
Energy	200,000	--	--	--	200,000
Citizens' Participation	--	5,000,000	--	--	5,000,000
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	2,000,000	--	2,000,000
Environmental Health	--	--	800,000	--	800,000
Cross-cutting / Special Initiatives	--	--	--	7,500,000	7,500,000
TOTAL	17,200,000	5,000,000	2,800,000	7,500,000	32,500,000

*FREEDOM Support Act (FSA) Funds

USAID Mission Director: Patricia K. Buckles

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE: Fiscal Reform, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased soundness of fiscal policies and fiscal management practices.

Background: As in all former Soviet republics, Uzbekistan upon independence lacked the systems, procedures and technical know-how needed to formulate and manage a coherent national budget and tax collection policy. However, considerable progress has been achieved. As a result of dramatic reductions in production and consumption subsidies and effective short-term cash management measures, the budget deficit has been reduced to around three percent of GDP. Similarly, inflation was reduced from over 1,300% in 1994 to approximately 117% in 1995, and is expected to decrease to less than 40% in 1996. Also, Uzbekistan has been flexible in considering fiscal policy and administrative reforms designed to bring social safety net expenditures under firmer control.

USAID Role and Achievements to Date: A USAID-funded advisory team is providing significant support to the Ministry of Justice and the State Tax Committee in formulating improved fiscal policies. USAID advisors also played a lead role in drafting a new tax code which was recently submitted to parliament and should significantly improve the current highly distorted and inequitable tax system. Additional support is helping to modernize both the indirect and direct tax administration system as well as to introduce pension reform. Counterparts welcome this assistance, and the Ministry of Finance has proven to be one of the most reform-minded segments of the Uzbek government.

Description: USAID advisors are working with Uzbek counterparts to prepare a new tax code and implement administrative measures to ensure its effectiveness. Additional technical guidance is being provided to help draft a new budget law, modernize the budgetary classification system and strengthen the budgetary planning and execution process. Both overseas and in-country training supports this effort.

Host Country and Other Donors: Ongoing work in the fiscal area is closely coordinated with other donors as part of an effort to amplify impact and stretch scarce aid resources further. For example, the British provide training for Uzbek tax officials in the United Kingdom. Also, USAID advisors are working closely with an IMF advisor who is assisting the Ministry to establish a treasury operation within the Ministry.

Beneficiaries: This effort seeks to benefit tax-paying Uzbeks at all levels by ensuring greater transparency and a more rational revenue collection and budgetary expenditure process. Potential entrepreneurs and foreign investors will benefit as more comprehensible and transparent fiscal systems are adopted. Increased government revenues and a more rational system for allocating their use should also lead to more effective governance and greater macro-economic stability.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through KPMG Barents, a contractor working closely with the Ministry of Finance and State Tax Committee.

Major Results Indicators:

	Baseline	Target
Govt. deficit as % of GDP (accrued and cash basis)	5.9% (1995)	3.8% (1998)
Tax revenues as $ of GDP	11.5% (1995)	17.2% (1997)
Local govt. revenue as % of total	15% (1995)	25% (1998)
GOK maintains compliance with IFI conditions	Yes (1995)	Yes (1998)
Effective legal framework established	No (1995)	Yes (1998)
Avg. volume of all types of govt. securities during year	$30m (1995)	$110m (1997)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE: Private Enterprise, 110-S001.3
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $14,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1998; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Improved, more sustainable private business operations

Background: Foreign firms have made successful investments in Uzbekistan and there is also a nascent local private sector. The Central Asian American Enterprise Fund (CAAEF), headquartered in Tashkent, has also made a number of successful loans aimed at promoting private business in the country. Despite these positive steps, Uzbekistan has yet to launch a serious mass privatization program and a number of obstacles, including legal and regulatory ones, hamper private sector growth.

USAID Role and Achievements to Date: USAID briefly supported the Uzbekistan privatization program two years ago. However, a seeming lack of commitment on Uzbekistan's part to serious, wide-ranging and transparent privatization resulted in a USAID decision to curtail this involvement. More recently, new opportunities to promote private sector expansion have emerged, mainly in connection with more modest work in the legal and regulatory environment. In particular, Uzbekistan's interest in joining the World Trade Organization (WTO) increases the prospects for serious dialogue and economic reform in a number of areas related to trade and investment. USAID intends to use this opening to launch a modest legal and regulatory effort in FY1997, with particular focus on the petroleum sector, based in part on ongoing experience gained through similar work in Kazakstan and Kyrgyzstan.

Description: USAID intends to offer limited technical advice in the legal and regulatory reform area, especially as it relates to Uzbekistan's potential accession to the WTO and development of the oil and gas sector. Work would be based partly on similar activity that has already taken place in neighboring Kazakstan and Kyrgyzstan. In-country, third-country and U.S. based training is also available to support these efforts.

Host Country and Other Donors: The World Bank, EBRD, and EU-TACIS are all engaged in activity aimed at improving the business climate and promoting private sector growth in Uzbekistan. USAID's own modest technical assistance and training in this area would be coordinated closely with those of these other organizations.

Beneficiaries: Aspiring entrepreneurs stand to benefit from a more comprehensible and transparent business environment, including one that promotes greater trade and investment. The entire population stands to gain from a market-based economic system which supports employment, increases incomes, lower prices, and expands individual choice.

Principal Contractors, Grantees, or Agencies: To be determined. Mission plans to buy into existing assistance mechanisms or to competitively procure services depending on which will provide the best benefit to the U.S. Government, cost and other factors considered.

Major Results Indicators:

	Baseline	Target
No. of economic sectors showing increase in private market share	3 (1995)	10 (1998)
GOU maintains compliance with IFI conditionality	Yes (1995)	Yes (1998)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE: Financial Reform, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $1,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more competitive and market-responsive private financial sector.

Background: Banking systems in Uzbekistan are extremely weak, limiting opportunities for entrepreneurs to borrow capital to finance their investments. Potential foreign firms interested in expanding trade and investment relationships with Uzbekistan also have great difficulty conducting transactions using existing financial networks. The country lags behind its neighbors in establishing a basic legal and institutional framework for market-based capital market development and considerable work is needed to modernize the banking infrastructure. In the absence of such activity, investment opportunities will be limited and prospects for future economic growth will be severely constrained.

USAID Role and Achievements to Date: USAID activities in this area have been modest thus far, including some U.S.-based, short-term training programs for Uzbek bankers and other financial sector officials as well as technical assistance through the International Executive Service Corps and farmer-to-farmer volunteers. Some bankers from Uzbekistan have also participated in regional training programs within Central Asia.

Description: FY1998 funding would be used to continue a modest technical assistance effort aimed at improving the banking infrastructure and developing new laws, guidelines and procedures for ensuring more effective financial market development. Limited training for Uzbek counterparts is also included as part of this initiative. Banking supervision and possibly accounting infrastructure is also anticipated, building in part on work previously conducted in Kazakstan and Kyrgyzstan.

Host Country and Other Donors: USAID work in this area is closely coordinated with that of other donors. EU-TACIS has developed a banking training facility in Tashkent, an activity with which EBRD and the Turkish government are also involved. The World Bank has identified the financial sector as a key area and has provided some technical assistance to both the Central Bank and commercial banks.

Beneficiaries: Immediate beneficiaries include professionals involved in financial development, including private bankers and government officials. Newly emerging entrepreneurs as well as a broad range of Uzbek citizens should benefit from a more effective and efficient banking system.

Principal Contractors, Grantees, or Agencies: USAID activities are typically implemented through a U.S. commercial contractor working closely with local counterparts at the National Bank and the Ministry of Finance.

Major Results Indicators:

	Baseline	Target
Private bank deposits as % of GDP	4.0% (1995)	12.0% (1998)
No. of financial services available	5 (1995)	13 (1998)
% of firms using new accounting standards	0 (1995)	10% (1998)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE: Energy, 110-S001.5 (CAR Regional)
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $200,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: A more economically sound and environmentally sustainable energy system.

Background: Central Asia is rich in all major energy resources including oil, gas, coal and hydropower. The U.S. has a strong interest in the political and economic stability of this resource rich and strategically located region. The challenge is to develop a policy framework conducive to private investment and a market economy that will promote efficient, safe and environmentally sound resource recovery including the development of new transportation routes, thereby, assisting the region in realizing its potential as a significant contributor to world petroleum supply. Furthermore, energy has the potential to serve as the engine for future economic growth for the entire region.

USAID Role and Achievements to Date: USAID has provided advice in the preparation of an international oil and gas consortium for the Aral Sea Basin and has aided the Kazakstan state entity charged with development of Kazakstan's interests in the Caspian Sea, Kazakcaspishelf. In Kazakstan, consultants have also assisted in drafting rules and regulations for licensing and environmental safeguards, and preparation of a pipeline tariff methodology, critical in removing policy impediments for investment in and development of oil and gas. Monthly round tables between industry and the U.S. Government within a consultative framework developed jointly by the U.S. Embassy and USAID/Central Asia have been of great value.

USAID's continued work in the power sector of Kazakstan and Kyrgyzstan has contributed to policy reforms leading to the sale of over 50% of the Kazakstani electric power system to private investors including a U.S. corporation, and establishment of the first NIS independent regulatory commission in Kyrgyzstan. In Kyrgyzstan, assistance has been critical in passing energy and electricity laws, conditions for the World Bank and Asian Development Bank's $90 million loan for Kyrgyzstan power and district heating rehabilitation and modernization.

Description: USAID assistance is within the context of a U.S./Central Asian Republic Regional Energy Initiative focusing on (a) improving the legal and regulatory framework for oil and gas exploration, production and transportation; (b) identifying future markets for natural gas and defining investment opportunities for expanded and more efficient use of natural gas; and © further restructuring and regulatory reform in electric power and strengthening of regional electricity cooperation.

Building on work which has already begun in Kazakstan, oil and gas sector policy assistance is expected to begin in early 1997 in Turkmenistan and Uzbekistan. This assistance will develop a legal and regulatory framework promoting market competition, transparency, and accountability. Ongoing power sector work in the region is designed to further strengthen national and regional power markets, and facilitate intra-regional trade in electricity by introducing internationally acceptable commercial contracts and pricing practices. This is based on USAID's success in developing a regional power grid in the Baltic countries. This assistance will integrate the Central Asian power markets into larger and more viable markets for investment in new hydro and gas-fired generation, as well as transmission projects within and outside the region - - which may include markets in China and Pakistan.

Host Country and Other Donors: USAID works with counterpart ministries in the governments of Kazakstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and to a limited extent in Tajikistan. The other bilateral and multilateral agencies include the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and EU/TACIS.

Beneficiaries: This assistance will benefit local industrial and residential consumers in ensuring reliable and efficient energy resources and in expanding the diversity of their energy supply.

Principal Contractors, Grantees, or Agencies: Hagler-Bailly is the principal implementor, but assistance is also being provided by Burns and Roe, the U.S. Energy Association, and the U.S. Department of Energy.

Major Results Indicators:

	Baseline	Target
Number of independent regulatory agencies established	0 (1994)	3 (1999)
Private investment in power systems increased	0 (1994)	2 (1999)
Legal and regulatory framework established for oil and gas exploration and development	0 (1994)	2 (1999)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE: Citizens' Participation, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $5,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased citizens' participation in political and economic decision-making.

Background: Government control in Uzbekistan remains very much centered in the office of the president. Meaningful opposition is not tolerated, the press is closely controlled, and completely free and fair elections have yet to be held. President Karimov was confirmed in office through 2000 following a referendum. A new parliament was elected in a process that allowed voters to choose among officially sanctioned candidates. Despite these developments, the government appears to welcome the emergence of a non-governmental sector as well as input from foreign legal experts in developing and analyzing potential new laws and legislation.

USAID Role and Achievements to Date: Several USAID-funded small grants programs are available to directly fund the NGO sector in Uzbekistan. Through October 1996, 47 such grants were provided, covering areas including human rights, environmental issues, women's rights, agricultural development, civic education, rule of law and market transition. This support has also invigorated the formation of NGOs and prompted them to seek ways to improve the legal environment in which they operate. As a result of USAID activity, local NGOs have advocated for legal change and a new association of NGOs is in its first stages of formation. The presence of American Bar Association (ABA) advisors in Tashkent has also proven to be very effective. The advisor works closely with local lawyers and judges, gives them updates on developments elsewhere, and has been requested by the government to comment on and in some cases help shape future laws and legislation. Finally, modest election assistance in 1994 provided some measure of voter education and ensured that foreign observers were informed about specific laws and procedures so that they could provide a more accurate and useful assessment of electoral deficiencies; similar assistance is planned in anticipation of future elections. In the latter part of FY 1996, a survey of electorate attitudes was initiated.

Description: USAID's current program focuses on introducing rudimentary concepts of civil society and democratization to Uzbekistan. Technical advisors, training, and grants to local organizations are all used in this effort to disseminate information and energize local counterparts about the role and potential of non-governmental players in contributing to the economic, political and social development of the country. The Counterpart Consortium focuses on NGO training and provides small support grants to local NGOs. The Eurasia Foundation, whose regional office is located in Tashkent, has also been very active. Although not all their grants are targeted at NGOs, many do involve information and education activities which help inform the public and provide opportunities to engage in broader policy issues. Another USAID grantee has begun working with local broadcasters to improve the professionalism and viability of independent media outlets, although financial independence will not be sufficient to produce editorial independence in the current environment.

Host Country and Other Donors: The United States is the major foreign donor in the area of democratization in Uzbekistan. Other donors have sponsored parliamentary exchanges and the Adenauer Foundation from Germany is especially active. The EU signed a partnership and cooperation agreement with Uzbekistan in 1996 and has an interest in maintaining human rights. NGO activity has also received support from several donors, including the United Nations agencies. USAID coordinates with these groups in carrying out its own activities.

Beneficiaries: Immediate beneficiaries include individuals directly associated with the Uzbekistan NGO sector and legal profession. Many more should benefit through the public interest advocacy and social services provided as the NGO sector grows and expands. More broadly, all citizens stand to benefit from strengthened civil society and the introduction of more democratic norms and practices.

Principal Contractors, Grantees, or Agencies: USAID activity in democratization in Uzbekistan is largely carried out through the work of various American PVOs. Those involved include ABA/CEELI, Internews and the International Foundation for Election Systems (IFES). American groups such as Goodwill Industries, Aid to Artisans, and the Citizens Network for Foreign Affairs all participate in local NGO development as part of the Counterpart Consortium.

Major Results Indicators:

	Baseline	Targets
No. of Advocacy NGOs	0 (1992)	200 (1999)
Cumulative #. of open hearings or consultative processes addressing legislative/policy issues	0 (1992)	5 (1999)
No. of independent stations	0 (1992)	30 (1999)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE: Improve the sustainability of social benefits and services 110-S003.2
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $2,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1998; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Improved sustainability of social benefits and services.

Background: The Government in Uzbekistan has used the social sector hardships as an explanation as to why it has been slow in implementing economic reforms. Unfortunately this commitment to the social sector has not resulted in improved social services. Given this situation, Uzbekistan needs to implement a combination of fee-based social services (for those able to afford it) to ensure sustainability, combined with targeted assistance to vulnerable populations. An area of focus in the social sector for USAID has been the health sector.

Over the past several years USAID together with the World Bank has maintained a dialogue with Government of Uzbekistan officials on a full scale health reform demonstration. Given the hesitancy of the Uzbek government, USAID utilized "earmark" funds to support various interventions to pave the way for more concerted attention to the needed health financing reforms. USAID-funded activities have played a valuable low key role in demonstrating that quality health services can be made available to the people at low cost if managed efficiently.

Government of Uzbekistan officials have indicated increased receptivity to technical assistance in the area of health reform including the financing of health care services. The World Bank has indicated it would support a roll out of a successful USAID model.

USAID Role and Achievements to Date: USAID has collaborated with the World Bank in project identification and project design work for restructuring the health system of Uzbekistan. USAID has, to the extent possible, programmed earmarks in medical partnerships and reproductive health to introduce to the health sector market-based approaches that increase individual choice and rely on the private sector. An annual savings of approximately $700,000 from expenditures on vaccine procurement and commodities has been observed as a result of USAID funded assistance in revising immunization schedules to modern standards. As a result of the medical partnership, the Ministry of Health regards the Tashkent State Medical Institute as a demonstration site for new management approaches for providing health care. As a result of the advertising and training provided under the Contraceptive Social Marketing Program (known as the "Red Apple" program), 90% of pharmacies in the two market test sites are selling modern contraceptives.

Description: Based on the expressed interest of the Government of Uzbekistan to move forward with health reform, USAID plans to provide the training and technical assistance necessary for a demonstration of health reform in one oblast using lessons learned from the health reform demonstrations in both Kazakstan and Kyrgyzstan and to apply them with full consideration of the Uzbek context. USAID plans to work both at the national and local levels in the legal and regulatory, administrative, and technical spheres. Assistance will be provided to both the government and nongovernmental sectors. Results of the model will be the basis for roll out under a World Bank project.

Assuming positive results from this focused attention to the health sector USAID anticipates that it can begin to provide more generalized training and technical assistance to the social sector. This move would be determined in close collaboration with advisors working in the market transition and democratic transition areas.

Host Country and Other Donors: Various Government of Uzbekistan ministries, Presidential apparat, local level government officials and government employees will cooperate in the implementation of this program. USAID work will also be closely coordinated with that of other donors in order to ensure that successful pilot activities are extended. As noted, the World Bank anticipates replicating a USAID funded model to other regions of the country.

Beneficiaries: Immediate beneficiaries will include the population of oblasts participating in one or more demonstration sites. Funding from other donors should allow these benefits to be spread to other regions of the country.

Principal Contractors, Grantees, or Agencies: To be determined. Mission plans to "buy in" to existing assistance mechanisms or to competitively procure services depending on which will provide the best benefit to the U.S. Government, cost and other factors considered. To the extent possible the Mission will use mechanisms in place for similar work in Kazakstan and Kyrgyzstan to maximize efficiency and effectiveness.

Major Results Indicators:

	Baseline	Targets
% of central budget allocated to primary health care	30% (1994)	50% (1999)
Number of independent primary care practices	0 (1994)	40 (1998)
% market share of private pharmacies	12% (1994)	60% (1998)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE: Environmental Health, 110-S003.3 (CAR Regional)
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: $800,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1998

Purpose: Reduced environmental risks to public health.

Background: Following the period of Soviet central planning, a legacy of problems related to industrial pollution and environmental degradation remained. A prime illustration of such environmental degradation is the Aral Sea disaster zone, where several million people have been deprived of access to safe water and have experienced abnormally high rates of morbidity, non-specific diarrheas, and viral hepatitis. While much of USAID's early environmental efforts were focused on humanitarian assistance to the impacted Central Asian population, the challenge now is to focus on reform measures that will reduce levels of urban and industrial pollution in the region and to establish the policy and institutional framework to manage precious natural resources, including water.

USAID Role and Achievements to Date: USAID's Aral Sea program has provided safe drinking water for 1.1 million persons, improved the health/sanitation practices of 1.5 million persons, and already promoted significant policy changes needed for more efficient water use. The turnover to local officials of water treatment/transmission equipment combined with related training in Kazakstan, Turkmenistan and Uzbekistan are graphic demonstrations that USAID is one of the few donors delivering concrete results in the Aral Sea disaster zone.

In an effort to prevent the poor planning and resource utilization that lead up to issues like the Aral Sea disaster, all five republics have participated in seminars for regional water cooperation; are conducting analyses required for the introduction of water pricing; and have established short-term regional water sharing agreements. In Kazakstan, draft legislation is being prepared for establishing water user associations, a new national environmental law, and a pilot air pollution emissions program. While the first phase in developing a national environmental action plan in Kazakstan is now underway, legislation is now being prepared for establishing air pollution standards in Uzbekistan.

Description: USAID assistance appears critical for the Central Asians to maintain the needed focus on policy reform, including the introduction of rational water pricing schemes and regional agreements on water sharing and quality control among all the affected states in the Aral Sea basin. Additional emphasis is also being placed on the passage of reform legislation which would establish water user associations, waste management guidelines/requirements, and a pollution fines system. Strong coordination with other donors is essential as the Agency begins to phase down its own direct involvement. This coordination offers important opportunities for USAID to use its own field experience to leverage substantial resources and help shape the programs and policy agendas offered by other donors.

Host Country and Other Donors: The World Bank, United Nations Development Program, and EU-TACIS have been involved in these efforts. Major host country counterparts include the Interstate Council for the Aral Sea - Sustainable Development Commission, heads of state water agencies from each of the various republics, and various other ministries of each republic. In addition, there has been substantial collaboration with a wide range of other officials at the local and national levels.

Beneficiaries: This assistance seeks to benefit all Central Asia citizens by reducing serious environmental hazards which they encounter in their daily life.

Principal Contractors, Grantees, or Agencies: These organizations include CH2M-Hill Consortium, Harvard Institute for International Development, World Environmental Center, Moscow State University and ISAR Cooperative Agreement.

Major Results Indicators:

	Baseline	Target*
National water pricing strategies support policy changes at the local and national levels	0 (1994)	TBD
Critical watersheds subject to effective management and control policies/international treaties	0 (1994)	TBD
Agricultural water management investments leveraged by other donors (bilateral and multilateral)	$0 (1995)	TBD

*Target data will be developed during the next planning period.

REGIONAL ACTIVITIES IN CENTRAL EUROPE

FY 1998 Assistance to Central Europe Request: $83,000,000

Introduction.

Since its inception in 1989, USAID assistance to Central Europe has evolved from a regional program to a country-specific one. Initially the regional approach gave the United States the flexibility to respond quickly to varying needs across countries in a rapidly transforming environment. The program has matured. USAID now has more field staff which has provided improved knowledge of a country's transition environment and enabled country-specific strategy development. Country-specific programs within Central Europe are described earlier in this presentation.

Described below are activities that still operate regionally, across countries, such as: the South Balkan Development Initiative; Enterprise Funds; anti-crime and corruption programs, regional energy and environmental programs, contract personnel who provide technical services to more than one country; and regional working groups and courses that benefit participants from a number of countries.

FY 1998 Program.

USAID is pursuing the following strategic goals with regionally designated funds in Central Europe:

Strategic Goal: Economic Restructuring

USAID seeks to foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed.

Enterprise Funds: The Baltic-American Enterprise Fund budget remains regional, since it funds investments in Latvia, Estonia and Lithuania. Regional funds also are reserved for the better performing Enterprise Funds throughout the region. Once performance is determined during the fiscal year, the funds will be transferred to the appropriate country Enterprise Fund.

Energy: Given the international character of energy supply systems, USAID's program in this area facilitates regional energy cooperation and trade. Activities in FY 1998 will focus on the continued development of a regional system for managing electricity transmission among the Baltic countries, establishment of an effective regional power pool among central European countries (Poland, Czech Republic, Slovak Republic and Hungary), development of an improved system for power transmission among these countries and for integration of the power pool with the power grid in Western Europe; and strengthened business associations and non-government organizations (NGOs) in support of public policy for energy efficiency.

Privatization, financial sector and fiscal reform: Contract personnel who service the region are funded, and funds are available for Treasury and Security and Exchange Commission technical advisors who work in more than one country. Assessments in the fiscal and financial areas are performed to identify roadblocks to reform.

Private Sector: The Cross Borders activity, initiated in 1997, extends successful experiences and best practices between ENI countries in the areas of private enterprise, exports, trade and development, and/or advocacy programs. This inter-regional effort operates in both the CEE and NIS. Other efforts provide restructuring assistance to CEE firms, develop regional training opportunities and coordinate volunteer executives.

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Strategic Goal: Democratic Transition

Under this goal, USAID funds support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes.

Rule of Law: Funds are provided for regional training, exchanges and technical assistance programs of the American Bar Association - Central and Eastern European Legal Initiative for key legal reformers and members of the judiciary. Funds are also provided for an enhanced anti-crime and corruption program being implemented by various U.S. government law enforcement agencies, including the FBI, Treasury and the Criminal Justice Division of the Department of Justice.

Public Administration/Local Government: Regional funding supports training and regional networking in addressing basic public administration problems, such as decentralizing power, accountability, transparency and responsiveness. Other funds are used to support the creation of municipal finance systems throughout the region.

Independent Media: Exchanges and regional training will be funded to encourage regional media linkages.

Political and Social Process: Funds will be set aside for unanticipated requests for election assistance, training of labor leaders, and possible assistance in conflict resolution.

Non-Government Organization (NGO) Development: Inter-country cooperation and training of newly developed, NGO advocacy groups is encouraged under "Democracy Networks," a regional program which came out of a Presidential Initiative.

Baltic Democracy Foundation: USAID is exploring establishment of a Foundation for Local Democracy to encourage the development of public-private partnerships in target cities to achieve community-based objectives. The foundation is expected to attract private funding to continue local democracy work in the Baltic countries beyond the closeout of USAID assistance.

Strategic Goal: Social Stabilization

USAID assistance responds to humanitarian crises and strengthens the capacity to manage the human dimension of the transition to democracy.

Labor Market Transition: The Department of Labor maintains regional training programs for all countries in the region and supports World Bank social sector reform initiatives.

Environment: The ENI Environment Partnership Program will be initiated in FY 1998. It will facilitate institutional links between the region and the U.S. private sector, NGOs and universities. In Europe, the Partnership Program will build on past successes in introducing "clean" technology to industry and will emphasize trade and investment opportunities in environmental technology and services.

Cross-cutting and Special Initiatives.

South Balkan Development Initiative: This program will help Albania, FYRMacedonia and Bulgaria, front-line countries most severely affected by the conflict in the former Yugoslavia. With normal trade routes to Serbia cut off, the resultant economic setback has threatened the survival of these nascent democracies. In coordination with and with funds leveraged from other donors, the initiative will improve links among the South Balkan nations, encourage regional integration and promote cooperation.

Serbia/Montenegro/Kosovo: USAID will continue to respond to opportunities to expand support of the nascent democracy movement in Serbia/Montenegro and surrounding areas. Funds will support independent media and civil society development, with an emphasis on East-East exchanges taking place in neighboring countries such as Hungary and Romania, and including activists from Vojvodina, Kosovo, Montenegro, and Serbia proper. If conditions permit, an in-country technical assistance program will be launched focussing on election reform. If there is satisfactory reform in Serbia, permitting its readmission into the international community, modest assistance focusing on the development of a free market economy may be initiated.

Health: The health partnership program holds regional conferences and workshops for management development and nursing reform.

Training: Funds are set aside for regional participant training and the Georgetown University program. Evaluation and project development and support also are funded here.

CEE REGIONAL
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	50,000	--	--	--	50,000
Fiscal Reform	900,000	--	--	--	900,000
Private Enterprise	11,800,000	--	--	--	11,800,000
Financial Reform	2,400,000	--	--	--	2,400,000
Energy	950,000	--	--	--	950,000
Citizens' Participation	--	5,700,000	--	--	5,700,000
Legal Systems	--	6,700,000	--	--	6,700,000
Local Government	--	700,000	--	--	700,000
Crises	--	--	130,000	--	130,000
Social Benefits	--	--	1,200,000	--	1,200,000
Environmental Health	--	--	5,800,000	--	5,800,000
Cross-cutting / Special Initiatives	--	--	--	46,670,000	46,670,000
TOTAL	16,100,000	13,100,000	7,130,000	46,670,000	83,000,000

* Support for East European Democracy (SEED) Act funds

Director, Office of European Country Affairs: David Cowles

REGIONAL ACTIVITIES IN THE NEW INDEPENDENT STATES

FY 1998 Assistance to the NIS Request: $99,500,000
FY 1998 P.L. 480 Title II: $4,838,000

Introduction

Since its inception in 1992, USAID assistance to the NIS has progressed from a regional program to a country-specific one. While initially the regional approach gave the United States the flexibility to respond quickly to varying needs across countries in a rapidly transforming environment, the program has matured. USAID now has more field representation which has provided improved knowledge of a country's transition environment and enabled development of country-specific strategies. Nevertheless, some activities are appropriately funded regionally because several countries are benefitted.

Described below are activities that still operate regionally, across countries, including: regional enterprise funds; performance funds; contract personnel who provide technical services to more than one country; and regional conferences, working groups and courses that benefit participants from a number of countries. Activities of some other USG agencies which receive funds through transfers from FSA accounts are in some cases applied regionally.

FY 1998 Program

USAID is pursuing the following strategic goals with regionally designated funds in the NIS:

Strategic Goal: Economic Restructuring

USAID seeks to foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed.

Privatization, Financial Sector and Fiscal Reform: Regional funds cover Washington-based technical advisors who support multiple field missions in project design and implementation, and service contracts that assist USAID with a variety of non-technical support functions. Interagency service agreements, such as that with the Securities and Exchange Commission, help in performance monitoring and assessment across the region.

Private Sector: The Cross Borders activity, initiated in 1997, extends successful experiences and best practices between ENI countries in the areas of private enterprise, exports, trade and development, and/or advocacy programs. This inter-regional effort operates in both the CEE and NIS.

Enterprise Funds: The Central Asian Republics and West NIS Enterprise funds continue to foster private sector development by providing investment capital to small and medium-scale businesses in Kazakstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and in Ukraine, Belarus and Moldova, respectively. In response to the Trans-Caucasus Enterprise Fund earmark, USAID is establishing two finance programs. The first is a private investment fund partially guaranteed by the Overseas Private Investment Corporation. The second is a small enterprise lending program, which reports directly to USAID. The Defense Enterprise Fund in the NIS will continue to receive FREEDOM Support Act funds in FY 1998.

Trade and Investment Support: As part of the Partnership for Freedom, funds will be provided to support a new Trade and Investment facility designed to promote the investment and trade links necessary to growth.

Strategic Goal: Democratic Transition

Under this goal, USAID funds support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes.

Rule of Law: Funds are provided for technical assistance programs and seminars addressing topics such as Civil Code drafting which are common to multiple countries, and expanding activities of the Sakharov Center Human Rights Institute. Funds are also provided for regional anti-crime and corruption programs being implemented by various U.S. government law enforcement agencies, including the FBI, Treasury and the Criminal Justice Division of the Department of Justice.

Strategic Goal: Social Stabilization

Humanitarian: USAID assistance responds to humanitarian crises and strengthens the capacity to manage the human dimension of the transition to democracy. In addition to Freedom Support Act funds, some food aid is allocated on a contingency basis for potential emergencies.

Health: USAID uses regional health funds to provide technical assistance for: vaccine and pharmaceutical delivery, hospital partnerships, and women's health programs not clearly attributable to individual country programs.

Environment: The ENI Environment Partnership Program will be initiated in FY 1998. It will facilitate institutional links between the region and the U.S. private sector, NGOs and universities. In the NIS, the Partnership Program will build on the successes of past programs -- such as the Aral Sea Initiative in the Central Asian Republics -- and emphasize the institutional sustainability and role of environmental NGOs in creating a legacy of cooperation on environmental issues in the region. To maximize the impact of USAID's investment throughout the region, support will be provided to identify and apply cross-border lessons in the environment sector.

Cross-cutting and Special Initiatives

Funds for programs which cut across a number of strategic objectives or which are not directly related to the achievement of USAID objectives.

Performance Funds: In a changing political environment, U.S. interests are best served by having a modest level of Performance Funds available for support of new or accelerating macroeconomic reform or superior performance in key economic sectors, such as with the Central Asian Republic Energy Initiative. Should a peace agreement emerge resolving the status of Ngorno Karabakh and ending the embargo of Armenia, performance funds would provide initial support for peace initiatives.

Regional Training: USAID supports the New Independent States Training and Exchanges Project. Training programs funded under this project are directly linked to the USAID strategic objectives for each country. In order to maintain the project, there are functions which are carried out regionally because of the economies of scale inherent in combining process functions. For example, regional training funds support maintenance of health coverage, tax assistance for trainees, and data collection. In addition, regional funds are used for impact analysis, project monitoring and report preparation. Since there is a substantial amount of training that is done in the U.S., there is more U.S. based monitoring in this project than in most USAID financed activities.

Other Agencies: Similarly funds are provided to the Peace Corps, the Trade and Development Agency, and the State Department for Science Centers.

NIS REGIONAL
FY 1998 PROGRAM SUMMARY*

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	610,000	--	--	--	610,000
Fiscal Reform	600,000	--	--	--	600,000
Private Enterprise	39,100,000	--	--	--	39,100,000
Financial Reform	1,150,000	--	--	--	1,150,000
Energy	886,000	--	--	--	886,000
Citizens' Participation	--	--	--	--	--
Legal Systems	--	1,550,000	--	--	1,550,000
Local Government	--	--	--	--	--
Crises	--	--	--	--	8,738,000
-- FSA	--	--	3,900,000	--	--
-- P.L. 480 Title II	--	--	4,838,000	--	--
Social Benefits	--	--	635,000	--	635,000
Environmental Health	--	--	554,000	--	554,000
Cross-cutting / Special Initiatives	--	--	--	50,515,000	50,515,000
TOTAL	42,346,000	1,550,000	9,927,000	50,515,000	104,338,000

* FREEDOM Support Act (FSA) funds

Director, Office of New and Independent States Affairs: Brian Kline