

STRATEGIC PLAN FOR KYRGYZSTAN

**USAID Regional Mission for Central Asia
Almaty, Kazakstan
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KYRGYZSTAN

**USAID Obligations through December 1994 (Actual), Fiscal Year 1995 (Actual),
Fiscal Year 1996 (Actual), Fiscal Year 1997 (Estimated), Fiscal Year 1998 (Projected)**

PROJECTS	Through December 1994	FY 1995 (actual)	FY 1996 (actual)	FY 1997 (estimated)	FY 1998 (projected)
! Special Initiatives	\$ 3,244,866	\$ 500,000	-	-	-
! Energy	\$ 6,169,228	\$ 1,000,000	\$ 150,000	-	-
! Environment	\$ 546,060	-	\$ 60,000	-	-
! Health Care	\$ 2,623,542	\$ 725,000	\$ 800,000	\$ 120,000	\$ 1,550,000
<u>-Health Earmarks</u>	<u>\$ 1,350,000</u>	<u>\$ 971,000</u>	<u>\$ 1,150,000</u>	<u>\$ 1,730,000</u>	<u>\$ 1,950,000</u>
! Private Sector	\$ 21,227,737	\$ 7,000,000	\$ 1,800,000	-	\$ 1,500,000
! Food Systems	\$ 750,000	-	-	-	-
! Democratic Reform	\$ 5,456,284	\$ 1,880,000	\$ 1,810,000	\$ 1,954,000	\$ 5,000,000
! Housing	-	-	\$ 1,000,000	\$ 96,000	-
! Economic Restructuring	\$ 3,797,554	\$ 5,542,000	\$ 4,750,000	\$ 4,480,000	\$ 7,500,000*
<u>! Eurasia Foundation</u>	<u>\$ 604,000</u>	<u>-</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 2,000,000</u>
<u>! Enterprise Fund</u>	<u>\$ 6,000,000</u>	<u>-</u>	<u>\$ 4,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 7,000,000</u>
! Exchanges and Training	\$ 3,278,879	\$ 2,300,000	\$ 300,000	\$ 900,000	-
<u>Ex/Training-Partnership</u>					<u>\$ 1,000,000</u>
<u>Ex/Training-Exchanges</u>					<u>\$ 200,000</u>
<u>Project Related Training</u>					<u>\$ 1,000,000</u>
TOTAL PROJECTS:	\$ 55,048,150	\$ 19,918,000	\$ 16,320,000	\$ 14,780,000	\$ 28,700,000
AID/Transfers/Allocation					
! Farmer to Farmer	\$ 1,458,162	\$ 652,500			
! Treasury IAA				\$ 480,000	\$ 500,000
! ENI Funding to other Bureaus	\$ 1,432,008				
! Commerce: SABIT		\$ 30,000			
! USDA Cochran Fellow				\$ 100,000	
! USIA Training and Exchanges		\$ 1,000,000	\$ 700,000	\$ 720,000	\$ 2,300,000
! USIA Small Media Grants		\$ 100,000			
! Transfer to INL, DOJ				\$ 500,000	
! Peace Corps		\$ 1,000,000	\$ 1,100,000	\$ 1,100,000	\$ 1,000,000
! Humanitarian Transport				\$ 500,000	
! Science Center				\$ 250,000	
! Parking Fine Withholding		\$ 8,000	\$ 10,000	\$ 20,000	
! Law Enforcement			\$ 400,000		\$ 1,000,000
! EXIM-Trade and Investment					\$ 3,000,000
! Warsaw Initiative			\$ 250,000		
AID/Transfers/Allocation Total:	\$ 2,890,170	\$ 2,790,500	\$ 2,460,000	\$ 3,670,000	\$ 7,800,000
KYRGYZSTAN GRAND TOTAL:	\$ 57,938,320	\$ 22,708,500	\$ 18,780,000	\$ 18,450,000	\$ 36,500,000

LESS NON-DISCRETIONARY:	(\$10,844,170)	(\$ 3,761,500)	(\$ 8,110,000)	(\$10,900,000)	\$(20,950,000)
DISCRETIONARY FUNDING:	\$ 47,094,150	\$ 18,947,000	\$ 10,670,000	\$ 7,550,000	\$ 15,550,000

* Includes 1,000,000 of the Trade Impediment Elimination in FY 1998.

Source: Through December 1994 - NIS Financial Report Date February 13, 1995. Figures represent best estimates only, and include only those projects for which USAID has reporting responsibility; TDA, OPIC, USIS and other Inter-Agency funding transfers are excluded. FY 1995 - USAID/Washington Budget Planning Sheet; Last edit: September 25, 1995. FY 1996 - USAID/Washington Budget Planning Sheet; Last edit: August 29, 1996. FY 1997 - USAID/Washington estimates; Budget Planning Sheet; Last Edit: January 3, 1997; FY 1998 - USAID/CAR; Revised FY 1998 Budgets, January 30, 1997.

**STRATEGIC PLAN PART I:
ASSISTANCE ENVIRONMENT AND STRATEGIC PRIORITIES**

I. ASSISTANCE ENVIRONMENT AND STRATEGIC PRIORITIES

A. US Foreign Policy Interests

The United States and the Kyrgyz Republic have enjoyed productive bilateral relations since Kyrgyzstan declared its independence from the Soviet Union in 1991. Especially important in this relationship has been Kyrgyzstan's role as an eager regional reformer. Specifically, Kyrgyzstan has become a "laboratory" for demonstrating that effective, market-based democracies can work in Central Asia and enhance regional stability, despite a Soviet legacy of inefficient authoritarianism.

In addition to its reform role, Kyrgyzstan plays an important regional role because of its location at the headwaters of major river systems in Central Asia. Such geographic assets mean that the actions of Kyrgyzstan can dramatically affect such sensitive sectors such as agriculture and electricity generation in the downriver countries, namely Kazakstan, Uzbekistan, and Turkmenistan. Any action on the part of Kyrgyzstan that would have a negative impact on such countries would detract from regional stability, which is necessary for economic prosperity in Central Asia.

The U.S. Embassy in Kyrgyzstan has identified three major goals, two of which require substantial USAID involvement:

- To continue to facilitate and encourage Government progress toward a productive, efficient market economy with an appropriate social safety net, while promoting the necessary legal and infrastructure improvements required to allow US business involvement in this new market.
- To continue to encourage the Government and the people of Kyrgyzstan to proceed with democratic reform and to respect the rule of law, separation of powers, and individual rights, primarily through grass-roots civic education.

B. Overview and Priorities

1. Strategic Assistance Area 1: Market Transition

a. Constraints and Opportunities

The Economy

Since December 1993 when the Mission's first Strategic Plan was submitted to Washington, significant progress has been achieved in the economic sphere. Specifically, 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 national currency, the som, has been relatively stable, maintaining its value well against the dollar and

other freely convertible international currencies. Monthly inflation rates have been brought to within the low single digits and overall fiscal management has been reasonably good. Sound monetary and fiscal policies have provided a stable framework for investment planning. The country's privatization program is among the most ambitious of the former Soviet republics, as noted by the Freedom House 1997 Report.

Despite such overall macroeconomic stability, the standard of living has fallen and the social costs have been high. The elimination of fiscal transfers from Moscow, the disruption of existing trading systems, and the departure of many skilled technical and professional workers have exacerbated the hardships brought on by the economic transition process. Further exacerbating this situation is the fact that the industrial sector inherited by Kyrgyzstan 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 Investment Climate

Kyrgyzstan's political leadership actively seeks greater Western investment, but its dearth of profitable natural resources (such as the oil and gas resources available to a number of its neighbors) combined with a heavy-handed bureaucracy and rampant corruption seriously constrain prospects for a major increase in foreign investment in this small nation. However, the government is taking measures to improve the present situation, including a broad array of fundamental legal and regulatory reforms which are largely focused on the requirements for World Trade Organization (WTO) accession. USAID has found the WTO accession process an effective prism through which to focus the attention of government decision makers on a range of macroeconomic and structural reform issues, whose impact on long-run economic growth prospects extends far beyond WTO membership.

WTO progress has been extremely rapid, as in Kazakhstan. The country's Memorandum of Foreign Trade Regime for WTO accession was submitted in August and reviewed by the WTO Working Group in Geneva this past March. As in the case of Kazakhstan, the seven-month period between submission of the Memorandum and the official review was a record for WTO negotiations. This, along with the compact and uncontentious nature of the March discussions, is a strong indication that Kyrgyzstan, like Kazakhstan, is on a fast track toward WTO accession. The Mission's Private Enterprise Growth Team will continue to work intensively with the government on this activity until accession is achieved.

In other legal and regulatory areas, progress has also been solid. A new tax code, passed in mid-1996, established the framework for a resource-neutral, transparent, and easy-to-administer tax system. With passage of the code, Kyrgyzstan became the second country in the NIS, after Kazakhstan, to enact a comprehensive Western-style tax code. Other reforms undertaken by the government in the areas of banking reform, privatization, securities market development and commercial law reform should, over time, significantly enhance investor confidence in Kyrgyzstan. Facilitated by USAID/CAR technical assistance, positive developments in these areas have laid a strong foundation for future economic growth.

Structural Reform at the Sectoral Level

The economy is divided roughly equally among the agriculture, industry, and service sectors. After a cumulative decline of over 50 percent in the immediate post-Soviet period, real GDP grew by approximately 6 percent in 1996. This was spurred largely by a recovery in agricultural production, which in turn was driven by both climatological factors and the relative rapidity with which Kyrgyzstan has proceeded (in relation to many other CIS countries) on agricultural privatization.

b. Evolution of USAID's Program

Since 1994, USAID/CAR assistance in market transition has followed a three-stage progression:

- (1) Creation of a stable macroeconomic environment which creates a stable investment planning environment for potential investors and promotes rational allocation of scarce financial and productive resources;
- (2) Transfer of ownership and effective control over the majority of productive resources from the public to the private sector, thereby creating the socio-organizational foundation for a market-based resource allocation system; and
- (3) Creation of the legal/regulatory infrastructure necessary for creating the establishment of a stable and growth-promoting investment climate.

The first two stages of this process are strongly linked and will be largely completed during FY1997. The attainment of macroeconomic reforms in the fiscal and monetary areas have been crucial contributors to improved price stability. They have removed significant distortions in the pricing and financial resource allocation system and increased the volume of investment resources available to the private sector. This, in turn, has promoted the development of a more stable investment environment and permitted a more rational allocation of scarce resources across sectors.

Throughout the privatization process, the Mission's aim has been to act quickly to channel the privatization process into programs that were fair and transparent, and to enlist the support of the population for economic reform by giving it a stake in the outcome. The Mission's goal has not been to transfer every State-owned object, but rather to break up state monopolies in key economic areas and jump-start the creation of efficient markets. To do so, the Mission privatized enough firms and assets to introduce competition. The Mission Privatization Team played the lead role in this effort, which was completed in late 1996.

As privatization progressed, additional assistance was provided to develop capital markets in order to facilitate consolidation of outside ownership interests and the exercise of shareholder rights. In this connection, the Mission's strategy assumes that if privatized firms failed to restructure ineffectual management, they were unlikely to attract investment capital, and therefore

unlikely to survive. In such cases, liquidation and bankruptcy are an effective means of changing management and achieving asset rationalization. To facilitate this process, the Fiscal Policy and Management Team and the Improved Financial Sector Team have provided the necessary assistance in the areas of bankruptcy and in overall economic restructuring. Notably, Mission expertise has been fundamental in the establishment of a stock exchange in Bishkek, Central Asia's second. After a modest start, it is positioning itself to play an important role in promoting the deepening of liquidity in the nascent capital market.

From FY1998 through at least FY2001, USAID will deepen its support for the development of a market-friendly legal/regulatory framework, in part by creating a strong regulatory framework for the operation of a competitive and transparent securities market and a stable and competitive banking sector. In addition, USAID will work to accelerate progress in establishing the regulatory framework necessary to build investor confidence by ensuring the property ownership and transfer and commercial transaction rights of market agents. In this regard, attention is being devoted by the Private Enterprise Growth Team to ensure that appropriate legal and administrative structures promoting private sector growth are put in place and properly enforced.

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 change 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. However, 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, which encourages entrepreneurial talent and which is hospitable to private investment.

The impetus for core trade and investment policy changes will be driven partly by Kyrgyzstan's application to join the WTO. Kyrgyzstan's WTO application documents have been praised as a model for those of other NIS countries, and it is anticipated that Kyrgyzstan will meet all requirements by FY1998.

Transparency and corruption are two key areas in the overall commercial law effort that will continue to require much attention. Although work in institutional-strengthening in areas such as bank supervision, securities market operations and government procurement will improve transparency, these measures alone cannot eradicate the rampant corruption at all levels of Kyrgyz government hierarchy. They will be complemented by a targeted training effort designed to build the investigative and legal skills of Kyrgyz public prosecutors in the area of economic crime.

Summarizing overall progress, it is important to note that major progress has already been made on the fiscal and monetary policy reform fronts. However, further work is needed to ensure that the macroeconomic policy reform progress achieved thus far is maintained. Much of the reform progress achieved in the fiscal area thus far has been the result of the combination of drastic reductions in subsidies for both failed enterprises and the social sector, and very tight short-term

fiscal management policies. However, revenue generation reforms have lagged behind. The introduction of the new tax code in August 1996 should help improve this situation, as it establishes an automatic withholding system and rationalizes the basis for determining tax obligations. This in turn needs to be followed by the modernization of the tax administration system, including rationalization and automation of each of the core tax administrations functions, and a reorganization of the tax administration process. Hence, from FY1997 through FY2001 the focus of the Fiscal Policy and Management Team will be on implementing the new tax code through a complete and systematic overhaul and transformation of the tax administration. In the budget reform area, technical and training assistance will be provided to rationalize the budget planning process and classification system, thereby building much tighter linkages between expenditure levels and patterns and performance outcomes. In addition, support will be provided to rationalize the intergovernmental finance system and thereby improve the delivery of goods and services at the regional and local level, through reforms which stabilize the revenue base for sub-national levels of government and rationalize the subvention process. Reforms in the budget reform and intergovernmental finance areas will be addressed through at least FY2002 by the Fiscal Policy and Management Team.

Another key area for economic restructuring is the legal and regulatory environment which, given Kyrgyzstan's isolation and lack of easily exploitable natural resources, is critical in determining prospects for future economic growth. Major elements of the policy, legal and regulatory frameworks required to support competition and private sector growth are in fact already in place.

For instance, the Private Enterprise Growth Team began a legal and regulatory reform initiative in November 1995. The emphasis is on clarifying and strengthening property ownership and transfer rights and the rights of parties to commercial transactions. Without such measures, foreign and domestic private investors will have inadequate incentives to take advantage of the opportunities provided by a stable macroeconomic framework and a privatized asset base, and private investment growth will be muted. Important work has already been undertaken in the development of a civil code as well as the reform of the foreign investment, collateral and procurement laws. A tightly focused effort is also 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. Accounting reform at the enterprise level by Private Enterprise Growth Team will be a crucial complement to this work.

Other major technical support activities will strongly complement the core investment environment focus. More specifically, land registration as part of a municipal development and management initiative is being supported by the Fiscal Policy and Management Team in conjunction with the World Bank and the Improved Local Government Team. This pilot 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.

Both the regulatory and technical/organizational infrastructure must also be introduced to promote the efficient channeling of financial capital made available by new foreign and domestic

investors to the areas of highest economic return. USAID has thus provided policy advice, transmission of technical skills, and training in a comprehensive effort to help develop the main institutions and features of an effective securities market, including the National Securities Commission (NSC), Kyrgyz Stock Exchange (KSE), and private investment fund and broker-dealer self-regulatory institutions. A securities trading system was established in 1996 and is in full operation. A broker-dealer association with strong and progressive leadership was recently established. Most importantly, USAID and the government recently signed an MOU committing the government to the operation of open and democratic securities market intermediary institutions, and to an improvement in the availability of quality objects for trading through the flotation of minority shares in a sizeable number of large-scale enterprises not yet fully privatized through the KSE.

Energy and the environment will also form a key area for USAID/CAR efforts in the medium-term. The Mission's Energy and Environment Team and Environmental Health Team will focus on facilitation of trade and investment through improved policies and regional cooperation. The Mission strategy in this area is detailed in the Regional Strategic Plan, which is predicated on the gains to be realized regionally by exploiting the complementarities of regional cooperation in energy and water development, including cooperation in energy trade and investment planning, agreement on water use rights to exploit hydroelectric potential, increased energy trade among CAR countries, and movement to a regional power pool.

Complementing the entire program will be the Mission's training activities which have been evolving. Initially, focus was on preparing and persuading decision-makers to adopt policy changes. Now, however, greater emphasis is on implementing the policies at regional and local levels. This effort benefits 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 governance.

c. Most Important Results to Date

- **MACROECONOMIC STABILIZATION.** Kyrgyzstan has achieved significant progress in the macroeconomic arena. Inflation fell to 35 percent in 1996 from approximately 60 percent during the 1994-95 period. The fiscal deficit was reduced from approximately 12.5 percent of GDP in 1995 to approximately 6.5 percent in 1996. The Kyrgyz som is readily convertible into dollars.
- **NEW MODEL TAX CODE.** A new Kyrgyz tax code was passed in mid-1996. It is characterized by the basic principles of fairness, administrative simplicity, and economic neutrality. Kyrgyzstan is the second country in the NIS (after Kazakstan) to have a comprehensive Western-style tax code in place. It will serve as a model for all CIS countries that seek to improve fiscal systems and strengthen government revenues.

- **WTO ACCESSION.** Kyrgyzstan is moving at record pace through the WTO accession process. The high quality of its Memorandum of Foreign Trade Regime has meant that Kyrgyzstan is far ahead of its planned accession schedule.
- **PRIVATIZATION.** Over two-thirds of Kyrgyzstan's industrial sector, representing over 600 former state-owned firms, has been transformed into private enterprises. Broad public participation in this process has occurred.
- **COMMERCIAL LAW REFORM.** Kyrgyzstan recently became the first country in the NIS to pass into law internationally standard procurement legislation, a step crucial to the promotion of competitive public procurement actions and reduction of corruption incentives. It has also passed legislation on collateral laws which facilitates the use of private property as collateral for loans, thus promoting more effective financial intermediation activities.
- **MICROENTERPRISE LOANS.** Microenterprise loans totaling \$250,000 have benefitted 12,000 individuals. The repayment rate of loan capital and interest is over 98 percent with zero default. Primary beneficiaries have been women below the poverty line.

d. Other Donor Involvement and USAID Comparative Advantage

Key to the success of USAID/CAR's interventions in Central Asia in market transition is the Mission's rapid, flexible response capability which is based on two factors:

- the Mission's large field presence relative to other donors. This makes it easier to accurately target support to priority policy reform areas where reform progress seems achievable in the near-term, and where other donors are not able to mobilize resources as rapidly; and
- the relative speed of its contracting mechanisms compared to those of most donors.

Another key feature of USAID's approach in market transition has been phased development, beginning with adoption of concrete reforms, building momentum for the reform process, and then focusing on institutional development issues related to reform sustainability over the medium- to long-term. This approach has been utilized in the area of privatization, where the Mission has completed auction-based privatization of small-scale companies, and investment-based mass privatization of medium- and large-scale companies. While the World Bank continues with case-by-case privatization, Mission focus has turned to institutionally oriented activities such as accounting reform and bank supervision that will create a strong, fair investment climate in Kyrgyzstan. Both the International Monetary Fund (IMF) and the World Bank have been close collaborators in the area of bank supervision.

Other donor activities also complement the Mission program in Kyrgyzstan. For example, USAID/CAR closely coordinates Mission activities in fiscal reform with the IMF which continues to work successfully with Kyrgyzstan under a three-year Structural Adjustment Facility (ESAF) focussing heavily on fiscal reform. USAID/CAR also coordinates closely with the World Bank in

the area of budget reform, particularly regarding rationalization of the expenditure planning process as well as the area of commercial law reform.

2. Strategic Assistance Area 2: Democratic Transition

a. Constraints and Opportunities

Kyrgyzstan is the most democratic country in Central Asia. The amending of the constitution in early 1996 to concentrate power in the hands of the President appeared to present a disappointing setback. However, fears are proving unjustified. Parliament is being encouraged by Presidential action, the Court system is being improved by Presidential initiative, and the President has encouraged broader citizen participation. Thus, Kyrgyzstan still serves as an example of a democratic nation to the other four republics where governments have yet to embrace political reform wholeheartedly. And equally importantly, it is an example to the theocracies to the south and to China to the east. In this regard, although much progress has occurred since the Mission interventions began in 1993, many fertile areas remain for further activities in democratic development.

One important area is the political arena. Political parties are largely nascent organizations, and, according to a recent International Foundation for Electoral Systems (IFES) survey, only 29 percent of survey respondents would be more likely to support a candidate who was affiliated with a political party than one who was not. USAID/CAR expects that opposition movements will grow out of Non Governmental Organizations (NGOs) which are galvanized around an issue, in addition to traditional political parties.

The same IFES survey also reveals that 57 percent of Kyrgyz are dissatisfied with the performance of the electoral system, and 38 percent say that the electoral system needs reform. The majority of Kyrgyz also stated that they do not have very much information about political developments, and only 18 percent felt that their Deputy represented their views well. USAID/CAR is responding to the Central Election Commission's request for assistance in reforming their electoral system, and is working with Parliamentary Deputies on constituent relations.

With regard to the media, the press is relatively free, but hampered by laws prohibiting insulting the dignity of the President. Its credibility is also hurt by a lack of journalistic experience and a lack of a sense of responsibility. USAID is changing its media assistance methodology to meet the needs of Kyrgyzstan. However, the relative dearth of independent TV and radio stations compared with neighboring Kazakhstan is troubling. USAID is attempting to determine whether policy, a small population, or financial problems account for this glaring deficit.

An active Parliament helps ensure that key issues are discussed and brought before a wide audience before they are acted upon. In this connection, Kyrgyzstan is the first country in Central Asia to conduct open public hearings on draft laws. These hearings allow local citizens as well as government officials to influence laws before final drafts are submitted to the Parliament.

Encouraging progress is occurring in the rapidly growing NGO sector, which is due largely to activities implemented by the Citizens' Participation Team. There are presently 419 NGOs in Kyrgyzstan, whereas there were none in 1993 when the Mission wrote its first strategic plan. The survey reports, however, that already one-third of survey respondents know of NGOs currently functioning in their communities. Two existing NGO coalitions may form the basis for like-minded NGOs to unite into associations whose information-sharing and membership numbers would allow for greater involvement in political processes.

Local government officials from oblast to municipal levels are appointed by and are primarily responsible to the central government. There are elected local councils, but they are subordinated to appointed officials. USAID expects that local officials, always intent on increasing their power base, will turn towards the people in order to build support and legitimacy to supplement their support in the central government. This could conceivably increase pressure for elections of local officials.

The central government has progressively placed responsibility for services, particularly health, education, and housing, with local governments who may not have the authority, and only sometimes have budget resources, to discharge these responsibilities.

Under USAID's strategic objective 1.2, Increased Soundness of Fiscal Policies and Fiscal Management Practices. USAID-financed advisors are assisting the preparation of draft legislation with the objective of securing the authority and revenue base for effective local government. USAID pilot efforts with local government over the past two years (Municipal Finance/Management Project and Housing Sector Reforms Project) have proven that local officials are receptive to procedural reforms related to budget management, budget publication, competitive contracting of municipal services, etc. A truly empowering local self-government law, as opposed to the recently enacted one, would provide fertile ground for replication of such reforms.

b. Evolution of USAID's Program

The importance of ensuring that economic reform is accompanied by political reform lies at the heart of the ongoing USG dialogue with Kyrgyzstan as it moves to build its future. Sustainable economic growth, which is key to improving life for the average Kyrgyz, must be complemented by democratic development. The role of an independent media, respect for human rights, an active non-governmental sector, and widespread citizen participation in economic and political decision-making are all prominent features of this effort. To operationalize such key principles, USAID/CAR's Better Informed Citizens' Participation Team will be engaged through FY2004 in Kyrgyzstan. First, USAID will continue to help to nurture the non-governmental organization (NGO) sector to enhance citizen participation. Second, programs will continue strengthening independent media, especially television. Third, further assistance will be offered to the Kyrgyz Parliament and USAID/CAR will begin a new program to address accountability and responsiveness in the government, probably at the local levels, which will last until 2005. These efforts will be accompanied by improvements in the electoral process. Finally, work in the area of

effective, responsible and accountable local government is envisaged by the Local Government Team. These areas are all examined in more detail below.

Viable democracies depend on the participation of all citizens, particularly as members of interest groups. No NGOs existed before the breakup of the Soviet Union. Since then, 419 NGOs have emerged in Kyrgyzstan in part due to the assistance of USAID's NGO Support Project. 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 continuation of the program will focus more on advocacy and internal NGO democracy. It will further expand outside of the capital. Such work will continue until 2002.

Free and independent media are also a hallmark of democratic societies. To increase the availability of information on domestic policy and political decisions, efforts are underway 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. Currently, however, the existence of only 12 independent stations, many of them broadcasting for only a few hours per day, presents a challenge to Citizens' Participation Team. Hence, it is anticipated that work in this area will continue until 2005. The team will also support greater numbers of NGO newsletters to increase the availability of information.

While constitutional changes shifted the balance of power to the Presidency, the Parliament represents a forum for public debate and plays a constructive role in ensuring that alternative voices are heard. It continues to control the process for discussing, amending, and passing legislation. USAID-funded organizations guided by the Citizens' Participation Team 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 criminal law code, was organized by a USAID grantee.

Additionally, 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 reform the electoral system. The US provided the majority of international observers for the December 1995 presidential elections. In 1996, USAID conducted a tracking poll to follow up on its 1995 survey of voter attitudes. In coming years, USAID will sponsor in-depth assistance to improve the election process, through law development, public education, and training of election officials and election monitors in advance of the Parliamentary and presidential elections in 2000. Additional assistance will follow to capture lessons learned from the elections, at least until 2001. If at any time it appears that elections won't be free and fair, USAID will immediately terminate assistance to the CEC.

Finally, a local government program, scheduled for implementation until the year 2003, is being developed to address social sector concerns while promoting more effective, accountable local governance. 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 while there is still a window of opportunity for them to be effective. USAID is actively working with other donors to achieve results in this area. It is anticipated that such work will continue with increasing momentum by the Improved Local Government Team until local governments have

budgetary and political authority. The Citizens' Participation Team will develop a major new initiative, beginning in 1998, to encourage greater accountability, responsiveness and transparency. It will begin to address corruption.

In view of the above situation, democratic development will be a medium-term process in Kyrgyzstan, requiring both commitment at the upper levels of government and dedication on the part of individuals and NGOs in helping to shape future development patterns. USAID plans to strengthen Parliament, promote a more accountable and responsive government, encourage a more sophisticated and advocacy-oriented NGO sector, and ensure a greater flow of information on domestic policy decisions. All of this should result in a solid foundation on which democratic freedoms will thrive.

USAID is currently not pursuing strategic objective 2.2, Rule of Law, in Central Asia, but will begin this program in 2000, after the Parliamentary elections.. However, significant rule of law activities for judicial and legal training of the American Bar Association (ABA) and Central European Law Initiative (CEELI) are carried out under the special initiative strategic objective and in the market transition efforts. Such activities do not constitute a full strategic objective, but they are the beginning of the evolution of USAID's democracy program in Central Asia.

c. Most Important Results to Date

- **NGO DEVELOPMENT.** 419 NGOs have been developed in a variety of areas, including environment, human rights, agricultural development, women's rights, media, civic education, and election law reform.
- **PUBLIC HEARINGS ON DRAFT LAWS.** Kyrgyzstan is the first country in Central Asia to conduct open public hearings on draft laws. These hearings allow local citizens as well as government officials to influence laws before final drafts are submitted to the Parliament.
- **LAW LIBRARY.** The partially USAID funded law library, which holds databases of legislation in the Russian language, from a variety of countries, hosts approximately 95 visitors a day. It will begin to serve as a repository for draft legislation.
- **CONSTITUENT RELATIONS.** As a result of USAID assistance, members of Parliament have made their first trips to their home districts to meet with their constituents.

d. Other Donor Involvement and USAID Comparative Advantage

In the area of SO 2.1, increased, better informed citizens' participation in political and economic decision-making, there appear to be no other active donors working with the Parliament. UNESCO has opened a small media center in Bishkek and in Osh, with USIS funds, and is trying to start a women journalists' network. The UN may provide equipment for the computerization of the election process and the Russian Election Commission is providing unspecified technical assistance to the Kyrgyzstan Election Commission.

A variety of donors is making small grants available to NGOs, but none of them is providing training or law development assistance. USAID is clearly the lead donor in both the Parliament and the media. The Parliament has made great strides since the beginning of USAID assistance. There was clear desire for democratic reform, but the Parliamentarians did not know how to go about it. One Deputy recently wanted to consult the farmers on a draft agricultural law, but came to our grantee, saying he didn't know how. The Central Election Commission came to a USAID grantee to ask for assistance in electoral reform. USAID welcomes the UN's offer of equipment and hope to capitalize on that donation with our technical assistance, legal reform, training of election officials and monitors, and voter education.

3. Strategic Assistance Area 3: Social Transition

a. Constraints and Opportunities

For the majority of Kyrgyzstan's population, the sudden and harsh changes brought about by privatization, monetary and fiscal prudence, and trade opening have meant enterprise closings, unemployment, and the loss of state-funded services and privileges. The impact has been most evident in severe deterioration in the quantity and quality of health services (including pharmaceuticals), education, municipal services (heat, electricity, water), and pension support. Sustained growth will in time do much to address these problems, but if a backlash to economic reforms is to be avoided, immediate action is necessary to improve both access to and the quality of basic public services. The isolation of the NIS countries during the Soviet period has also meant that many professionals are not up-to-date in their fields.

USAID/CAR's Social Sector Reform Team has been instrumental in introducing reforms which help rationalize the health care system and strengthen primary health care as well as strengthen the private housing sector. Specifically, in the Issyk-kul oblast the team has supported development and implementation of market-driven approaches that increase individual choice and rely when possible on the private sector. The economic transition is specially difficult for vulnerable groups such as pensioners and large families headed by women. The Social Sector Reform Team will focus on targeting public subsidies rather than providing general subsidies in the upcoming year.

b. Evolution of USAID's Program

Work in the social sector is critical to maintaining support for a successful economic transition. In this connection, the Social Sector Reform Team will focus on improving the sustainability of social services in health and housing.

Since 1994, USAID/CAR's assistance in the sustainability of social services and benefits has used the following progression:

- 1) Training for decision makers on world standards for technology and efficient service delivery as an introductory stage;
- 2) Encouraging the development of NGOs for innovative solutions to problems;
- 3) Support the development of pilot projects in areas with high impacts;
- 4) Coordinate with other donors; and
- 5) Public education
- 6) Sustainable implementation through regional assistance.

The overall message for USAID to the Krygyz Republic is that while the Soviet Union developed one of the worlds most comprehensive sets of social benefits, the system is not sustainable because the heavy cross subsidies will not be available again. Programs must become more efficient, more responsive to customers, and more targeted. It is anticipated that such activities will be actively pursued until FY2000, at which point funding for health and housing would decrease as non governmental entities take over major responsibilities for these areas.

With regard to work carried out to date, USAID's reform strategy has demonstrated that health and housing reform can be carried out on a cost-effective basis while improving quality and availability of services. In particular, the health 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 regarding their health care 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 will work at both the national and local level. For example, USAID plans to expand its support for health-financing schemes that contribute to long term financial sustainability in one additional oblast outside the pilot oblast, while supporting a national policy dialogue. 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 75 percent of Kyrgyzstan's population should benefit from a restructured and more efficient health care system. At this time, funding for such activities will be almost zero as private

entities will have major responsibility for this area. A system for housing will be developed for transferring authority for housing maintenance to residents and owners of buildings. It is anticipated that this activity will be completed by the end of FY1999. Hence, all social sector activities in Kyrgyzstan except local government interventions will be completed by the turn of the century.

Regarding other social stabilization objectives in the ENI Strategic Framework, there has not been a crisis situation requiring an intensive response to reduce human suffering and deprivation. However, USAID has responded to requests for assistance with emergency disaster projects. USAID also provides technical guidance to help target humanitarian assistance to support agendas. USAID/CAR has adopted a regional strategic objective for environment. The major focus of Regional SO 3.3 is increased regional cooperation in water resources management for irrigation, industrial, and hydroelectric uses. The rationale and plan for SO 3.3 are detailed in the CAR Regional Strategic Plan.

c. Most Important Results to Date

- **ESTABLISHMENT OF FAMILY GROUP PRACTICES.** Eighty-one new family group practices have been established, resulting in a shift from costly hospital-based care to less expensive outpatient treatment. Eighty percent of the population in the affected area has enrolled in this program, which will serve as a model for the rest of Kyrgyzstan.
- **ROLL-OUT OF SUCCESSFUL HEALTH REFORM MODEL.** Leveraging of donor resources has been significant. Based on USAID's health reform model, which demonstrated that health care can be made available in a cost-effective way by decentralizing the health care system and rationalizing the payment system, the World Bank is investing approximately \$20 million to roll out the model to two additional oblasts.
- **HOUSING REFORM.** The housing program in Kyrgyzstan, in its short two-year life, resulted in the development of at least one auction of municipal land in a transparent, sustainable manner in three of six oblasts in Kyrgyzstan. The outstanding achievement of adoption by Kyrgyzstan of a new housing policy based on free market rather than government control occurred in December 1996.

d. Donor Involvement and USAID Comparative Advantage

USAID/CAR is the principal donor involved in restructuring the health care system through demonstration projects. These projects are designed to show that cost savings can be achieved by strengthening primary health care and improving health care management systems at both the national and local level. Lacking the resources to roll out such successes on a country-wide basis, USAID is currently collaborating very closely with the World Bank on replication of these reforms.

Other donors, including WHO, UNICEF, and the British Know How Fund, are sponsoring a wide array of programs in the areas of mother and child health and nutrition, pre- and post-natal care and preventable childhood diseases. The UN Fund for Population Assistance (UNFPA) has subcontracted with Access to Safe and Voluntary Contraception (AVSC) to continue improving and expanding reproductive health care in three oblasts, Bishkek, Osh, and Jallalabad. International Planned Parenthood Federation (IPPF) is in the process of subcontracting with the Johns Hopkins Program for International Education in Reproductive Health (JHPIEGO) to work with the medical and nursing institutions to include family planning in their curriculum.

C. Summary Rationale for Strategic Objectives

USAID/CAR developed its first strategic plan for the entire Central Asian region in December 1993. At that time, the mission had been in operation for only one year, and Kyrgyzstan, with the other states of Central Asia, was already in the process of transition. To help with this change, the plan presented a strategic approach based on three principles: assisting Central Asian countries to establish legal and regulatory environment to support market-led economic growth; assisting Central Asian countries to establish the political, legal and regulatory environment necessary to support democratic governance; and, finally, easing the adverse human and social impact of transition by developing private sector capacity to deliver health services. In addition, the plan addressed the regional problem of the degradation of the Aral Sea.

The three major themes still apply to Kyrgyzstan but Mission knowledge of the country has deepened and broadened to require very specific treatment of each activity area, as follows:

SO 1.1 - Privatization

Mission involvement in privatization under this strategic objective ended in late 1996.

SO 1.2 - Fiscal Policy/Management

Sound fiscal policy and management are critical to Kyrgyzstan's long-term growth prospects, particularly in maintaining a stable investment climate. Key results sought under this strategic objective include improved tax administration, modernized budget management, and fiscal decentralization. The latter result is essential to the success of our planned work under the new SO 2.3 for improved local government. While other donors are engaged in all these areas, USAID's prior assistance on improved tax policy provides a tactical advantage for follow-on work in tax administration as well as increased credibility with the Kyrgyz government. We are also the leading voice in advocating fiscal decentralization. The government appears committed to improved budget management, but we will need to verify the depth of commitment to tax administration improvement and intergovernmental finance reform before solidifying plans for long-term support.

SO 1.3 - Private Enterprise Growth

Continued improvement of the policy, legal, and regulatory environment is essential to building investor confidence, enhancing prospects for profitability, and promoting the trade and investment linkages sought under the Partnership for Freedom initiative. Key results include Kyrgyzstan's accession to the WTO, further improvements in business law, and full implementation of international accounting standards. Because of USAID's key role in the expected adoption of international accounting standards by the Kyrgyz Government in 1997, we are also well placed to support implementation of these standards, perhaps in joint effort with the World Bank. We rate the commitment to these reforms on the part of the Kyrgyz Government as very high because of its strong interest in foreign investment and membership in the WTO.

SO 1.4 - Improved Financial Sector

More competitive, efficient forms of financial intermediation are essential to facilitating private enterprise growth. In SO 1.4 USAID seeks short-term further improvements in bank regulation and bank operations; in the long-term, our key results center around an open and competitive securities market. USAID will defer to other donors' lead in various aspects of banking reform, but we envisage continued effort on implementing bank accounting standards that will build on earlier USAID support to their introduction. In securities market and pension policy reforms, USAID is clearly the lead donor, and the direction and pace of these reforms would be questionable without our involvement. The GOK's commitment to securities market reform is demonstrated by its Memorandum of Understanding (MOU) with USAID, and subsequent actions to proceed with key reforms specified in the MOU. The Government also appears ready to address key aspects of pension policy reform.

SO 2.1 - Increased, Better-Informed Participation

More problematic than our market transition objectives, SO 2.1 nevertheless provides an excellent opening to increasing the interest, involvement, and influence of Kyrgyz citizens in public affairs. In particular, the key result of an active, effective NGO community and a Parliament reaching out for consultative processes represents the most viable means of promoting a more participatory political process. USAID/CAR is troubled by the lack of progress in the independent media and is redesigning its program to address this problem. USAID is the only donor with significant commitment to these areas. Past achievements in promoting NGOs, assisting in the development of parliaments, law libraries, democratic institutions, independent media, and formation of associations give USAID credibility in helping these organizations improve their operations. USAID will test the Kyrgyz Government's support for these changes through legislative initiatives to strengthen the legal/financial base of NGOs. The success of USAID's intermediate result regarding government responsiveness through work with the electoral commission and the Parliament, and future work on accountability and responsiveness, is harder to predict. USAID will seek opportunities, promote receptivity, and build on early success.

SO 2.3 - Improved Local Government

Improved local government plays a significant role in addressing needs of the Kyrgyz people and, ultimately, in involving people more actively in public affairs. USAID's key results under this strategic objective are: a legal basis for local government; strengthened financial operations through a combination of an improved local resource base and more efficient service delivery; and increased administrative capacity. Because of the breadth of local government activity, support is available from several donors. However, these efforts are largely project-focused rather than result-focused. Thus, USAID is better positioned to support strategic change in the role of local government because of its pilot work in municipal management and finance and related efforts under other strategic objectives on fiscal decentralization, financially sustainable social services, and strengthening the advocacy and service delivery capabilities of NGOs.

SO 3.2 - Social Sector Reform

Financially sustainable social services are critical to maintaining public support for economic and political reforms and relieving the government of unsupportable outlays that are inconsistent with sound fiscal management. SO 3.2's key results are to demonstrate cost-effective systems for health care delivery and municipal services, develop targeted service programs for vulnerable populations, and secure policy commitment and other donor support to replicate successful pilot efforts. USAID is the only donor currently dedicated to financially sustainable social services, and continued work under SO 3.2 will focus on orderly conclusion of demonstration efforts underway, readying successful pilots for replication, and assistance in the initial stages of broader implementation. The commitment of the Kyrgyz Government has been evident in their adoption of market mechanisms for selected social services in the areas of housing and health care.

Summarized below are the comparative importance of our six Strategic Objectives and the two Regional objectives which are also part of the Mission’s program in Kyrgyzstan.

SO	STRATEGIC OBJECTIVE	RANK
1.2	Increased soundness of fiscal policies and fiscal management practices.	5
1.3	Accelerated development and growth of private enterprises.	1
1.4	A more competitive and market-responsive private financial sector.	4
2.1	Increased, better informed citizens’s participation in political and economic decision-making	6
2.3	More effective, responsive, and accountable local government.	3
3.2	Improve the sustainability of social benefits and services.	8
1.5	A more economically stable and environmentally sound energy sector	2
3.3	Reduce environmental risks to public health.	7

D. Customer Focus

In the fall of 1996, USAID/CAR developed a customer service plan which was widely distributed in the Central Asian region. This plan outlined our methods for understanding and responding to the needs of our main customers in the United States and Central Asia. These customers include U.S. taxpayers, U.S. business, the U.S. Congress, the people of the host country, PVOs, and implementing partners. In all aspects of Mission work with this broad array of groups, the Mission has focused on promoting sustainable economic growth by providing support for the establishment of a market economy based on democratic principals. This work includes measures that promote foreign direct investment, including U.S. investment.

As regards U.S. taxpayers and U.S. business, the Mission has worked with Embassy officers, the Foreign Commercial Service (FCS), and local counterparts to benefit the United States. In this connection, we have seized opportunities to use key interests of the Kyrgyz government such as WTO accession to push our comprehensive policy, legal, and regulatory agenda. Fully supported by the Embassy and the FCS, this systematic approach has already yielded an improved business climate for American interests in Kyrgyzstan.

The U.S. Congress is also an important customer of USAID/CAR. The Mission is responsive to the need to use earmark funds and to accommodate special interests. For example, earmark funds have been used to support medical partnerships. One very successful case concerns the 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 use of earmark funds.

The people of Kyrgyzstan are, of course, the key customers for the field mission. To identify and address the country's needs, USAID/CAR methods include direct dialogue with key officials, policymakers, and community leaders; regularly-scheduled Democracy Roundtables in Bishkek for democracy grantees, Embassy staff, USIS personnel, and other interested parties such as international donors; survey research to better understand attitudes toward democratization and health status of vulnerable groups; "call-in" radio and television programs in housing, privatization, and other areas; media monitoring both to understand how the Kyrgyz public views economic reforms and to increase local support for reform through the publication of news articles that explain why specific reforms are necessary and how they will help Kyrgyzstan achieve economic prosperity. This latter activity is especially important in Kyrgyzstan because extreme economic hardship has produced a growing population that does not understand why reform is necessary and has become increasingly disenchanted with the economic transition process. However, surveys conducted by USAID still do indicate significant support for economic reform, particularly privatization, which was supported by 65 percent of those surveyed. USAID-sponsored media coverage of economic reform had a direct impact on this figure; for example, 85 percent of viewers of a USAID-produced television program on mass privatization evaluated the program as useful or very useful.

In addition to media work, numerous Memorandum of Agreements and Memorandums of Understanding have enabled the Mission to ensure that we have full government support for our activities.

To cement customer understanding of the purpose and direction of the Mission program, USAID/CAR has launched a media initiative to inform our customers, especially the local public, about USAID/CAR work and the benefits of reform. This initiative involves production of brochures in English and Russian on USAID/CAR programs in Kyrgyzstan. This initiative also involves the distribution and broadcast of more than 45 video programs and radio shows about reform to media enterprises, partly through the assistance of the USAID/CAR-supported Business Initiatives Center in Bishkek.

Other key tools to assess the needs of Kyrgyzstan include forums for discussion with international PVOs, our local NGO partners and relevant outsiders. Notably, NGO Roundtables in Kazakhstan to which all US NGOs, some local NGOs, and all contractors with operations in the Central Asian region, including Kyrgyzstan, are invited provide an important arena in which to obtain information about country needs and to receive feedback on Mission programs. USAID/CAR/Bishkek organizes similar roundtables in Bishkek. Also, involvement of PVOs, NGOs, and other implementing partners in the development of the Mission's R4s and Strategic

Plans guarantees that such documents reflect country realities. For instance, National Democratic Institute (NDI), IFES, Internews, Counterpart, and ABA were closely consulted on all indicators, in order to create a more well rounded picture of accomplishments in Kyrgyzstan.

Finally, the Mission works closely with other donors to assure effective coordination of our activities. Although these entities are technically not USAID's "customers," USAID's work with them ensures that our customers enumerated above are better served. Regular donor coordination meetings with the World Bank, international donors, embassies and the Kyrgyz Government provide a forum for discussion of ongoing and planned work in specific technical areas. As a result of this coordination, the World Bank realized the importance of following up with capital investments and expanding the health reform model developed by USAID-funded contractors to other regions of the country. In addition, in developing policy at the national level, the World Bank relies on the ground level technical assistance provided by USAID's consultants.

E. Graduation Prospects

The Mission projects continuation of several key aspects of USAID's market transition program, e.g. tax administration, implementation of accounting standards, operation and regulation of securities markets, and fiscal federalism (with requisite Kyrgyz commitment) through 2006, the end of the Partnership for Freedom phase of NIS assistance. An important corollary is that policy reforms and related institutional achievements to date continue to support the Mission's guarded optimism regarding Kyrgyzstan's likelihood to establish the structure for an enduring market economy by 2006.

Political development offers a different perspective. Kyrgyzstan is the region's star democracy, but its democracy needs to develop further. Specifically, legislative foundations for NGO development and local government would help. The media also need to take responsibility for what they say and what they print. USAID's plans for increased government openness and responsiveness are problematic. Government corruption is widespread in the court system. At this stage, USAID is optimistic regarding Kyrgyzstan's potential to achieve meaningful democratic transition by 2005. The Mission will continue to expand and supplement initiatives that appear to be working and capitalize on democratic openings to add to its strategy in this area.

In view of this situation, graduation is not a short-term focus for the Mission but USAID nonetheless expects to complete work in several key strategic objectives during the next few years, as described in Part II of this Strategic Plan. As such work finishes, the Mission will again evaluate graduation prospects. In the meantime, however, this Strategic Plan represents USAID/CAR's current vision of how to implement sustainable reform that will allow the USG to decrease aid and increase trade and investment ties with US institutions.

F. Environment Issues

At the current stage of development of the Kyrgyz Republic, environmental issues relating to biodiversity will not be a major focus of the Mission program over the next five years. Rather, Mission activity in the environment area will center on the integration of environmental concerns into economic reforms, notably legislation to establish environmental standards for natural resource exploitation. Also, the Mission will continue to monitor developments in the Aral Sea Disaster Zone where substantial USG resources have already been invested in the construction of a potable water plant. The ENI region does not contain any tropical forests.

STRATEGIC PLAN PART II

RATIONALE AND PLANS FOR STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE

1.1

**INCREASED TRANSFER OF STATE OWNED ASSETS
TO THE PRIVATE SECTOR**

KYRGYZSTAN

A. Statement of Strategic Objective 1.1

Increased transfer of state-owned assets to the private sector.

B. Problem Analysis

The Kyrgyz Republic has made the strongest commitment of any country in the region to the privatization of state-owned assets. The Kyrgyz economy is in an extremely vulnerable position: it is landlocked; has a limited natural resource base; and was dependent on fiscal transfers from Moscow before the breakup of the Soviet Union.

Thus the economy had no margin for delay in moving rapidly to adopt macroeconomic and structural reforms following the collapse of the Soviet Union. Kyrgyzstan in 1993 adopted a three tier privatization process: auction-based privatization of small-scale companies; mass privatization of medium and large-scale companies; and case-by-case privatization of a group of large-scale and/or "strategic enterprises."

C. Progress, Program Approaches, and Other Donors

USAID/CAR supported implementation of the mass privatization program in Kyrgyzstan by developing a comprehensive privatization support program which focused on strategic policy issues and the practical aspects of implementing the mass privatization program.

Unlike in Kazakhstan, citizens were able to invest either directly in enterprises or through investment funds. A much higher proportion of enterprise shares (up to 75 percent) were auctioned through cash rather than coupons, placing strong emphasis on competitiveness.

The strategy focused on implementing a transparent, competitive and rapid mass privatization program. A cadre of well-trained local staff worked closely with GOK counterparts and monitored each aspect of the program, allowing problems to be resolved quickly as they arose.

Implementation efforts centered on accurately tracking enterprise lists, enhancing the competitiveness of auction procedures and promoting adoption of asset valuation and auction pricing methodologies which would accelerate asset sales. In early 1995, USAID negotiated an MOU with the State Property Fund which laid out a schedule for the completion of the mass privatization program in Kyrgyzstan which committed the SPF to eliminate floor prices for enterprises offered at cash auctions.

USAID/CAR completed its involvement in the mass privatization program in late 1996. Approximately 1,000 enterprises (virtually all eligible companies), representing roughly one-half of industrial GDP, had completed coupons auctions by that time. Over 600 enterprises were majority privatized through cash auctions by that date also. Over the past several months the GOK has continued the mass privatization process on its own. As of March 1997, approximately 850 of the 1,000 eligible companies had become majority private-owned through the cash auction process.

The World Bank supported case-by-case privatization program has been considerably slower in its implementation. Only a handful of the approximately 100 companies eligible for this program

have been privatized. The Government is now looking to accelerate implementation of the case-by-case program; which includes many of the more potentially profitable natural resource extraction-based companies in the economy.

USAID/CAR finalized an MOU on securities market development with the Government. Under the MOU, the Government has committed to bring large minority shares of up to 50 strategic enterprises for competitive sales in 1997 through the stock exchange. The Government has committed to adopt and make effective as of July 1, 1997, 18 international accounting standards and to apply rules to create fair participation by all players in the securities market. This should contribute significantly to improving the competitiveness of all privatization efforts, including the case-by-case program, as well as increasing the demand for share capital in the nascent Kyrgyz securities market.

Finally, agricultural privatization has proceeded much further in Kyrgyzstan than in other CAR countries. In several areas of Kyrgyzstan, land has been privatized primarily through transfer to individual farmers and small groups of farmers, rather than simply through transfer to the farm collective administrative apparatus.

This has created a significantly higher degree of decentralization in land ownership in Kyrgyzstan than in other Central Asian countries. This has helped promote a turnaround in agricultural production in Kyrgyzstan: the agricultural sector contributed significantly to the estimated 6 percent growth rate in real GDP in 1996.

USAID/CAR has responded to this favorable land reform policy environment by supporting a pilot land registration program; which has helped the Government to set up a land registration administration unit and develop a capability for land cadastral surveying and registration activities. This program will bridge to a nation-wide World Bank supported land registration program in late 1997.

USAID/CAR will complete all direct privatization-related support activities in 1997; and shift its energies to the creation of a favorable policy environment for private sector growth. However the successful privatization support program developed in Kyrgyzstan has helped lay the foundation for a significant expansion in private sector investment over the coming years.

This strategic objective ended in late 1996. No additional funding is required in FY1997 or beyond.

D. Graduation/Sustainability

The progress made in privatization thus far in Kyrgyzstan makes the movement towards a private sector-dominated economy virtually irreversible. The hands-on training provided GOK administrative personnel should allow the GOK to continue to move forward with remaining cash auction activities, while the USAID/CAR securities market development support program will help promote the privatization of a significant number of large-scale enterprises heretofore withheld from the privatization process. The next challenge lays in helping shareholders effectively exercise corporate governance rights and change the financial and managerial policies of privatized enterprises. This crucial issue is addressed through USAID/CAR's financial sector development support program.

KYRGYZSTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS					
				YEAR	VALUE	1996		1997		1998	
						Target	Actual	Target	Actual	Target	Actual
SO 1.1	Increased transfer of state-owned assets to the private sector	Percent shares of state economic enterprises created at the time of corporatization fully privatized	Definition: % of the 963 state-owned enterprises corporatized in 1991 that attained majority private ownership Unit: percent	May 1993	47%	80%	82%				
IR 1.1.1	Legal authority and regulations in place	Published decrees & regulations on mass privatization program	Definition: Copy of the decrees and regulations in USAID possession Unit: #	May 1993 Dec. 1996	16 63	5	5				
IR 1.1.2	GOK complied with World Bank conditionality on share sales	Percent compliance	Definition: share sales as a percent of World Bank required sales Unit: %	Jan. 1995 Dec. 1995	0% 90%	100%	100%				
IR 1.1.3	State Property Committee (SPF) sold/transferred shares openly	% open auctions	Definition: No of state-owned shares/parcels sold in open auctions divided by the total number of auctions (open & closed) Unit: %	May 1994	0%	40%	46.2%				
IR 1.1.4	Citizens participated in privatization programs	1. % citizens received coupons	Definition: Number of population who received coupons divided by the total estimated population Unit: %	1995	75%	-	-				
		2. % coupons invested	Definition: Number of coupons invested/ number of coupons distributed Unit: %	1995	90%	-	-				
		3. % invested coupon sold	Definition: Number of invested coupons sold/ number of invested coupons Unit: %	1995	7.6%	-	-				

Comments/Notes:

According to the conditionally concerning privatization set forth in the APEAC Credit, numerally results are described as follows : “for the State Property Fund (SPF) to provide a schedule of cash auctions for the sale of all remaining state shares at a rate of 100 enterprises a month ...,” and “ [the SPF] to offer at cash auction all remaining state shares in minimum of 200 enterprises by March 31, 1996 (including the cash auctions of the 72 enterprises of Kyrgyz Dan Azyk and Kyrgyz Tamak’as scheduled for competition by March 31, 1996).”

The SPF has exceeded the minimum of 200 “ offer[ed] at cash auction ... by March 31, 1996.” Importantly, none of the 72 companies through Kyrgyz Dan Azyk and Kyrgyz Tamak’as have been offered for sale.

H. Results Framework Narrative

1. Transition Hypothesis/Underlying Rationale

The first, and possibly most crucial, phase of Kyrgyzstan's economic restructuring program is the transfer of state-owned assets to the private sector. The benefits of privatization are fundamental the transfer of productive assets to the hands of private entrepreneurs capable of utilizing them in a profitable and efficient manner, the reduction of the interference of the state in the development and operation of the market, the provision of incentives to the private sector; the list could go on. In Kyrgyzstan, three tiers of privatization were created and utilized. The first tier comprised auction-based privatization of small-scale companies, the second tier was investment-fund based mass privatization of medium and large-scale companies, and the third tier consisted of case-by-case privatisation of large troubled or strategic enterprises.

USAID/CAR's analysis suggests that two sets of concerns are critical for an expanded private sector:

First, a transparent and competitive privatization process, including clear and competitive auction procedures and the adoption of asset valuation and auction pricing methodologies which would accelerate assets sales must be established. USAID activities have been instrumental in ensuring that such policies and methods were adopted, facilitating the provision of a more reliable, and therefor effective, privatization process.

Second, and most simply, is the further improvement of the stake of the private sector in the ownership of all Kyrgyz assets, and the increased labor force in privatized companies as opposed to inefficient state enterprises which can't pay salaries, pension or other obligatory payments on behalf of the population.

In general, during past activity USAID contractors have been able to secure these developments, which have resulted in a privatization process which has been quite successful.

2. Critical Assumptions

The program in Kyrgyzstan is complete.

3. Causal Linkages

This strategic objective was organized around two main areas of activity, each of which is related to the other and each of which was critical to the overall success of the program. Clear and transparent auction and methodology procedures enhance the effectiveness and attractiveness of privatized objects, which leads to the increase the number of former state assets being held in private hands. This dynamic ensured the completion of the mass privatization program in a successful manner.

STRATEGIC OBJECTIVE

1.2

**INCREASED SOUNDNESS OF
FISCAL POLICY AND FISCAL MANAGEMENT PRACTICES**

KYRGYZSTAN

A. Statement of Strategic Objective 1.2

Increased soundness of fiscal policies and fiscal management practices.

B. Problem Analysis

Fiscal reform is crucial to the medium and long-term economic growth prospects of Kyrgyzstan. In its absence, inflationary pressures and sub-optimal public expenditure and taxation patterns will significantly inhibit both the stability of the investment climate, and the profitability of private investment opportunities. Fiscal retrenchment is a particularly vital reform issue in Kyrgyzstan; since up until the breakup of the FSU the country received a significant fraction of GDP as fiscal transfers from Moscow.

Limited experience in modern budget management policies and practices and tax administration practices will, if not systematically addressed, severely challenge the Government's ability to effectively sustain fiscal reform policies over time. Thus reform of the fiscal policy regime and administrative apparatus is crucial to establishing a sound overall investment climate.

C. Progress, Program Approaches, Other Donors

These are the Intermediate Results (IRs) for SO 1.2, discussed in general terms in this section:

- **IR1.2.1: Central government shifted roles and responsibilities as primary fiscal manager and regulator vis-a vis government, state-owned enterprises and private sector.**
- **IR1.2.2: GOK complied with international financial institutions' conditions.**
- **IR1.2.3: Taxes are more fairly and broadly applied and enforced.**
- **IR1.2.4: Improved budget management**

Kyrgyzstan has made significant short-term progress in the fiscal reform area, after a slippage in 1995 performance related primarily to significant shortfalls in revenue collection and a decline in food grants. This is indicated by the fall in the fiscal deficit from approximately 12.5 percent of GDP in 1995 to about 6.5 percent of GDP in 1996, and a reduction in annual inflation to 35 percent in 1996 after an average of about 60 percent during the 1994-95 period.

This has been achieved through expenditure controls associated with some rationalization of expenditures in the health and education areas and, also, through short-term expenditure sequestration measures. In addition, revenue performance during the 1995-96 period was strengthened somewhat via a series of targeted administrative measures to reduce tax arrears. USAID/CAR has supported the fiscal reform process in the Kyrgyz Republic through a comprehensive program of long-term technical assistance and targeted training support in the

budget, tax policy, and tax administration areas. This program has been coordinated closely with the IMF, whose three-year Economic Structural Adjustment Facility (ESAF) agreement with Kyrgyzstan runs through June 1997 and focuses heavily on fiscal reform issues.

Kyrgyzstan has made significant progress on the tax policy front. In mid-1996 Kyrgyzstan became the second country in the CIS (after Kazakstan) to adopt a comprehensive western-style tax code.

The code eliminated most exemptions; established clear and non-distortive definitions of the taxable base for each of the major taxes; mandated an automatic withholding system for the personal income tax; and established VAT and corporate income tax rates (20 percent and 30 percent, respectively) and a maximum personal income tax rate (40 percent) consistent with Western standards.

Overall the code represented a major step forward in the design of a nondistortive, stable, and easy to administer tax system. USAID/CAR provided significant technical support to the Government in the development of the code.

However, amendments to the code passed in December 1996 weakened the tax system from a policy perspective. The most important provision exempts the agricultural sector from the VAT, the profit tax and the income tax. These are to be replaced with a land tax based on imputed land value. In theory the land tax could be a cost-effective substitute for the profit and income taxes. However at this point it does not appear that the Government has an administrative system in place to enforce it. In addition the VAT exemption creates a huge loophole with serious revenue loss implications.

USAID/CAR is working intensively with the Government (as well as with the World Bank and the IMF) on the revenue loss and policy distortions associated with these measures; and expects to resolve the problem in 1997.

Limited progress has been made on improving the long-term effectiveness of the tax administration system. Tax audit and collection methods require overhaul; the payment and returns processing systems must be automated; and taxpayer education efforts must be stepped up. Significant progress has been made in the taxpayer registration process.

Tax revenues as a percentage of GDP were approximately 14.5 percent in 1996. This is a significantly stronger performance than in neighboring Kazakstan. However long-run fiscal stability will require additional improvement in revenue collection.

This will require both major procedural reforms in the tax administration system; and a systematic reorganization of the tax administration apparatus along functional lines. USAID/CAR is providing significant technical support and training to the Kyrgyz Tax Inspectorate on tax administration procedural reforms and on automation strategy and associated software development. Work in these areas is being closely coordinated with the IMF and GTZ.

In the budget reform area USAID/CAR is providing long-term advisory and training support designed to rationalize the expenditure planning process. Initially through a USAID-funded U.S. Treasury advisory program and now through direct USAID advisory support, USAID/CAR is providing technical expertise for the development and implementation of a modern budget classification system.

In addition, USAID/CAR advisors will be working closely with the World Bank on rationalization of the expenditure planning process. The Bank is financing a comprehensive technical support program on budget planning and fiscal decentralization. This complements the major Public Sector Resource Management Loan Facility the Bank recently put in place.

The Bank eventually expects to have a group of nine advisors in place working on (1) the introduction of performance-based budgeting methodologies within the MOF and key line ministries; and (2) the redesign of revenue transfer policies to create greater stability and rationality in the allocation of revenues to regional and local governments.

USAID/CAR fiscal advisors have been the first on the ground in this coordinated inter-donor effort. USAID/CAR is optimistic about the progress that can be made in this area given the relatively strong commitment which the Government has shown to rationalizing the fiscal relationship between different levels of government in Kyrgyzstan.

USAID/CAR has also provided technical and financial support for the development and installation of a simple external debt tracking system. This work, which was requested by the Government after it experienced serious problems in monitoring its debt repayment obligations, was carried out successfully in 1994.

The system installed was much simpler than that installed in Kazakhstan, reflecting the relative simplicity of the external loan portfolio in Kyrgyzstan. Prior to this system, the Government had no system for tracking government loan guarantees and maintaining an accurate week-by-week record of loan repayment obligations.

In addition, USAID is funding a long-term U.S. Treasury advisory program to improve the Government's capacity to manage the issuance of government debt. Much of the advisory activity in this area thus far has centered on building an understanding of the dangers of prematurely decentralizing bond issuance authority to local governments. Effective dialogue in this area helped derail a potentially dangerous large-scale municipal bond issuance for the city of Bishkek in March 1997.

Coordination with and through the World Bank should provide a strong opportunity to facilitate progress in this area. Advisory support in budget reform and decentralization is envisaged over the 1998-2000 timeframe, with a reassessment at that point of other donor commitments in this area.

Finally, efforts to further improve the Government's government securities issuance and management policies (on which long-term advisory support began to be provided in mid 1997) should continue at least through 1999. The most crucial longer-range support decisions to be made, as is the case in Kazakhstan, will be in the inter-governmental finance and tax administration areas.

Fiscal reform is among the most critical areas in the portfolio of the USAID Office of Market Transition. By 1997 the emphasis of the fiscal reform effort had already shifted to improving tax administration support for intergovernmental finance and budget reform. During the planning period support for tax budget management (1.2.4) will gradually phase down after 1999, while support for intergovernmental finance reform (1.2.1) will gradually increase throughout the period. Support for tax administration (1.2.3) will phase down in FY2000 and FY2001. This strategic objective is viewed by the Mission as a core activity and is therefore not reduced under any of the budget scenarios presented.

D. Graduation/Sustainability

Over the medium term the most crucial areas for fiscal reform for Kazakhstan relate to tax administration and the system of inter-governmental finance. Kazakhstan must significantly strengthen revenue performance in order to promote longer-term macroeconomic stability. GOK commitment to moving aggressively in the tax administration area will be closely monitored over the next six months. If it appears a strong commitment exists, support will be continued. No other donors are pro-actively involved in tax administration issues; and a support effort could (assuming appropriate counterpart support) effectively continue through the 1998-2001 timeframe. At that time a comprehensive overhaul of the organizational structure of the tax inspectorate will have been completed; along with a comprehensive modernization of tax audit, collections, inspection, and other core tax administration functions. A comprehensive automation program consistent with the transformation of tax administration practices enumerated above should also have been completed by that time.

In addition Kyrgyzstan must accelerate the expenditure rationalization process and adopt reforms in the intergovernmental finance system which promote (1) a stable flow of revenues to regional and local government; and (2) a rationalized inter-governmental transfer system based on objectively-defined expenditure needs. The intense pressure that the GOK is likely to remain under for the foreseeable future in economizing on public expenditure levels dictates that a much tighter linkage be forged between program expenditures and service delivery.

Coordination with and through the World Bank should provide a strong opportunity to facilitate progress in this area. Advisory support in budget reform and decentralization is envisaged over the 1998-2000 timeframe. By this time, a significant improvement should have been achieved in the stabilization of revenue available to sub-national governments in the establishment of a transparent, needs-based inter-governmental grant system. At this point a reassessment of other donor commitments in this area will be made.

Finally, efforts to further improve the GOK's government securities issuance and management policies (on which long-term advisory support began to be provided in mid 1997) should continue to be made, as is the case in Kazakhstan, will be in the inter-governmental finance and tax administration areas. Assuming that progress is made in these areas along the lines envisaged above, this SO could be phased out after 2001, with any residual support to the budget reform process to be focused at the local level and subsumed under SO 2.3.

KYRGYZSTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS							
				YEAR	VALUE	1996		1997		1998		1999	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.2	Increased soundness of fiscal policies and fiscal management practices	1. General government deficit as a % of GDP cash (accrued) basis.	Definition: Expenditures cash (accrued) basis less revenues as % of GDP Unit: Percent	1995	12.5 (n/a)	7.0 (n/a)	6.1 (n/a)	6.0 (n/a)		5.0		4.0	
IR 1.2.1	Central government shifted roles and responsibilities as primary fiscal manager and regulator vis-a-vis local government, state owned enterprises and private sector	Decentralization ratio	Definition: Local government revenues as % of total government revenues. Unit: Percent	1995	41	41	35	41		41.5		42	
IR 1.2.2	Government of Kyrgyzstan complied with the International Financial Institution's conditions.	Compliance.	Definition: GOK adheres to conditions set forth by the IFIs for additional assistance. Unit: Yes or No	1995	Y	Y	Y	Y		Y		Y	
IR 1.2.3	Taxes are more fairly and broadly applied and enforced.	Tax Compliance Rate	Definition: Tax revenues as a percent of GDP. Unit: Percent	1995	13.6	15	14.5	15		15.5		16	
IR 1.2.4	Improved budget management.	Fiscal arrears as % of GDP	Definition: General fiscal deficit (accrued basis) less general fiscal deficit (cash basis) as % of GDP. Unit: Percent	1995	n/a	n/a	n/a	n/a		n/a		n/a	
IR 1.2.1.2	Roles and responsibilities of different levels of government clarified	Legal framework is established	Unit: Yes - No - Partial	1995	N	Y	P	Y		Y		Y	
SO 1.1	Increased transfer of state-owned assets to the private sector	< See SO 1.1 >											
IR 1.2.3.1	A more rational tax policy enacted	Adoption of modern tax legislation	Unit: Yes - No - Partial	1995	N	Y	Y	Y		Y		Y	
IR 1.2.3.2	Efficiency of tax administration system increased	Costs per unit of tax revenue collected	Definition: Ratio of Tax collecting agency's budget to Tax Revenue Unit: Percent of the National Currency unit	1995	1.9	1.85	2.0	1.84		1.8		1.75	
IR 1.2.3.2.1	Computers used to produce necessary information for tax administration and collection	-	Unit: Yes - No - Partial	1995	N	Y	P	Y		Y		Y	
IR 1.2.3.2.2	Officials are trained in modern tax administration methods	-	Unit: Yes - No - Partial		Y	Y	Y	Y		Y		Y	
IR 1.2.4.2	Government borrowing less inflationary	NBK share in deficit financing	Definition: Share of NBK credit to the government as a percentage of total deficit financing Unit: Percent	1995	46.5	45	41.7	30		20		10	
IR 1.2.4.2.1	More robust secondary market for government securities is developed as a primary debt instrument	Volume of outstanding t-bills	Definition: Average volume of all types of government securities during the year Unit: \$Millions	1995	3	5	5.2	5.5		6		6.5	
IR 1.2.4.2.2	Policy advice to the government to limit NBK share of deficit financing is accepted	Compliance	Unit: Yes- No - Partial	1995	Y	Y	Y	Y		Y		Y	

IR 1.2.4.1	Expenditure allocation process rationalized	1. New budget classification system is in place 2. Budget Law ¹ passed	Unit: Yes - No - Partial	1995	N	Y	P	Y		Y		Y	
		Comments/Notes:											

¹In process

H. Results Framework Narrative

1. Transition Hypothesis/Underlying Rationale

As in all former Soviet republics, Kyrgyzstan lacked the systems, procedures and technical expertise to formulate and manage coherent fiscal policies when it declared independence in 1991. Kyrgyzstan must adopt appropriate fiscal policies that contribute to price stability, raise fiscal revenues in a neutral and non-distortionary way, and provide a more efficient allocation of scarce budget resources. Such a fiscal framework will directly contribute to the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed. Fundamental to this process is the shifting of the roles and responsibilities of the central government vis-a-vis local government, state-owned enterprises and the private sector. This objective also contributes to the empowerment of local government through the application of the principles of fiscal federalism.

While significant progress has been made in the last two years (reflected in a declining budget deficit relative to GDP and a significant reduction in inflation), much remains to be done, including improvements in tax policy, decentralization of government functions, and, more generally, in budget management. USAID is the lead donor agency working in this area and will continue to be for the foreseeable future.

2. Critical Assumptions

1. The Government maintains its commitment to the introduction of fiscal federalism principles.
2. The privatization process is completed as scheduled.
3. The commercial law aspects of the civil code are properly established and enforced, providing private enterprises with an appropriate legal environment.

3. Causal Linkages

Four primary results need to be achieved by USAID in concert with its partners if this strategic objective is to be accomplished in any meaningful way:

1. The central government shifts roles and responsibilities as primary fiscal manager and regulator vis-a-vis local government and the private sector. To do so, these roles and responsibilities must be clarified and the corresponding fiscal mechanisms enforced. As a consequence, the local government will learn to be more efficient; the private sector will allocate resources based on market signals; and the overall efficiency of central government operations will increase.
2. Compliance by the Government of Kyrgyzstan with the conditions set forth by the international financial institutions (the IMF and World Bank in particular) must occur. This

compliance is necessary to obtain further financial assistance from the IFIs. Without the leverage from these institutions, USAID's efforts will be much less effective.

3. Taxes are more fairly and broadly applied. This will happen when a more rational tax policy (i.e., one that does not distort economic incentives) and a more efficient tax administration system are implemented. A more efficient tax administration system requires staff training in modern tax administration methods and computers to produce the necessary information for tax administration and collection. This intermediate result contributes to the strategic objective by increasing the government's capacity to increase tax revenue in a way that minimizes disincentives to save, invest, and earn.

4. The central government budget is better managed, which will occur if expenditure allocation decisions are made using the new planning system and if government borrowing is less inflationary. These conditions require further development of a secondary market for government securities capable of absorbing a larger share of public debt and less reliance on credit from the National Bank of Kyrgyzstan to the government for financing the deficit. Better budget management contributes to increased fiscal soundness by reducing budget arrears as a percentage of GDP.

5. The privatization of state-owned assets contributes to greater fiscal soundness by decreasing government expenditures and increasing revenues.

STRATEGIC OBJECTIVE

1.3

ACCELERATED DEVELOPMENT & GROWTH

OF PRIVATE ENTERPRISES

KYRGYZSTAN

A. Statement of Strategic Objective 1.3

Accelerated development and growth of private enterprises.

B. Problem Analysis

The development and growth of the private sector in Kyrgyzstan faces a number of crucial constraints. First, a macro-economic policy framework which establishes both appropriate price incentives and a stable investment planning climate must be put in place. Second, the asset base of the economy must be transferred into private hands so that competitive pressures can be established which will facilitate a strong supply response to improved production and investment incentives. In Kyrgyzstan this is particularly important in the agricultural sector; since unlike some of its neighboring countries, Kyrgyzstan does not have the luxury of relying on primary export earnings to partially cushion it from immediate real sector reform pressures.

Finally, a legal/regulatory framework must be put in place which will provide the appropriate protections of private property ownership and transfer rights and commercial transactions rights that will attract investors to Kyrgyzstan, as well as promoting indigenous investment. Again this is an absolutely urgent priority for Kyrgyzstan, because it lacks the type of resource profile which would create strong incentives for potential investors to display perseverance in the face of bureaucratic obstacles to investment.

Kyrgyzstan has in fact made significant strides over the past three years in liberalizing prices and tightening fiscal and monetary policies. It has also made significant progress in transferring a major share of the asset base to the private sector. This progress is evident in recent real sector performance trends. After declining by about 43 percent during the 1993-95 period; real GDP registered an official increase of approximately 6 percent in 1996. As noted earlier, the recent progress made in agricultural privatization is particularly noteworthy, and contributed to the recovery in real GDP experienced in 1996.

A relatively stable macroeconomic policy framework is now in place in Kyrgyzstan and productive resources are available to private entrepreneurs. Where progress is most urgently required now is in the establishment of a legal/regulatory infrastructure which will build investor confidence in the legitimacy and stability of the investment climate in Kyrgyzstan. In addition the capacity of the private sector to respond aggressively to a new set of incentives regarding production and investment decisions, and to function as risk-taking economic agents after almost a century of essentially passive economic behavior, must be developed rapidly.

C. Progress, Program Approaches, and Other Donors

These are the Intermediate Results (IRs) for SO 1.3, discussed in general terms in this section:

- **IR 1.3.1. Improved operating environment for private sector growth;**

- **IR 1.3.2. Human resources improved to function in a market economy; and**
- **IR 1.3.3. Increased availability of and access to capital and technological resources for the private sector.**

The Government has made significant progress over the past two years in beginning to establish the legal/regulatory framework for the operation of a vibrant private sector. Trade policies are among the most liberal in the CIS. A flat import tariff rate of 10 percent is in force for all nonexcisable imports from non-CIS countries. In addition export tariffs have been abolished.

A key focus of the USAID/CAR assistance strategy in Kyrgyzstan, as in Kazakstan, has been to provide intensive support for Government efforts towards accession to the World Trade organization (WTO); thereby promoting a greater understanding of and commitment to trade and investment liberalization policies on the part of the Government. Indeed WTO-related technical and training support has served as an extremely effective mechanism for organizing intensive on-going dialogue on a range of investment climate reform issues which are crucial for the economy's longer-term growth prospects.

In that regard USAID has helped the Government organize what had previously been a somewhat disorganized WTO accession effort; and strongly supported the Government's internal WTO working group in the development of its Memorandum of Foreign Trade Regime (MFTR); which was submitted to Geneva after approximately six months of intensive work in the summer of 1996. Subsequently USAID provided strong technical support to the Government in preparing for the first round of negotiations in Geneva, which were carried out in March 1997.

The seven-month period between initial submission of the MFTR and the opening of official negotiations represents, to our understanding, the shortest interim period between the submission of the MFTR and the commencement of active negotiations in the two-year history of the WTO (during which approximately 30 countries have submitted MFTRs). In addition the initial formal review by the Working Group in Geneva required approximately five hours, as opposed to the three full days of discussion which are usually programmed for such reviews.

This reflected the high quality of the initial submission, as well as the implicit commitment embodied in it to open trade and investment policies. This progress would appear to put Kyrgyzstan, like neighboring Kazakstan, on a fast-track for WTO accession.

Dialogue between USAID/CAR and the Government on WTO accession requirements have promoted reforms in a number of key trade/investment liberalization areas. These include:

- customs reform (customs processing procedures are being streamlined and customs valuation procedures are under intensive review);
- procurement reform (a new Western-style procurement law was passed on April 15, 1997, making the Kyrgyz Republic the first of the Newly Independent States to do so. It is expected

- to be signed into law before the end of April. The law mandates international standards-based competitive procedures for public sector procurement actions); and
- investment law reform (the existing foreign investment law has been revised in a manner which significantly strengthens protections for foreign investors, and was recently resubmitted to Parliament).

In addition, USAID/CAR is providing intensive support to the Government on a range of WTO-related legal/regulatory reform issues (including licensing, countervailing duties, antidumping, and intellectual property rights). These are crucial for WTO accession; and for establishing Kazakhstan as a legitimate member of the international trading and financial community.

USAID/CAR has launched an even broader effort at supporting the establishment of a sound legal/regulatory foundation for private sector development through a legal reform support program being developed within the Legal Department of the Presidential Apparatus with broad participation of groups involved in lawmaking processes. This program provides support for the development of a comprehensive body of legal/regulatory reforms related to business formation and operation on which USAID/CAR technical specialists and local legal experts currently work jointly.

In addition to the above-mentioned laws, key pieces of legislation which USAID/CAR has supported include the passage and implementation of Part I of the Civil Code, Business Partnership and Company Law, and the Law on Registration of Legal Entities. Core contract and property rights-related legislation currently being finalized include the bankruptcy law, collateral and leasing laws, cooperative law, and the over-arching Part II of the Civil Code. USAID/CAR will continue to support the passage and implementation of these and related key regulatory building blocks for the establishment of a stable investment climate in Kyrgyzstan, including work on a Law on Registration of Immovable Property Rights, new laws on securities and investment funds, new banking laws, a law on credit unions, a law on payment instruments, a law on mortgages, a law on administration procedures, and many others.

Of course, establishment of a sound business regulatory framework is of little value without adequate enforcement procedures. Thus USAID/CAR has developed and implemented a focused attorney, judge, and prosecutor training program in Kyrgyzstan. This program is designed to build the capacity of local judicial officials, prosecutors, and attorneys to understand the legal principles behind the functioning of a market economy; and to effectively adjudicate legal proceedings related to commercial transactions and/or property ownership/transfer disputes.

This effort is being carried out through an intensive training-of-trainers program in Bishkek; and subsequent follow-up seminars at the local level correlated with long-term training plans of the new Court Department. By the end of 1997, the program should have reached virtually all sitting judges in Kyrgyzstan who deal with commercial law issues.

The program is being supplemented this year with a targeted training effort designed to address a key constraint to enhanced stability of the investment climate: financial crime and corruption.

Thus, as in Kazakstan, a training of trainers program is being implemented with the Office of the Procurator in Kyrgyzstan to build investigative and legal skills in tracking and prosecuting key economic crime areas; including money laundering, securities fraud, and tax fraud. These efforts are being closely coordinated with the U.S. Department of Justice.

USAID/CAR sees its support effort in the WTO accession area continuing through the 1998-99 timeframe; for purposes of supporting accession efforts through their final stages and supporting the full implementation of appropriate WTO-related regulatory reforms. Actual accession is projected for 1998. WTO-related technical support and training activities are being closely coordinated with the U.S. Trade Representative (USTR).

Broad support in the commercial law reform area should continue also through the 1998-99 timeframe; as USAID/CAR supports the Government's attempt to fully develop and establish a commercial law framework which effectively promotes cost-effective business formation and operation. These efforts are being closely coordinated with the World Bank and a number of other donors, particularly UNDP, GTZ, and ADB. In the training area, USAID/CAR support will phase out in 1998.

A third priority regulatory reform area for private sector development is accounting reform. The transition from Soviet-style to Western accounting is crucial to the private sector development process. It will provide enterprise managers and potential investors with accurate financial information regarding the financial status and prospects of newly privatized and indigenous enterprises.

In an MOU signed April 11, 1997, Government officials committed Kyrgyzstan to approving and implementing a comprehensive set of international accounting standards starting July 1, 1997. In relation to this, for the past year USAID/CAR has implemented an intensive technical assistance and training effort designed to promote greater understanding within and outside the Government of western accounting standards and practices and the need for a comprehensive modernization of the accounting system in Kyrgyzstan.

Once reforms are adopted, the next challenge will be that of training the accountants who will need to implement the new standards and practices; and establishing independent institutions which will actively promote their dissemination and the professionalization of the accounting profession. USAID/CAR envisages an intensive support effort aimed at (1) disseminating modern accounting practices; and (2) building indigenous capacity for promoting and appropriately overseeing the development of the accounting profession. This will begin in 1997 and continue at least through the year 2000.

There exists of course a much broader need to develop the technical, managerial, and financial capacity of private sector agents to operate effectively within a liberalized market environment. The most important private sector development support initiative in this area currently funded by USAID/CAR in the Kyrgyz Republic is the operation of the Central Asian American Enterprise Fund (CAAEF). The CAAEF has been operating in Kyrgyzstan for over two years.

The CAAEF has been quite active in Kyrgyzstan, having approved five equity/loan investments for approximately \$7 million. In addition it has made 11 loans through the small loan window it operates through four commercial banks in Krgyzstan; for a total of approximately \$700,000.

USAID has supported an IESC program in Kyrgyzstan for the past three years, aimed partially at providing business plan development services for potential CAAEF clients, and post-investment business development support to those companies that receive funding from the CAAEF. In addition IESC has provided training in automated accounting systems for the CAAEF's staff.

USAID plans to continue a modest level of IESC support over the 1998-2000. This will (1) support the effective targetting of private entrepreneurs for the scarce financial resources of the CAAEF; and (2) maintain support for private entrepreneurial development while major policy constraints are being addressed.

USAID/CAR also plans to address human capital development constraints beginning in 1998 by supporting the International Business School (IBS) in Bishkek. This institution, which provides market-oriented graduate instruction in business and economics, has received short-term IESC support in curriculum development and administrative planning.

USAID/CAR will build on the limited support provided thus far by supporting the formation of a partnership between IBS and an American academic institution. This program would continue through the 1998-2005 period. It would include student and faculty exchanges and build a permanent dialogue on economic education and policy issues between an innovative and influential economics training institution in Kyrgyzstan and a major university in the United States.

D. Graduation/Sustainability

USAID/CAR sees its support effort in the WTO accession area continuing through the 1998-99 timeframe; for purposes of supporting accession efforts through their final stages and supporting the full implementation of appropriate WTO-related regulatory reforms. Actual accession is projected for 1998. WTO-related technical support and training activities are being closely coordinated with USTR.

Broad support in the commercial law reform area should continue also through the 1998-99 timeframe; as USAID/CAR supports the GOK's attempt to fully develop and establish a commercial law framework which effectively promotes cost-effective business formation and operation. Training efforts will be more and more tightly concentrated on practical enforcement issues related to adjudication of disputes involving market agents. These efforts are being closely coordinated with the World Bank. By this time, Kyrgyzstan should have a full body of legislative and regulatory norms in place to effectively support the operation of a market economy. It should also have in place a judiciary infrastructure which has significantly improved the quality of protection (including the speed of jurisprudence) afforded to market participants in exercising property and commercial transactions rights; and a network of attorneys which understand and can effectively pursue adjudication of those rights. It is assumed that by

2000 both the progress achieved in these areas and the availability of alternative (eg. World Bank) donot financially will permit USAID/CAR to phase out support in this area.

In the accounting area, support will shift during the 1997-98 period from direct support for the modernization of accounting standards and implementing regulations to the massive task of training accounting specialists in modern accounting methodology and supporting the conversion process at the enterprise level. Thsi will begin in 1997 and continue at least through the year 2001. At this time Kyrgyzstan will have (1) fully adopted and implemented western accounting standards and practices; and (2) a net work of indigenous organizations will exit (both self-regulatory and training institutions) which will promote further reform in this area.

USAID.CAR support in this area should be reassessed at this time to determine whether it can phase out.

IESC business advisory support activities will continue at least through the year 2001. The market economy-based educational and training support activities to be supuported through an institutional partnership-based support program for the Bishkek International Business School will continue through 2005 period. These programs should significantly enhance (1) the business decision-making capability of aspiring entrepreneurs; and (2) the quality of economic policy-making and business development capability of a new wave of Kurgyz market participants, respectively.

KYRGYZSTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA													
						1996		1997		1998		1999		2000		2001	
				YEAR	VALUE	Target	Actual										
SO 1.3	Accelerated development & growth of private enterprises	Increase in private sector GDP market shares	Definition: Share of GDP generated by private enterprises Unit: %	1995	73.20	75	78.3	80		85		87		-		-	
IR 1.3.1	Improved operating environment for private sector growth	Increase in private sector capital investment	Definition: % of total capital investment in private sector Unit:%	1995	78.3	80	73.3	82		88		87		-		-	
IR 1.3.1.1	Improved policies, laws and regulations in place to ensure competition and allow for easy market entry and exit	1. Critical policies, laws and regulations that are consistent with international standards are published	Definition: Number of policies, laws, regulations published with drafting and implementation assistance provided by USAID Unit: Number	1995	0.00	49	50	35		25		15		-		-	
		2. Significant bodies of law and international conventions that promote legal basis for the growth of market economy	Definition: Major legislative initiatives (more than 50 sections), treaty accessions, and significant policy determination drafted or implemented with USAID assistance	1995	0.00	6	9	4		4		3		-		-	
IR 1.3.1.1.1	Business and business advocacy groups strengthened	1. Number of groups benefitting from USAID assistance (e.g. NGOs, PIFs)	Definition: Number of groups receiving USAID advice Unit: Number	1995	0.00	45	48	40		35		33		-		-	
IR 1.3.1.2	Courts and administrative agencies strengthened to enforce policies, laws, and regulations	1. Number of judicial positions filled with personnel trained by USAID	Definition: Number of key judicial positions filled with USAID trained professionals Unit: Number	1995	0.00	90	123	100		125		90		-		-	

		2. Number of legal positions filled with personnel trained by USAID	Defintion: Number of key legal and administrative positions filled USAID trained professionals Unit: number	1995	0.00	270	355	400		400		200		-		-	
IR 1.3.1.3	Better informed public	1. Appearance of market transition issues in television, radio, and print	Definition: Percentage of broadcasting time to cover market transition Unit: %	1995	2	5	10	10		-		-		-		-	
IR 1.3.1.4	Government of Kyrgyzstan complied with the International Financial Institutions' conditions	1. Compliance	Definition: GOK adheres to conditions set forth by the IFIs for additional assistance Unit: Yes or No	1995	Y	Y	Y	Y		Y		Y		-		-	
IR 1.3.2	Human resources improved to function in a market economy	1. Number of people trained (excluding 1.3.1.2)	Definition: Number of people trained through seminars, roundtables or one-on-one encounters Unit: Number	1995		250	780	500		500		300		-		-	
IR 1.3.3	Increased availability of and access to capital and technological resources for the private sector	1. Loan and joint venture funds invested	Definition: Dollar volume of joint venture funds invested Unit: Dollars (millions)	1995	0.00	4	6.8	5		7		9		-		-	

Results Framework Narrative

1. Transition Hypothesis/Underlying Rationale

No issue is more critical to Kyrgyzstan's economic future than the accelerated development and growth of private business. Privatization, the first phase of the economic restructuring program, transferred significant parts of the Kyrgyz economy from public to private hands. The extent to which these newly privatized firms flourish--and are joined by other, new private businesses which start from scratch--will determine the extent to which the economic transition is successful. Increasingly, program emphasis is being directed toward this area. As funding levels decline and as the nature of the cooperative U.S.-Kyrgyz relationship changes from one based on

technical assistance to one dominated by trade and investment, its relative importance will further increase.

USAID/CAR's analysis suggests that three sets of concerns are critical for an expanded private sector:

First, a much more favorable legal and regulatory environment needs to be established. Key characteristics would include consistency, transparency, and efficient, comprehensible mechanisms for resolving disputes. Also, policy guidance and new legislation, once it is adopted, needs to be administered effectively.

It needs to be emphasized that, while oriented in large part toward the domestic Kyrgyz economy, work here has clear relevance for larger trade and investment concerns. Foreign businesses are unlikely to be interested in setting up operations in Kyrgyzstan if the Kyrgyz themselves are uninterested in investing in their own economic future. A vibrant local economy would go a long way toward developing and sustaining the kind of global trade and investment linkages hoped for by the Government of Kyrgyzstan. A more supportive legal and regulatory environment and an administrative apparatus that can effectively carry out government policy are key factors when foreign businesses, including American businesses, make their own investment decisions.

Second, the human resource base needs to be improved. Basic knowledge about the functioning of a market economy is often lacking. Many of the rudiments related to business planning, cost analysis, marketing, accounting, and other skills needed to manage and sustain a private business have yet to be properly introduced. Similarly, government officials charged with administering new laws and regulations need to be properly changed in their new roles and responsibilities.

Third, credit invariably emerges as a key constraint. Previously, government-owned businesses were "bailed out" by the infusion of cheap credit by government-owned banks, which in turn fueled inflation. Now firms have to finance their own operations and obtain credit for their own expansion. Frequently, counterparts cite lack of accessible credit as a key constraint to future growth.

The Central Asian American Enterprise Fund, along with similar enterprises funds provided by the EBRD and others is meant to address the credit constraint. Other key elements include (a) general business laws aimed at clarifying property ownership and facilitating commercial transactions; (b) trade and investment laws that facilitate international trade and investment, including facilitating entrance into the World Trade Organization (WTO); (c) bankruptcy laws and regulations that provide for the transparent and competitive transfer of assets to areas of their highest return; and (d) training of lawyers and judges so that they can function effectively in the new legal environment.

2. Critical Assumptions

While considerable USAID resources will be devoted toward this Strategic Objective, programming is based on several critical assumptions:

- Commitment to fundamental restructuring is maintained at the highest levels of government and, increasingly, is articulated and promoted by bureaucrats charged with carrying it out. It is not enough to talk about reform; the mandate for reform has to result in a commitment to carry it out at an operational level. Adequate administrative support to carry out and enforce legal rights once they have been promulgated is essential.
- Kyrgyz authorities will continue to be receptive to new ideas and approaches and will be willing to enact changes to ensure that their own economic laws and structures are consistent with those prevailing elsewhere. As in other Central Asian countries, linking progress on a particular issue to Kyrgyz credibility with international organizations and institutions is often a good approach for advancing policy dialogue. Hopefully, this interest will continue.
- Third, there is an assumption that views of both local and foreign investors are informed by reality--and that these realities have a good deal to do with the extent to which investors are willing to channel scarce resources toward Kyrgyzstan. The strategy does not hinge on a "public relations" strategy designed to bring legal and regulatory changes to the attention of the foreign or local business community. Rather, it assumes that the best advertisement for private sector growth is a demonstrated capacity on the part of government to prove that it is interested in facilitating private expansion, not hindering it.

3. Causal Linkages

This strategic objective is organized around three main areas of activity, each of which is related to the other and each one of which is critical to future growth. Dramatic improvements in the legal and regulatory environment are needed to ensure that government facilitates economic growth rather than trying to manage or direct it. A cadre of motivated, skilled professionals is needed to ensure that potential entrepreneurs understand how a market economy works and to ensure that private firms can take advantage of improvements in a changed business environment. Finally, economic growth is not possible without investment resources. Capital tends to gravitate toward areas of highest return. Institutions such as the CAAEF can become an immediate catalyst for demonstrating that the environment is conducive for private sector activity, but the initiative will only be truly successful when other credit institutions step in and begin financing private sector growth in Kyrgyzstan. This, in turn hinges, on the success of the Strategic Objective relating to financial sector development.

STRATEGIC OBJECTIVE

1.4

**MORE COMPETITIVE AND RESPONSIVE
PRIVATE FINANCIAL SECTOR**

KYRGYZSTAN

A. Statement of Strategic Objective 1.4

A more competitive and market responsive private financial sector.

B. Problem Analysis

Financial sector reform is crucial to the overall stabilization of the economy; and to the creation of a competitive and vibrant financial intermediation system which allocates financial resources in an efficient manner to newly privatized and indigenous private enterprises. Under the central planning system, the banking system functioned as a passive redistributor of financial resources from the central government to the enterprise sector.

As a result banks played no role in competitively allocating financial resources among competing uses; and in aggressively mobilizing savings (which were monopolized by the State Savings Bank). The central bank, for its part, did not serve as an independent institution establishing and conducting monetary policy and actively regulating the financial practices of commercial banks.

On the securities market side, no institutional mechanisms for raising capital through equity or securitized debt instruments existed, since all financial resources were allocated by the central government through fiat. As a result no regulatory or organizational infrastructure for the operation of a securities market existed.

Given these circumstances, Kyrgyzstan at the time of its independence was completely unprepared in terms of both institutional structures and management skills to (1) design and conduct stable and flexible monetary and exchange rate policies; (2) operate a banking system which effectively allocated scarce financial resources and mobilized savings; and (3) develop a securities market which competitively raised and allocated equity and debt-based capital. The peculiar vulnerability of the small and previously highly subsidized Kyrgyz economy to external pressures heightened the importance of (1) rapidly developing an independent and well-trained monetary policy-setting authority; and (2) establishing the regulatory framework for the operation of a stable financial system.

C. Progress, Program Approaches, and Other Donors

These are the Intermediate Results (IRs) for SO 1.4, discussed in general terms in this section:

- **IR 1.4.1. Government regulatory agencies supervise, administer, and enforce legislation; and**
- **IR 1.4.2. More forms of financial intermediation are institutionalized and effectively supply the private sector on a competitive basis;**

Kyrgyzstan has made significant progress in key aspects of the financial sector reform process over the past three years. The most dramatic progress has been made in the area of exchange rate and monetary policy. The Central Bank successfully managed the introduction of a new currency in 1993 and a liberalized foreign exchange regime has been maintained subsequently.

The Central Bank developed and implemented tight monetary policies beginning in late 1993; reducing inflation from over 1400 percent in 1993 to approximately 35 percent in 1996. Interest rates were liberalized and indirect instruments of monetary control introduced and deepened.

In addition the Central Bank achieved dramatic progress in the banking regulatory area. Revised central and commercial banking legislation was developed which strengthened the independence and regulatory powers of the Central Bank. Beginning in early 1994, USAID/CAR provided a comprehensive training and technical assistance program in the bank supervision area which dramatically tightened bank licensing standards and commercial bank financial reporting and performance requirements.

This program was carried out in close collaboration with the IMF and World Bank. By late 1996 the bank supervision department had established a formal and modern system of on and off-site supervision practices. During the same time period the tightening of licensing and financial disclosure and capitalization standards resulted in the shrinkage of the banking sector about one-third from 25 banks to 16 banks. This has contributed significantly to increased stability of the financial sector.

In addition USAID launched in 1994 a major technical support and training program in the bank accounting area (again closely coordinated with and carried out jointly with the IMF). This was designed to promote the adoption of modern accounting standards and practices in the Central Bank and the commercial banks. This involved the adoption and implementation of an internationally-based commercial bank chart of accounts, thereby facilitating:

- more effective oversight of commercial bank financial conditions and performance by the Central Bank; and
- more efficient financial management decisions by commercial banks.

The new chart of accounts was introduced in 1995. By early 1997, most commercial banks (including all major banks) had bridged to the new chart of accounts.

The need for further consolidation of banking sector institutions, and modernization of their accounting and other key operating practices will continue over the medium term. Assuming continued Government commitment to effective oversight of the banking system and active promotion of accounting reform; USAID/CAR contemplates the provision of technical assistance in these crucial inter-related areas (in close collaboration with the World Bank) over the 1998-2000 timeframe.

Securities market development is an area where Kyrgyzstan has made more limited progress. Over the 1995-96 period the country made some headway in laying the regulatory groundwork for the operation of an open and competitive securities market (primarily through the establishment of a National Securities Commission); and developed an operational stock exchange and a functional clearing and settlements and depository system (with direct support from USAID/CAR).

However the longer-range development of the securities market has, over the past year, been threatened by a major regulatory reform issue. This has taken the form of a limited commitment on the part of key securities market regulatory officials in the Government to the establishment of a regulatory framework which establishes clear firewalls between agents on different sides of the market. Thus a Russian-based investment company, KIFCO, has attempted to use its contacts within the Government to play a major role on all sides of the securities market - as agent for Government bond sales, as general investment policy advisor, as part owner of an investment fund, and as owner of a depository institution.

USAID/CAR and the U.S. Embassy have used the KIFCO issue as a lever for focusing Government attention on the need to establish a regulatory system which provides clear protections against such conflict of interest situations. This intensive dialogue has culminated in an MOU which outlines systemic legal/regulatory reforms the Government has committed to in exchange for continued USAID/CAR support in the securities market development area.

These reforms will promote open ownership structures for all securities market intermediary institutions; and establish clear firewalls between securities market agents on different sides of the market which will prevent abuses in the future.

Finally, the MOU will commit the Government to a schedule for making sizeable minority shares of at least 50 of the more valuable large-scale case-by-case enterprises in Kyrgyzstan available for competitive sale through the Kyrgyz Stock Exchange during 1997. These reforms should build significant financial interest in trading on the Exchange, since a primary constraint to the expansion of trading activity up until now has been the limited number of quality companies available for listing on the exchange.

Performance of the MOU has already resulted in the requirement for a new law on municipal bond issues and formal elimination of the KIFCO conflict-of-interest situations. We are hopeful that it will continue to result in regulatory reforms. Listing activities envisaged in 1997 should significantly improve the confidence of investors in the stability and legitimacy of the Kyrgyz securities market.

Assuming that the Government reaffirms its commitment to the development of a competitive and transparent securities market through implementation of the regulatory reform actions specified in the MOU, USAID/CAR would envisage continuing its comprehensive support of the securities market development process in Kyrgyzstan through the 1998-2002 period. This would include further support on the regulatory reform side. It would also include additional

technical/organizational support to promote the development of key securities market intermediary institutions (including potentially the development of an OTC market). This work has been and will continue to be coordinated tightly with the IMF and World Bank.

D. Graduation/Sustainability

USAID/CAR will also phase out support for reform in the bank supervision area in 1997; having spurred a significant improvement in the organizational structure of the bank supervision department and in its capacity to effectively monitor and enforce stringent commercial bank financial performance standards. Assuming continued GOK commitment to active promotion of accounting reform and other core banking operational area; USAID/CAR contemplates the provision of technical assistance in this sector (in close collaboration with the World Bank) over the 1998-2000 timeframe. At that point virtually all commercial banks should have undergone a basic transformation of their accounting and other core operating practices ; and assuming adequate donor support for further consolidation of this process support in this area would be phased out in 2001.

Assuming that the GOK reaffirms its commitment to the development of a competitive and transparent securities market through implementation of the regulatory reform actions specified in the MOU; USAID/CAR would envisaging continuing its comprehensive support of the securities market development process in Kyrgyzstan through the 1998-2005 period.

This would include further support on the regulatory reform side. It would also include additional technical/organizational support to promote the development of key securities market intermediary institutions (including potentially the development of an OTC market). This work has been and will continue to be coordinated tightly with IMF and World Bank. Starting in the year 2000, this support would be implemented almost exclusively through partnership with flagship securities market institutions in the U.S..

KYRGYZSTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	Value for 1995	TARGETS AND ACTUAL RESULTS											
					1996		1997		1998		1999		2000		2001	
					Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.4	A more competitive and market responsive private financial sector	1. Bank deposits as % of GDP	Definition: Private sector deposits in Kyrgyzstan's banking system as % of GDP Unit: Percent	4.0	5.0	4.2	6.0		7.0		9.0		15.0		20.0	
		2. Funds invested by institutional investors as % of GDP	Definition: Funds invested with institutional investors (Investment Funds, Pension Funds) as % of GDP Unit: Percent	N/A	0.5	0.67	1.2		2		2.5		7.0		12.0	
IR 1.4.1	Government regulatory agencies supervise, administer and enforce legislation	Assessed regulatory capacity in place and functioning	Definition: USAID assessment of regulatory readiness of National Bank and National Securities Commission Unit: Y/N	Y	Y	Y	Y		Y		Y		Y		Y	
IR 1.4.2	More forms of financial intermediation are institutionalized and effectively supply the private sector on a competitive basis.	Increasing # of financial services available	Definition: # of distinct services available Unit: #	5	12	15	20		25		30		35		40	
IR 1.4.1.1	Legal structure, required for efficient operation of financial markets, is defined and adopted	Legislation fulfillment	Definition: Consideration/adoption of appropriate official laws & regulations Unit: Yes/ No	Y	Y	Y	Y		Y		Y		Y		Y	
IR 1.4.1.2	Regulatory framework and reporting systems are broadly applied to effectively screen out deficient institutions	Increasing % of banks meeting capital adequacy requirements	Definition: Percentage of all banks that meet capital adequacy requirements Unit: Percent	42	55	60	65		70		80		85		90	
SO 1.3	Modern financial reporting standards are used	<See SO 1.3>														
IR 1.4.2.1	Financial institutions effectively serve the private sector	Increasing # of types of financial institutions	Definition: Types of financial institutions (e.g. commercial banks, credit and savings institutions, all hedging and insuring institutions Unit: #	3	5	6	7		9		12		15		18	

IR 1.4.2.1.1	Securities market institutions effectively serves financial industry	Increasing # of types securities market institutions operating	Definition: Types of firms operating in securities market (e.g. registrars, settlement and clearing systems, custodians, depositories, and trading systems). Unit: #	4	5	4	6		8		9		10		13
IR 1.4.2.1.2.	Stock market effectively serves securities market	# of stock exchange and OTC listing on the first and second board listings	Definition: # of companies listed on the first and second boards of stock exchanges and in a transparent over-the-counter market (OMT) Unit: #	10	30	26	40		50		60		100		150
		Comments/Notes:													

H Results Framework Narrative

1. Transition Hypothesis/Underlying Rationale

A competitive, private financial sector is vital to the growth of a market-oriented economy. Hence, new market-based financial institutions are urgently needed to replace Soviet relics that are incapable of serving a modern economy in Kyrgyzstan. Given such conditions, in 1996 and 1997 this strategic objective seeks to build a legal/regulatory structure to provide the foundation for private sector banks and capital market institutions; establish private-sector institutions; and develop the governmental supervisory bodies for the financial sector. In this regard, two key pieces of law and regulation were enacted in 1994 and 1995, namely the securities and exchange decree and commercial bank law. However, more needs to be done. By the end of 1997, the financial sector needs to provide fundamental services such as a payment system, market-based bank and securities credit, deposit and checking accounts, securities market infrastructure services including registrars, custodians, clearing/settlement organizations, trading systems, and corporate finance.

This task will not be easy, since the whole idea of investment and financial intermediaries is new in Kyrgyzstan. Most people are highly skeptical about brokers and financial markets in general, having had their life savings ravaged during the breakup of the Soviet Union and the economic restructuring process which followed. Thus, we assume that most people will have cashed in their privatization vouchers/investment fund shares as soon as they have the opportunity, and that they will avoid bonds or other formal financial structures until new financial systems have demonstrated their soundness. The USAID strategy, therefore, concentrates on the leading key government bodies, financial institutions, larger private companies, and a select group of entrepreneurs and academics, teaching them to be the first successful creators and users of the new systems. Special attention will be paid to associations in the financial sector (e.g., bankers, broker-dealers, investment funds).

This strategic objective is highly inter-related with other SOs, particularly fiscal soundness (SO 1.2), which is a precondition for the success of this Strategic Objective. This objective is in turn a precondition for private sector development (SO 1.3); and, it has implications for promoting democracy in Kyrgyzstan under the hypothesis that unless people are economically empowered, they will not feel politically empowered (SO 2.1).

USAID is the lead donor in the financial sector. The World Bank and the Asian Development Bank, will be more actively involved later, as they implement projects which they are currently initiating or planning.

2. Critical Assumptions

- Inter-governmental, bank, and enterprise debt, which grew chaotically under the Soviet system, can be steadily reduced and liquidated.
- Fiscal and monetary policy has established a stable currency, moderate inflation, and a market-based, tight credit regime.

- Privatization proceeds with the rapid transfer of large-scale enterprises into the private sector.
- The commercial law sections of the civil code are properly established and enforced, providing financial and commercial enterprises with the legal environment necessary to conduct business in an orderly fashion.
- Growth occurs in some sectors of the economy, supporting the development of the financial sector and attracting domestic and foreign investors.

3. Causal Linkages

USAID needs to help achieve four primary results if this strategic objective is to be accomplished in Kyrgyzstan:

- Law, regulations, and policies authorize essential financial market regulatory and private-sector institutions and systems (IR 1.4.1).
To achieve this result, many changes must occur. Specifically, the legal framework must define the parameters of operation for each sector participant, the reporting relationships between private firms and their regulatory agencies, and the working structure of inter-related service providers, e.g., clearing mechanisms, shareholder registrars, broker-dealer associations, etc. In short, the legal basis for the following will need to be established:
 - Investment funds.
 - Private-sector, central depository, clearance and settlement system.
- Regulatory agencies supervise, create regulations, and policies, and enforce legislation (IR 1.4.1).
These agencies will be trained to govern on the basis of principle and to encourage private-sector development. Specifically, policy advice and training will be furnished to the National Bank, the Ministry of Finance and the National Securities Commission. Training will focus on financial regulatory skills and background on the activities to be regulated. This is being done through long term technical assistance to the regulatory agencies, short courses open to all market participants and through work with some firms on a pilot basis
- Sets of institutions, services, and financial instruments are created and properly protect "customers" rights (IR 1.4.2).
In other words, private-sector banks and capital market intermediaries are established and provide essential financial services to business and population, namely:
 - Payment system for fund transfers among banks and for the business community.
 - Market-based bank and securities credit.
 - Deposit and checking accounts, primarily for business.
 - Corporate finance services generated by broker-dealers and investment funds.

The above services can be effectively provided by the private financial sector only if the sector is integrated through informational and institutional infrastructure, which is privately managed and consists of the following principal components:

- Securities market infrastructure services including registrars, custodians.
- A central clearing/settlement/depository organization established first for an institutional market.
- Trading systems for both stock exchange and screen-based OTC markets.

With limited resources, this effort will be focused on a limited number of banks, private firms and pension and investment funds, etc., on a pilot basis. USAID will ensure that these pilot institutions understand the new systems and their new roles, successfully convert from old to new operations, and demonstrate their ability to build public confidence in the new financial sector.

Essential for this process is public education, concerning the privatization program (especially mass privatization and investment funds), and the general role of a financial sector. In particular, the methods by which bank customers and shareholders are protected must be emphasized. Also of importance is the relationship of these people to the companies in which they or their funds/pension benefits are invested.

STRATEGIC OBJECTIVE

2.1

INCREASED, BETTER - INFORMED

CITIZENS PARTICIPATION

IN

ECONOMIC AND POLITICAL DECISION - MAKING

KYRGYZSTAN

A. Statement of Strategic Objective 2.1

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

B. Problem Analysis

USAID/CAR concurs with the Freedom House 1997 summary and hypothesis that at the break-up of the Soviet Union the Central Asian Republics were in the worst position of the communist states to develop democracies. The Institutional Legacy left by the Soviet authorities in the Krygyz Republic was that the country had completely totalitarian rulers, and the country was virtually completely controlled from the Center of the Soviet Union.

Given this context, the approach of the USAID/CAR strategy has been to support the development of three essential aspects of civil society: right of assembly, freedom of information, and the right of citizens to change their government peacefully. The Krygyz Republic has responded openly to most efforts to promote democracy.

The Krygyz Republic has not significantly interfered with Citizens Rights of Assembly. There is a significant problem with the development of independent media, which is not due to Government interdictions. USAID is changing its assistance methodology to address the needs of the independent media.

One of the most troublesome aspects of the ability of citizens to participate in political and economic decision making is the provision of the constitution which allows for the issuance of Presidential decrees that have the force of law. Hence, the legislature is not the sole rule-making institution in Krygyzstan. However, in an era when so many fundamental changes are in process, it is not realistic to expect Krygyzstan to have made the transition from a strong executive prior to completing the tasks of formation of a nation.

USAID is currently conducting a small rule of law program involving judicial and legal reform. In 2001, once Parliamentary elections have been held, USAID will pursue a full rule of law strategic objective. Corruption is a widespread problem in Kyrgyzstan and USAID seeks to address this in a significant way as part of the new program

C. Progress, Program Approaches, and Other Donors

Progress

IR 2.1.1 NGOs engage in strengthening civil society

There is low participation of the general public in political and economic decision-making. Key obstacles to achieving participation are that the people, having lived for so long under totalitarian governments, are not engaged in public issues (per IFES surveys) and, visibly, lack the institutional mechanisms (eg. NGOs) for voicing their opinions regarding democratic and economic issues, or attaining adequate and impartial sources of information on which to form those opinions, or the

means for making government officials responsive and accountable to them. In working on these obstacles towards achieving the strategic objective, USAID will be focusing on the general public, which is USAID's ultimate customer, and the NGO community in particular.

Regarding the first obstacle, NGOs, which provide a principal means for citizens' voicing their concerns to government, did not exist in the Kyrgyz Republic even six years ago. Today, per IFES surveys, 52 percent of the people say NGOs are essential or necessary. While over 400 NGOs have been initiated, they are generally undemocratic and not very sustainable, lacking key skills in how to run themselves, increase their membership and effectively make known their positions to local and national government. They also lack the legal framework for becoming self-sustainable; they are, for example, taxed on donations and donations are not deductible from donors' income taxes. As a result, NGOs clearly have room to improve as effective mechanisms for citizens' involvement with government.

The Mission's democracy program will work to overcome these problems in a phased approach by, first, raising levels of citizens' awareness by promoting some degree of general civic education (mostly done); secondly helping to establish a core of grassroots NGOs, often with an advocacy or community development concern (including women's and environmental NGOs), through small grants (in process); thirdly, continuing to provide training for at least the next three years for these NGOs in critical management areas (membership, accounting, program development, publicity, etc).

Starting in 1998, USAID will begin targeting those civic advocacy NGOs which are the most viable and democratic and have the potential for advancing citizens' participation and self-help by focusing on democracy training for their internal operations and advocacy training so as to become more influential in national government and, in particular, local government, which the Mission is supporting in other programs. USAID also seeks to build organizations that work to improve their own situations, rather than waiting for the government to do it for them. USAID's partners are currently reviewing with the government and NGOs drafts of various proposed NGO laws, so prospects are good for improved NGO legislation.

Progress is on target in this area. There are now 419 NGOs and over 900 members have been trained, both almost doubling targets. But few NGOs are financially viable and virtually none know how to run an advocacy program. Broad assistance will continue to be needed until 1998, at which time the assistance should be targeted to the higher level NGOs.

IR 2.1.2 Information on domestic economic policies and politics available

Regarding the availability of information, just six years ago there were no independent TV stations. Today, due in part to USAID assistance, there are 12 independent TV stations operating although most of them are on the air only several hours a day and only two of them regularly report the news. While this is definitely a step forward, much remains to be done. The number of stations operating is still insufficient to ensure nation-wide coverage. Most stations are poorly

managed and, as a result of a combination of factors in Kyrgyzstan, financially unviable. Also, many stations lack even the most basic equipment and the quality of the programs is low.

USAID is changing its methodology for independent media assistance. Instead of short-term seminars, Russian experts, graduates of Internews training, will spend one to two months in residence at television and radio stations, to work on their specific problems.

Starting next year, USAID assistance will begin shifting more towards improving programming quality, which impacts heavily on viability. By 2005 this program should have achieved its objective. As stations become more self-sustainable, experience to date shows that they are more likely to speak out on controversial matters. Increased government accountability through meaningful elections should help too by diminishing the stations' fear of government reprisal. USAID will also focus on assistance to NGO newsletters, which may be more accurate and willing to speak out on controversial matters than are today's newspapers in Kyrgyzstan.

Progress of the media program is not on target. Although there are now 12 independent TV stations, only two are regularly reporting the news. USAID is changing its methodology of technical assistance to independent media in Kyrgyzstan. Assistance to the media is likely to be required until at least 2003.

IR 2.1.3 Increased responsiveness and accountability of Government to citizen organizations

Regarding government's unresponsiveness to citizens, a seeming setback was the amending of the constitution in early 1996 to concentrate most of the power in the President. Despite fears, however, the President is actually encouraging Parliament, improving the court system, and encouraging broader citizens' participation. The government is continuing to allow the development of forums for citizen input into its operations and it remains the most transparent in the region. There are political factions in the legislature and there is frequent, serious open debate. Due in large part to USAID assistance, public hearings have now become a common feature of Parliament. Recently, the proposed new criminal code and draft agricultural law were subject to open hearings not just in Parliament but throughout the country. Despite these impressive strides, most parliamentarians are unskilled in law-making and drafting and are unable to voice dissent effectively, which often results in gridlock.

USAID's program will continue to focus during 1997-99 on various areas including drafting and reviewing legislation, streamlining the committee structure, improving the press service, training deputies on media relations and improving constituent relations, and continuing to assist in the open-hearing process. Some "best practices" which the program will foster include periodic meetings between deputies and the news media, increasing citizens' access to the Parliament building including periodic tours, and public interest forums that bring citizens and deputies together to discuss community problems and possible solutions. In 1998 and 2000 (election year), it will also work with all interested people on their election strategies. The feasibility of

helping to develop political parties will also be explored in 1998. In addition, USAID will also be looking for targets of opportunity with other government institutions (local governments, for example) that have the potential for making a significant impact on improving government transparency.

As for improving the government's accountability, USAID is helping to improve the election system in a phased three-year approach, focusing in 1997 on the election commission to improve existing election laws, then training election officials and observers and, in years of parliamentary elections (2000), conducting voter education campaigns. If elections are deemed fair, subsequent assistance thereafter should not be needed, but every other year USAID will continue with annual surveys of voter attitudes to assist in overall program guidance.

This program is generally on target. Although power is centralized, it is becoming more diversified. Parliament has become much more transparent in its operations; the number of open hearings exceeded targets. As for elections, USAID's partner has established an excellent relationship with the election commission, which supports critically-needed legislation increasing the commission's independence. If the government allows the development of opposition parties, the USAID target for having elections officials, monitors and citizens reasonably well trained on their proper roles by 1999 seems attainable.

Program Approaches

Most programs are being carried out by U.S. PVOs. Training and technical assistance are the key elements of all programs, occasionally accompanied by limited commodity assistance. Under USAID/CAR's civil society program, for example, such PVOs have been assisting local NGOs through training programs designed to increase their effectiveness, as well as through small grants targeted to NGOs involved in rule of law, human rights and other civil society issues.

USAID/CAR's media program consists essentially of the provision of technical assistance and training, along with limited electronic equipment, to local television stations by a U.S. PVO which is involved in similar programs elsewhere in the NIS. Training and technical assistance will be provided by Internews-trained Russians, in response to particular needs in Kyrgyzstan. Programming implementation in the future is expected to continue along similar lines. However, in the coming years we will be making serious efforts to develop partnerships between a state legislature and the Kyrgyz Parliament and between a state bar association and the Kyrgyz bar/judiciary. When established, such partnerships would allow USAID assistance to Parliament and the judiciary to terminate.

Other Donors

There are no other donors working with Parliament, UNESCO has opened a small media center and is trying to start a women's journalists' network. The UN may provide equipment for the computerization of the election process, and the Russian Election Commission is providing technical assistance to the Kyrgyzstan Election Commission.

D. Graduation/ Sustainability

USAID anticipates that by 2002, no further assistance to NGOs will be required; by then NGOs should be sufficiently strong as to allow significant, well-informed participation by citizens in political and economic decision-making at the local and national level. Assistance to the media, however, is making less headway, and assistance in some form will probably be required through 2005. Assistance to the Parliament should not be needed beyond 2002 as by then it should be reasonably effective and transparent in its operations. However, a government with only one forum for citizen participation cannot achieve the strategic objective. Consequently, a key part of the Mission's strategy is to look for windows of opportunity with other branches of government, including local government, that have the potential for significant impact on increasing overall government transparency. This will require long-term commitments.

KYRGYZ REPUBLIC PERFORMANCE DATA SO 2.1: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
SO 2.1	Increased, better-informed citizens' participation in political and economic decision making	1. Number of advocacy NGOs	Definition: Advocacy NGOs are those local organizations which focus upon advocating and advancing governmental or civil society attention to means of addressing particular democratic, economic or social needs as objectives, including human rights, women's rights, NGO rights and media rights. Unit of Measure: 1) Actual number of NGOs listed in the Counterpart Consortium database for Kazakhstan on a particular date with advocacy (women's rights, human rights, Media rights, NGO support) as their purpose (covering all known NGOs)SOURCE: Counterpart	1992	0	NA			ADV: 126	100*	3/97 144	150	200	230	240	250
		2. Percent of citizens who feel informed	IFES survey	FY1995	50% POL	NA	50% (POL)	55%			30% POL	40% POL	45% POL	55% POL	55% POL	55% POL
		3. Number of Members of NGOs who are elected to Parliament	Counterpart	FY1996	43% ECON	NA	43% (ECON)	46%		24% POL	30% ECON	40% ECON	45% ECON	55% ECON	55% ECON	55% ECON
		4. Percentage of citizens who can name one cabinet minister	IFES survey	FY1998	2	NA	NA	NA	21% ECON	2	NA	NA	6	6	6	6
IR 2.1.1	NGOs engage in strengthening civil society	Increasing number of NGOs that seek to influence the government or get attention/support for their activities	Definition: contacts with media or government officials reported in grant/contract monitoring documents in response to the questions: Stage one: Fear and lack of public understanding Stage two: narrowly defined advocacy groups emerge Stage three: institutionalize base, and form coalitions 1. "Did you have any contacts with media organizations regarding your work or issues during the past year?" 2. "Did you have any contacts with government officials regarding your work or issues during the past year?" Unit: Percent of total NGOs in Counterpart Consortium database which answer yes to one of the above questions. SOURCE: COUNTERP													
				NA	NA	NA	NA	yes 10%	70%	yes 25%	2/97 10%	yes 50%	yes 75%	yes 75%	yes 75%	yes 75%
				NA	NA	NA	NA	yes 10%	74%	yes 15%		yes 25%	yes 40%	yes 50%	yes 50%	yes 50%

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
	Strengthened NGO capacity for participation	2) Number of sector coalitions	Definition: Groups of NGOs which are formed around an issue, and have met to discuss this issue. Unit: Number of sector coalitions seeking press attention for their efforts	1992	0.00	0.00	0.00	0.00	0.00	2	NGO law coalition	4	8	10	15	20
	Strengthened NGO capacity for participation	IFES survey results on populations knowledge of NGOs existence	Definition: Percent of population who answer "yes" when asked if they think a Non-governmental organization is a theoretical possibility. Unit: Percent	FY97	54%	0.00	0.00	0.00	0.00	33%	54%	60%	65%	70%	70%	70%
IR 2.1.1.1	Strengthened NGO capacity: Quantity	Number of NGOs trained and the number of NGO members trained	Definition: In a transitional society without a history of non-governmental organizations NGOs must be trained in organizational and programmatic sustainability. Unit: Records of USAID sponsored training for NGOs and for NGO participants, including but not limited to management, media, advocacy, and government relations. DEFINITION: NET/AED, ALC, IFES, Counterpart, ABA NGOs (members)	1992	0.00	NA	IFES 0 NGOs 105 Memb 154	IFES 40 C'part 300	IFES (129) citizen NGO: 510 Memb (761)	complete 750 (1200)	YTD NGO: 678 Memb (938)	500 (1000)	500 (1000)	500 (1000)	500 (1000)	500 (1000)
						NA	ALC * 0	ALC 6 ABA 1	5 (7) 1 (80)	complete 1 (80)	5 (7) 1 (80)	More advanced worksh ops				
						NA	0	AED	7 (7)	ABA 1	7 (7) 1	2				
IR 2.1.1.1	Strengthened NGO capacity	Number of NGOs in data base which are providing fee-for services to assist sustainability.	Definition: A service shall be deemed to be anything that the organization is providing, related to its mission, in order to sustain itself. Unit: 1) Absolute number 2) percent	1994	na	NA	NA	NA	NA	BASELIN E	13%	15%	12%	15%	20%	30%
	Strengthened NGO capacity for management	Percent of NGOs managed by a democratic process	Definition: An NGO will be deemed to be managed by a Board of Directors if the NGO has 1) bylaws 2) follows those bylaws to elect a Board of Directors 3) the board of Directors has the authority to manage the budget and program of the organization. Unit: OF all NGOs monitored in the previous 12 month period, what percent were managed by a Board of Directors.	1992	0.00	0.00	0.00	0.00	NA	NA	NA	new indicat or 5%	10%	20%	30%	40%

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
				YEAR	VALUE	1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	
						Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target	
IR 2.1.1.2	Improved laws/policies enabling NGO formation and operation	Existence of a law including x number of stages in definition column, and enabling NGOs to organize and function; Improved quality, based on knowledgeable opinion, of these laws	Definition: In order to function without government hindrance a set of laws and/or policies, including policies in administration, needs to be enacted which is necessary and sufficient for NGO operations. See performance monitoring plan for definition Unit: Quality of NGO laws on scale. See Performance monitoring plan. 1996 SOURCE: NDI, Counterpart	1992	1 of 11	1 of 11	1 of 11	3 of 11	3 of 11	3 of 11			6 of 11	6 of 11	6 of 11	6 of 11	8 of 11
IR 2.1.2	Information on domestic economic policies and politics available	Public availability of draft laws prior to passage by government	1) Definition: Based on three possible levels of availability. 4 is highest, 0 is lowest. 2) # of draft laws held in law library for public access Source: ABA	1994	1	NA	1	NA	1	NA			2	2	2	3	3
IR 2.1.2.1	Strengthening Print Media	1) Other donors involvement 1) Number of NGOs publishing newsletters	See USIS, Eurasia, Soros Definition: The number of NGOs publishing newsletters. Source: Counterpart	NA	NA	NA	NA	NA	NA	NA			40	80	100	150	150
IR 2.1.2.2	Domestic news widely available via electronic media	1) Number of independent TV/radio stations 2) Average daily independent local TV news programming 3) % of stations who broadcast news daily.	Definition: See indicator Number of minutes Number of stations with daily news Source: Internews	1994	15	NA	12	10	12	12/3			12/3	13/4	15/5	15/5	15/7
				1994	1	NA	3	7(5)		10			12	15	17	18	20
				1994	0	NA	1	NA	2	3			4	5	6	7	8

LEVE L	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
				YEAR	VALUE	1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
						Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
IR 2.1.2.2. 1	Increased Quality of independent electronic media	1) Number of stations using "appropriate" technology (S-VHS or Betacam, computer graphics) 2) Percent of population who watch domestic TV news.	Definition: as indicated Unit: Absolute number Source: Internews Definition: Based on IFES survey data. New indicator for FY 1998 Unit: Percent of total Source:IFES	1994	0.00	NA	1	2	2	2		4	5	6	7	8
				1996		NA	NA	NA	?	10%		25%	35%	40%	45%	50%
IR 2.1.2.2. 2	Increased management capabilities of independent electronic media	1.Average daily hours of broadcast time for TV/radio	Definition: see indicator TV/Radio hours	1994	8	NA	4	4	4	4		7	9	10	11	12
IR 2.1.2.2. 3	Increased willingness of independent electronic media to report on democratic processes, public policy issues	1) Media law exists allowing commercial stations to broadcast and register, without political approval .	Definition: see indicator	1994						1						
IR 2.1.3	Increased responsiveness and accountability of Government to citizens/citizen organizations	1.Number of draft laws and policies with input by NGOs considered by the parliament	Definition: See unit Unit: Total number of passed laws with NGO input as a ratio to number of passed laws Source: ABA, NDI	1994	Total laws: ?	NA	Total laws: ?	NA	Total Laws: ?	Laws with NGO input: 5 5 of ?		8/60	12/70	16/80	20/90	24/100
IR 2.1.3.1	Increased Government transparency	1) Number of open hearings addressing legislative/policy issues 2) Number of consultative processes addressing legislative or policy issues	See indicator 1)Source: ABA See indicator 2) Source : ABA	1994	0	NA	0	NA	2	5		10	15	20	20	20
				1996	0	NA	0	NA	11	15		20	30	40	50	50

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
				YEAR	VALUE	1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
						Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
IR 2.1.3.2	Increased Government accountability to citizens and NGOS	1) degree of fairness of elections per annual US Embassy Human Rights Reports	Source: USG Human Rights reports narrative	1991		NA		NA		NA		NA	Improved		“Fair and Open”	
		2) Number of consultative processes on the local budget between local government and citizens' organizations in Target cities	2)Source: implementing partners	1994	0.00	NA	NA	1	1	NA	NA	NA	1	2	2	2
		3) Number of public officials removed from office for corruption.	Definition: Based on the media reports of officials removed for corruption. Unit: Number of individuals Source: USAID media records	1994		0	NA	NA	NA	NA	5	5	8	10	15	
IR 2.1.3.2.1	More genuine and competitive political processes	1) Improved election laws and procedures	Definition: On a scale of a possible seven attributes, how many are present in the law. Unit: See Performance monitoring plan	1) 1994	0 of 6	Need from IFES						1	4	6	End of program	
		2) Increase in citizen information on election procedures	Definition: Based on the number of newspaper articles, as tracked by the Press Club, nationwide on election procedures. Unit: Number of articles in year of election	2)1994	NA	NA	NA	NA	NA	NA	NA	NA	100			
		3) increase in training sessions for election officials,	3) Definition: Each polling station should have one person who is in charge of overall compliance with current election laws. Unit: Percent of all polling officials trained by IFES	3)	0%		0%		0%		0%	5%	50%	100%		

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target	
IR 2.1.3.2. 2	More effective and independent elected officials	Number of vetoes or major changes in draft laws by legislatures	Definition: Based on implementing partner reports of laws under consideration, 1) count of number of laws in which legislature upon consideration of draft from executive branch, makes considerable changes which are then adopted into the bill which is passed. 2) Number of veto equivalents Unit: Number reported	1994		NA		NA			3		5	7	9	12	15
				1994		NA		NA	challenge d pension	1		1	2	3	4	5	
				1996	0.00	NA	NA	NA	NA	NA	NA	1					
		Number of political parties which participate in Presidential elections.	Definition: Non government sponsored party with a candidate in the Presidential election Unit: Number of candidates besides current President Source: ABA; NDI; IFES														
		Comments/Notes: draft April 17, 1997 FY 1996 dated is based on October 1996 inputs; following extended team review, October 31 prepared for Mission Review on November 6, 1996 NOTE On SO 2.1 indicator number 3 -- This is based on the IFES survey conducted in calendar year 1996; reported to the Mission on January 31, 1997. FY 1997 data is current as of preparation of the R4 submission.															

H. Results Framework Narrative

1. Transitional Hypothesis/Underlying Rationale

The strategy for improving citizen participation in economic and political decision-making in the Krygyz Republic combines simultaneously three areas of development: strengthening NGOs, increased availability of information, and responsiveness and accountability within the government.

The underlying rationale for this approach in the Krygyz Republic is that the government will give NGOs and the independent media the opportunity for development, but that these organizations lack the technical skills to develop sustainable organizations. The Constitution of the Krygyz Republic has concentrated most of the power to run the country in the hands of the executive. However, this executive has not obstructed the development of forums for citizen input into the processes of government.

2. Critical Assumptions

USAID/CAR has four critical assumptions:

- The government of the Krygyz Republic will not interfere significantly with the development of citizen participation in political and economic decision-making. Hence, our work will concentrate on the development of more conducive laws, not on fundamental human rights in Kyrgyzstan.
- A strong tradition of respect for authority will not prevent democracy from taking root. Hence, while the Krygyz Republic has a great many ethnic groups in different parts of the country, there will be no programs aimed at promoting ethnic acceptance of democracy or of each other. However, at the same time all programming will be made aware of the need to work with the various sub-groups within the State.
- Economic development will allow citizens to maintain time and attention to NGO activities. The economic decline in the Krygyz Republic has shown a slight plateau over the past year, and based on the IFES survey of citizen attitudes, the citizens are aware of this. However, the continuing desperate economic situation in much of the country may endanger the government's willingness to put its policies to a vote. The poor economic situation may also be contributing to the difficulty of establishing viable independent electronic media outlets.
- Parliament will be receptive to working to increase democratic input and responsiveness.

3. Causal Linkages

The three intermediate results encompass: strengthening the capacity of NGOs to act as the voice of citizens; developing information sources for citizen oversight and participation, and development of areas where the government will be responsive to citizen input. In the short term all three areas need development in Krygyzstan, although long- term strategy would change this emphasis.

The activities implemented under the first intermediate result, IR 2.1.1, citizens' participation through NGOs, are those supporting the development of NGOs. The NGO sector is the best chance for citizen involvement in a society with only fledgling political groups and minimal electoral activities. The NGO groups represent opportunities for citizens to come together around issues of common concern to them, along a range of activities, from human rights monitoring, to women's organizations, media groups, environmental advocacy, or business associations. Availability of information is seen in the Krygyz Republic as a full intermediate result, IR 2.1.2, because of the primary role that it plays in informing the citizens about their society and about the actions of other members of their society. Lastly, intermediate result 2.1.3 focuses on the group of activities which will increase responsiveness and accountability to citizens at all levels of government.

At the lower levels of the Intermediate Results, our long-term goal is sustainable NGOs capable of engaging the government for oversight purposes and for the purpose of providing input into government decisions. NGOs should also affect changes in their communities. NGOs in the Kyrgyz Republic have not yet attained the sustainability necessary to carry out these tasks. This is due both to the lack of a legal environment enabling their sustainable financing, and due to the lack of democratic and effective managerial skills among NGO leadership. Lower intermediate results are aimed at improving sustainability.

At the lower level of the information branch, our resources are aimed primarily at the electronic media. Despite two years of working to sustain independent television stations in the Kyrgyz Republic, there are still only two viable stations. Therefore, this year's work will not simply be a continuation of work doing training of would-be stations. Instead of short-term seminars, the trainers will be Internews-trained Russian experts, who will spend one to two months in residency at the stations, working on problems specific to each station.

The intermediate result regarding availability of information also encompasses the law library, which holds databases of legislation in the Russian language from other countries, and will serve as a repository for draft legislation. USAID will also promote increased use of newsletters to improve the availability of information in the regions.

At the lower levels of our work on government responsiveness to citizens, we see three ways in which to improve the likelihood of achieving this result. The first is to work on improving government transparency through technical knowledge transfer on the mechanics of developing relationships with other branches of government and citizens: open hearings, consultative processes, committee structures, constituent relations. This will include work with members of parliament to develop its effectiveness and independence, and the confidence of voters. The second set of lower intermediate results are aimed at developing the accountability of the government and government officials to the people. This area will be part of the long range strategy, as the fundamentals of civil service reform and local government laws are not developed in the Krygyz Republic (and will be reported under SO 2.3). Finally, the third area of increasing government responsiveness to citizens will be to strengthen the technical aspects of conducting free

and fair elections. As the next scheduled elections are parliamentary in 1999 and presidential in 2000, this time of lower pressure on the election commission allows for work on strengthening the fundamentals of elections.

STRATEGIC OBJECTIVE

2.3

MORE EFFECTIVE, RESPONSIVE, AND ACCOUNTABLE

LOCAL GOVERNMENT

KYRGYZSTAN

A. Statement of Strategic Objective 2.3

More effective, responsible, and accountable local government

B. Problem Analysis

At the breakup of the Soviet Union, the Krygyz Republic did not have any democratic institutions at the local level. The administrators at the local level were in place at the discretion of those above them, and they have had little or no experience in developing, budgeting or managing social assets. During the Soviet Union all services were organized vertically, serving as extensions of higher powers rather than serving those in the local area.

This situation has not greatly changed since the break-up of the Soviet Union. Because of the critical budget problems at the central level, the republican level government has begun to devolve some of the responsibility for services, education, health, and housing for instance, to the local level. The lack of control and oversight ability from the central government results in limited decision-making authority on a practical basis. This creates a critical problem for all the other USAID programs. Macroeconomic stability can not be maintained without reforms in intergovernmental finance, which means that more capability for revenue management must be developed at the local level. The essence of democracy is that people use their votes to influence issues close to them, which is not possible without free and fair local elections. Social services will not be sustainable without an articulation of roles of government vis-a-vis social policy. The rationalization of most social services will need to occur at the regional level, and administrators are not able to determine the best ways to privatize, close, or target social services.

Design of a development program which will deal with this problem is not technically difficult -- skills transfer for budgeting and service rationalization, NGO development, and election system development. However, this program requires the development of a much larger cadre of trained personnel than USAID programs aimed at policy revision, and full achievement of the strategic objective will be a long term program.

The single most difficult problem in this area will be developing the political will to release central control. While the range of legislation over the past year is impressive, ranging from tax laws to municipal associations, the central governments implementation shows a lack of understanding of the fundamental principles of empowerment, and a full time technical advisor could have a great impact at this point.

C. Progress, Program Approaches, and Other Donors

Progress

USAID training and technical assistance have helped to demonstrate the benefits associated with effective, responsible, and accountable local government in one pilot test site. The Municipal Finance and Management (MFM) Project conducted activities in Karakol, Kyrgyzstan. An external end of project evaluation 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 of the project.

Key achievements highlighted were 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. 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.

The external evaluation of the MFM Project recommended:

- Follow-on support is required to reap maximum benefit from the resources expended to achieve the results as they stand at the time of project close.
- To be effective, future decentralization projects need to have effort applied from both the local and national levels.

These recommendations are being used as guides in further work on this strategic objective.

Program Approaches

The initiative begun in Karakol as modified by the "Lessons Learned" is likely to be expanded to other oblasts and municipalities in Kyrgyzstan. USAID funded training and technical assistance would be directed to the national as well as selected local levels to facilitate decentralization. Increased efficiency in providing services will be given priority attention as most knowledgeable advisors have concluded that there are very few additional resources available to local governments in the near term. Attention will be given to developing the skills of public sector (civil service) administrators. Continued development of NGOs more specifically at the local level will be supported. 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, and in the development of sustainable social services. A small grants program under the NGO Support Project may be maintained with one of its foci being the support of local nongovernment initiatives.

Other Donors

A number of other donors also supports activities with a local government dimension, including the World Bank, Asian Development Bank, and EU TACIS. Donor coordination and collaboration in this area is good.

D. Graduation/Sustainability

Depending on changing political, economic, and social conditions in Kyrgyzstan, achievement of this Strategic Objective is expected to take a minimum of four years. However, it may take as long as fifteen years. Thus, we optimistically project the final year of funding for this Strategic Objective as FY2002. This Strategic Objective will be reviewed at least annually; programmatic and fiscal adjustments will be made at that time.

KYRGYZ REPUBLIC PERFORMANCE DATA SO 2.3: BASELINE, TARGETS, AND ACTUAL RESULTS FY 98 Strategic Plan submission

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
				YEAR	VALUE	FY 1995		FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
S.O. 2.3	More effective, responsive and accountable local government	Number of local charters adopted.	Definition: Decrees or laws enabling local government to operate. Unit: Cumulative number of charters.	1994	0.00	0.00	0.00	1	0	0	0	0	0	2	3	4
		Number of public budget hearings held at territorial level.	Definition: Budget hearing in target regional government in which budget priorities are transparently discussed and developed.	1994				1	1	1	1	1	1	2	3	4
IR 2.3.1	Legal Foundation for local budgetary decision making and operations established.	Legal and policy environment which promotes independent municipal finance, property management, and decentralized government at republic level.	Definition: Laws defining the role of the central government vis-a-vis local and Oblast governments. Unit: Using set of indicators, determine progress on scale of 1 to 6 on progress towards local government.	1995	0.00	1	0.00	1 of 6	1 of 6	2 of 6 no program	1 of 6	2 of 6		3 of 6	3 of 6	4 of 6
IR 2.3.1.1	Local constituency for public input and oversight developed at the regional level.	Increased in NGOs outside of the capital cities.	Definition: Using Counterpart Monitoring and Reporting system disaggregated by local. Unit percent of NGOs questioned who answer yes to this question.	1995	NA	NA	NA	NA	NA	Baseline		25% of NGOs	10% increase	10% increase	10% increase	
		Development of regional municipal associations.	Definition: Organized NGO exists with members from municipal authorities, whose goals are to advocate on behalf of regional issues.	1995	0	0	0	0	0	1 no program	One Gov Municipal Assoc formed	1	2	2	2	4
IR 2.3.2	Strengthen Financial basis of local government through better expense and revenue management.	Share of local government expenditures financed through locally generated tax revenues.	Note: this will be a lagging indicator. Definition: Based on Min of Fin, GOK statistics, the amount of revenues spent by each level of the government on local budgets. Unit: Percent	1994		N/A										50%
IR 2.3.2.1	Local Financial Resource base development.	Decreased number of months in arrears on salaries in target oblasts.	Definition: Using local government budget in formation in target oblasts, track the availability of funds to match projected expenditures for salaries (or other category as chosen). Unit: Accounts payable for salary over the average month expense for salary.	1995	NA	NA	NA	NA	NA	No program		Pilot oblasts chosen for monitoring				0 months target

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						FY 1995		FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
				IR 2.3.2.1.1	Reliable Source of Local Revenues	1) Local Revenue Sharing Bill enacted 2) Better collection of existing taxes (SO 1.2) 3) Land Registration Laws and local property tax laws in place	Note: These are essential long term elements of secure resources for local budgetary needs. However, USAID's work in this area will largely be covered in other SOs or will involve monitoring other donors contributions.	1994	NA	1) 0 2) See 1.2 3) no	1) 0 2) See 1.2 3) No	1) 1 2) See 1.2 3) NO	1) 2 2) See 1.2 3) No	1) 0 2) 3) Yes		1) 0 2) 3)
I.R. 2.3.2.1.2	Local Economic Development	Number of economic Development offices at the local level.	Note: This is an essential long term elements of secure resources for local budgetary needs. However, USAID's work in this area will largely be involve monitoring other donors contributions. USAID's work in this area concluded in December, 1996.	1994	0.00	None	None	1 Karakol	1	TACIS SOROS ?			1	2	5	
IR 2.3.2.2	Efficiency and effectiveness of public services increased.	1) Budget process established and implemented. 2) Number of territorial governments which have implemented competitive bid system for goods procurement.	Definition: 1) Budget process should include preparation prior to the end of the current fiscal year of prospective unitary budget. Unit: Regional government with whom USAID has relationship. Source: Based on contractor surveillance. (Research Triangle Institute, 1995-1996) Definition: First attempts will be included in this category until it is reasonable to track a region that completely relies on this system. Unit: Number of regional governments. Source: Based on contractor surveillance. (International City County Managers, 1995-1997)	1995	NA	0.00	0.00	1 Karakol	1 Karakol	Depende nt upon funding		Depende nt upon funding	2	3	5	
				1994	N/A			0	0	NA		4	6	20	20	
IR 2.3.2.2.1	Expenses for social services within available resources	Stages to be monitored 1) Minimum public service standards from Republican level articulated. 2) Demonstration 3) Capacity building a)Cost recovery b) privatize c) targeting d) competitive 4) Roll-out	Note: Activities for this Intermediate Result will largely be undertaken under SO 3.2; however, as social services make up the majority of spending at the local level, this area needs particular oversight.	1995	NA	NA	NA	NA	NA	Housing					Roll-out	

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						FY 1995		FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
I.R. 2.3.3	Administrative capacity of regional governments to function in a more democratic and free market increased.	1) Civil service Reform efforts. 2) Establish institutional capacity for public administration training.	Note: This is an essential long term elements of secure resources for local budgetary needs. However, USAID's work in this area will largely involve monitoring other donors contributions.	1995	No	no	NO	no	no	no		no		no	yes	yes
		Comments/Notes: updated March 22, 1997														

H. Results Framework Narrative

1. Transitional Hypothesis/Underlying Rationale

As Kyrgyzstan undertakes democracy and the devolution of services, 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 demonstrating the links between good local government, revenue collection, and sustainability of social benefits and services, therefore the USAID/CAR strategy for achieving SO 2.3 (More effective, responsible, and accountable local government) will include activities reflected in other strategic objectives presented in this document.

The easiest place to “do” foreign assistance is in the place least likely to need it -- the capital. While work with the republic level is necessary for policy changes, it is not sufficient to reach the majority of the population. The strategy this year introduces a long term program to achieve SO 2.3: More effective, responsible, and accountable local government. This is critical for several reasons. First, over 70 percent of local budgets are spent on social services at the local level: e.g. education, health, housing, and social welfare. These are some of the services that on a day to day basis most effect people’s lives and satisfaction with the transition. Second, based on the 1996 International Foundation for Election Systems survey of citizens attitudes, 67 percent of the people in the Krygyz Republic believe that local government is unresponsive to the needs of its citizens. Building on our previous work in Krygyzstan and Kazakstan the USAID/CAR strategy for achieving more effective, responsible, and accountable local government in Kyrgyzstan simultaneously combines three areas of concentration: improving the democratic basis for local government, providing technical assistance to demonstrate the benefits of improved urban management, and the encouragement of skill development by public administrators.

The underlying rationale for this approach in Krygyzstan is that despite the Central Government’s lack of receptivity for local government work, there are opportunities to improve the administrative capacity of local governments. Improvements in administration will be beneficial for local citizens regardless of the commitment to democracy by the government.

This devolution of responsibility, but not authority, has already happened to a limited extent with housing and health services, and is likely to continue with other social services. The transition from a centrally planned economy will not leave sufficient resources to continue to provide all social services, to all members of the population. Rather than continuing to mount arrears, USAID will encourage governments to adopt modern urban/regional management techniques, including rationalization, privatization, fee-for-service delivery and targeting of their support.

Limited USAID resources will not permit country-wide activities. Therefore, USAID will coordinate its work with other donors and large lending institutions in order to achieve this result.

2. Critical assumptions

USAID will continue donor coordination and sharing of lessons learned in order to make achievement of this goal possible.

Once territorial (oblast and rayon) employees are trained in fiscal management, and they are accountable, they will be in a better position than the national government to respond to local public service priorities.

3. Causal Linkages

Pilot programs to demonstrate effective, responsive, and accountable local government cannot be successful unless mayors, governors, and the central government are willing to work together. They must dismantle the existing Soviet legacy of a strong central state apparatus: mayors and governors in Kyrgyzstan serve at the discretion of central government; they receive policy guidance from central government; and they obtain funding from the central government. Given the historic link, a successful program must also address all these areas. Since the government of the Krygyz Republic does not appear to be moving to address this, USAID/CAR feels that this will be a long term program.

The first intermediate result is the development of a legal framework for operations of municipal and “state” government to ensure that the center can not continue to exercise excessive authority over outlying areas. Appropriate legislation, regulations, and other implementing documentation would need to be drafted and ratified. In this regard, activities of the Intergovernmental Finance Project will strengthen the legal basis for decentralized government in Kyrgyzstan through focusing on assignment of fiscal responsibility within different levels of government. The World Bank will also be providing between two and four advisors in this area.

In 1996 the President passed by decree several regulations purporting to be local government bills. It is still too early to assess their implementation. The May 1996 decree legitimizes administrative power at levels below that of the central government. The decree was not really a step forward, as it also reinforced the President’s prerogative to replace governors. However, the October 24, 1996 decree legitimizes City Charters and encourages the development of a municipal association. This was the result of USAID and the aid program of the Government of the Netherlands. However, in the absence of FY1997 funds for either program, no implementation has occurred.

In order to improve enabling legislation, local government officials must perceive that they can obtain power and legitimacy from the local level, not just from above. This requires a relationship between local governments and local population. Local populations need to be encouraged to effectively communicate their concerns to political leaders, and to ensure that these concerns receive due attention. USAID will therefore encourage the formation of NGO support centers outside of Bishkek (the capital city).

Accomplishment of the second intermediate result requires the development of the local resource base and more efficient service delivery to develop a degree of fiscal independence for local government. This independence traditionally has depended upon the ability of local governments to levy local taxes for local purposes. To achieve this result, USAID projects are examining and strengthening tax administration at different levels of government. Other programs have been aimed at more efficient management of large municipal expenses, such as housing maintenance and health care delivery. USAID can serve a valuable role by providing technical assistance in how to better develop and manage municipal services. The activities envisioned include both small grants for innovative programs, of the type promoted by the Eurasia Foundation and high return public management functions, like budgeting, competitive contracting, and assistance in identifying social services that could be privatized.

The final area that USAID experience worldwide indicates is necessary for a transition from a strong central state to one with power closer to the people is an increased capacity for public administration within the country. This is an area where USAID will be coordinating work with other donors to make the most effective use of our limited resources.

The three essential areas outlined above reflect the three-pronged strategy of USAID/CAR to implement activities to demonstrate more effective, responsible, and accountable local government. By so doing within the current strategic objective framework, the Mission hopes to create a foundation for decentralization, which would make this achievable in the long term.

STRATEGIC OBJECTIVE

3.2

REFORM STRATEGIES IN SELECTED SOCIAL SECTORS

DEVELOPED AND IMPLEMENTED

KYRGYZSTAN

A. Statement of Strategic Objective 3.2

Improved sustainability of social benefits and services.

B. Problem Analysis

One of the prime benefits, theoretically, of the communist state in both the Soviet Union and in eastern Europe was that basically all social services were subsidized for all people. The early years of the communist empire lead to rapid increases in basic health and education indicators in the Soviet Union, largely due to this commitment on the part of the government.

However, as early GDP productivity gains slowed, the Soviet Union was no longer able to provide quality social services equivalent to those in the West. Innovations in service delivery, management, and consumer satisfaction were never publicized or implemented here.

The fact remains that the system did provide basic housing, education, municipal services, health care (including pharmaceuticals) to its citizens. The breakdown in this system in countries which have embraced market reforms has lead in some former Soviet states to widespread disaffection and in others to re-election of communist officials.

The overall rationale for inclusion of this strategic objective is that substantial public support is essential for successful transition to free markets and democratic governance. People must feel confident that the reform will produce improvements in their own lives: social and economic. Citizens must also believe that, to the extent possible, the transition is being managed to minimize social and economic costs, and that those suffering distress are being helped.

In fact, early openness to reform and active embracing of reform agendas have contributed to a faster movement in the social transition area than envisioned three years ago. As in Kazakstan, assistance focused principally on developing private sector capacity in the housing and health areas to encourage a larger private role in areas that government can no longer finance.

The first stage in getting government liberalization is convincing the Government that a credible methodology exists for supporting social services. Kyrgyzstan, with its relatively reform minded government, has been willing to allow market mechanisms in selected social services, for instance housing and health care. What they lack is the technical skills to make the transition from all subsidized services for all people, to selected subsidized services for selected populations--the truly needy.

The activities under this strategic objective are designed not only to introduce the ideas for needed changes, but to build a policy consensus around the issues, and to provide training in selected technical areas to make change a reality. There are changes that can be made to maintain the social system: developing a means-tested benefits package, using world experience to determine which minimum benefits are essential and affordable. Technical assistance is then provided to introduce modern, cost effective management techniques. Assistance is required to develop sustainable

financing schemes and to rationalize the number of government workers providing various public services.

C. Progress, Program Approaches, and Other Donors

An external evaluation conducted in 1996 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's health reform effort has introduced market-based approaches that increase individual choice and rely when possible on the private sector. It has supported development and implementation of market-driven private payment schemes in Issyk-kul oblast on a pilot basis. The mechanisms have improved the efficiency of the health delivery system of 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 care provider.

Similar to health, USAID's focus in the housing area has been on introducing market-based approaches that increase individual choice and rely, when possible, on the private sector. The 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, the development of condominium associations, and new national housing policy.

USAID plans to take the next steps 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 one oblast outside the pilot oblast. The World Bank loan will be used to replicate the Issyk-kul model in two additional oblasts. As a result by 1999 at least 75 percent of Kyrgyzstan's population should benefit from a restructured and more efficient health care system.

Other Donors

USAID recognizes that resources to improve the sustainability of social benefits are unlikely to be available through any single donor. Thus, USAID will actively continue to leverage resources of other donors to replicate pilot interventions on a national level. This donor collaboration and coordination has already resulted in the World Bank loan supported activities for health reform. The World Bank program is based in part on work undertaken by USAID-funded technical assistance teams that have been on the ground for some time.

D. Graduation/Sustainability

USAID expects that by the year 2000, 75 percent of the population will be covered by primary health care, that the greater part of the national health budget will be directed towards the local level, and that policies will exist which ensure that the vulnerable groups in society have access to health care. USAID expects that by 2000 a housing allowance will be applied nationwide concurrent with sustainable utility pricing.

In accepting the World Bank loan, the Government is taking the responsibility to reform the health care sector based on the model developed by USAID.

The final year of funding for this strategic objective is FY2000.

The principal intermediate results are:

1. Demonstrate that quality health and municipal services can be made available on a cost effective basis.
2. Critical social benefits and services identified for vulnerable populations.
3. Broad dissemination of successful interventions to impact policy.

KRYGYZ REPUBLIC PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS - FY 98 submission

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1995		FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
SO 3.2	Improved sustainability of social benefits and services															
Mission SO 3.2	Reform strategies in selected social sectors developed and implemented.	1.# of programs introduced.	Definition: Reform Programs=pilot projects to restructuring sector Unit: Number of oblast	1994	0.00	NA	NA	1	1	2	NA	2		complete		
		2. Policies for vulnerable populations introduced.	Definition: Needed social sectors reforms identified, examined, and policies developed in conjunction with counterparts for sustainable social services Unit: Number of new decrees or legislation designed with counterparts at the national level.	NA	NA	NA	NA	NA	NA	1	Housing			complete		
IR 3.2.1	Critical social benefits and services needs identified for vulnerable populations	1.Number of evaluations of needs for vulnerable populations	Definition: Vulnerable populations = pensioners, women and children. Needed social sectors reforms identified, examined, and policies developed in conjunction with counterparts. Unit: Number of evaluation studies	1994	0.00	NA	NA	NA	NA	Health 1		Health 2				
		2. Number of demonstration projects developed	Definition: Vulnerable populations = pensioners, women and children Unit: Number of pilot programs developed and implemented	1994	0.00	NA	NA	NA	NA	0.00		1				
IR 3.2.1.1	NGO's providing sustainable social services established.	1. Increase in NGOs providing sustainable social services.	Definition: Based on Counterpart Database, on number of NGO s registered as providing social services. Unit: Number of NGOs	1997		-	-	-	-	25		TBD		TBD	TBD	100

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
				YEAR	VALUE	1995		FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
IR 3.2.1.2	Housing allowances adjusted and targeted	1.# of regions with programs.	Definition: A housing allowance program requires cities to calculate the space per person or family unit that is sustainable, determining how much of a families income should be spent on housing, developing a program for shifting funds from increased utility charges to sustaining an allowance program, establishing an office, advertising services, receiving and processing applicants. Unit: Number of cities	94	0.00	NA	NA	NA	1	1	1	2		3	101	15
IR 3.2.2	Demonstration that health care and municipal services can be made available on a cost effective basis.	1. # of independent primary care practices increased in demonstration sites	Definition: Increase in number of primary care practices actually staffed and providing services in demonstration oblast Unit: Number of primary care practices	1994	0.00	NA	16.00	32	80	Karakol 80		complete				
		2. Percentage of population covered by primary care in demonstration sites	Definition: Ratio of population in FGP service areas to total population in demonstration area. Unit: Percentage	1994	0%	NA	NA	NA	NA	60%		80%		complete		
IR 3.2.2.1	Increased efficiency and accountability of health system contributing to a market oriented economy	1. % health care providers being reimbursed by incentive-based method	Definition: Incentives based method = fee for service or capitation on case-based method. Unit: % of hospitals and outpatients care providers, public and private in demonstration sites.	1994	0.00	NA	NA	30%	32%	40%		50%		TBD		
IR 3.2.2.1.1	Increased Consumer participation in market based human services delivery	Percent of people actively choosing their primary health care provider	Definition: People choosing their primary care provider Unit: % signed up of total population in demonstration sites	94	0%	NA	NA	0.00	80	85		90		complete		

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
				YEAR	VALUE	1995		FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
IR 3.2.2.1.2	Modern management techniques and clinical practices introduced	1. Increase in number of health providers using modern mgmt. techniques and clinical practices	Definition: 1) Health providers implementing new management information systems 2) Providers using modern tx protocols for infectious diseases 3) Providers using modern family planning practices 4) Percent of health facilities using drug monitoring information systems All above are in demonstration oblasts. Unit: 1. Percent 2. Percent 3. Percent 4. Percent	1)1994	0%	NA	NA	NA		40		60				
				2)1994	2) 0%	NA	NA	NA		10		20				
				1994	0%	NA	NA	NA		20		40				
				1994	0%	NA	NA	NA		25		50				
IR 3.2.2.2	Shift from public to private ownership and maintenance of housing.	2. Housing Cooperatives formed	Definition: As there is no condominium law in the CAR region, number of consumer cooperatives organized for housing will be tracked. Unit: Number consumer cooperatives	1994	0.00	NA	NA	10	15	30		100		nationwide program		
IR 3.2.2.3.1	Cost recovery methods of charging for utilities introduced.	1. % increase in city revenue for water, gas, heat.	Definition: Dialogue on full cost pricing introduced Unit: Target city raises prices Target: Full cost pricing	1994	NA	NA	NA	NA	NA	NA	NA	if funding permits				
IR 3.2.3.	National legal and regulatory framework established for health and housing reforms.	Government policy endorsing new methodologies	Definition: Number of decrees, laws, or regulations requiring the use of techniques developed and tested on a pilot basis that are enacted nationally. Unit: Cumulative Number (Percent of policies accepted)	1994	NA	NA	NA	1.00	1	1 housing		housing complete		complete		complete
IR 3.2.3.1	Policy based on informed discussion	Consistent dialogue with national policy makers and public on health reform.	Definition: Progress will be judged on how many points out of a possible 4 have been accomplished. The proxy issue to be monitored is reform and rationalization of the health system. Unit: See performance monitoring plan	1994	NA	NA	NA	NA	NA	TBD				2 of 4		

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1995		FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
IR 3.2.3.2	Increased participation by other donors	Successful pilot projects rolled out by other donors	Definition: Other donors initiating and expanding AID roll out projects Unit: Number of projects interventions rolled out	1994	NA	NA	NA	NA	0.00	0.00	2.00	2				
IR 3.2.3.3	Project products developed and disseminated	Number of interventions disseminated	Definition: Prepare products and disseminate to audiences of policy makers, health sector providers, and the public Unit: 1) Number of products developed (ie manuals and videos, etc) 2) How many units of products are delivered, and disseminated.	1994	0.00	NA	NA	NA	NA	videos 2 manuals 8		TBD		TBD	TBD	50
		Comments/Notes: Updated April 30, 1997; file name: ostpub\r4(th32kg98.sp														

H. Results Framework Narrative

1. Transition Hypothesis/Underlying Rationale

The economic upheaval of the transition from a centrally planned economy to a market economy in Kyrgyzstan has led to significant economic and social disruption throughout the country, with many families suffering financial hardships. In particular, women, children and pensioners are among the most vulnerable groups whose health and welfare have been negatively affected. Given this situation, a key determinant of the overall acceptance of the economic and political liberalization process in Kyrgyzstan, as in all the Central Asian Republics, will be the ability of the government and the private sector to restructure their social sector to provide efficient and quality level social services.

USAID/CAR recognizes the importance of providing effective social services to the population of Kyrgyzstan while structural changes in the economic and political sectors occur. To maximize limited resources, USAID/CAR is focusing on two social sector areas which we believe are (a) critical to the well being of the people and (b) closely linked with the Mission's privatization and democratic strategic objectives.

The emphasis of the Mission's program in Kyrgyzstan is to demonstrate that health care and housing can be made affordable on a cost effective basis. The focus is similar to Kazakhstan in that both programs include an emphasis on health financing schemes that will contribute to more sustainable health facilities; strengthening primary and preventive care; and improving efficiency through modern management techniques and modern clinical practices. In Kyrgyzstan, unlike elsewhere in Central Asia, most of the country's pharmacies have already been privatized by a Governmental decree. However, USAID plans to improve their efficiency in order to provide pharmaceuticals at low cost.

The model for municipal services rationalization has been the housing sector, which is extremely important as the base for family financial security. Another important element in the 1997 program is the increase effort in influencing policies. Experience from pilot level will be rolled out to other oblasts through effective policy dialogue at the national level and with other donors. In this sector, rationalization and market mechanisms can be developed to encourage sustainability. A major emphasis in Kyrgyzstan in FY1998-2000 is to develop and implement health and housing reform to make these sectors more efficient as well as to address the needs of vulnerable groups through adjusted and targeted subsidies.

2. Critical Assumptions

- Politically stable government in place.
- Cooperation and support of the relevant ministries in moving the reform and benefits program in the right direction.

3. Causal Linkages

To promote these structural changes in the provision of social services, the mission recognizes that some of the social safety net must be maintained in order to prevent a public backlash against social hardship. In order to provide certain benefits for the neediest populations while maintaining economic viability, however, recipients must be accurately targeted and benefits adjusted appropriately. In addition, the legal and regulatory framework supporting the provision of targeted benefits must be in place and accurate information should be available to the public regarding benefits and availability.

In the case of Kyrgyzstan, USAID/CAR has limited its objective in this area to one which it believes is achievable and will contribute to the overall ENI objective to improved sustainability of social benefits and services. Reform strategies in selected social sectors developed and implemented can be achieved in the next two to five years by achieving a number of intermediate results. This is assuming that the current system needs to be reformed for greater efficiencies before sustainability can be achieved. The results necessary for developing and implementing reform strategies are: identifying critical areas for targeting social benefits and services, demonstration that health and municipal services can be made available on a cost effective basis, and influencing national level policies and increasing donor participation in USAID/CAR initiatives for roll out purposes.

On the health side, cost-effective improvements can be made through progress in a number of areas. Expanding the role of the private sector to provide preventive services and establishing retail and wholesale pharmacies to ensure pharmaceuticals are made available at lower cost. Alternative health care schemes including a health insurance system and incentive based payment systems must be implemented and functioning. Effectiveness of the health care system will be increased if modern management techniques and clinical practices are introduced. On the housing side, efforts are aimed at combining policy with hands on training. Housing stock is often the family's primary asset and maintaining the value of it is critical to prevent families from sliding further into poverty. A key element in the introduction of an efficient and accountable system is the consumer. With adequate knowledge about services, the assumption is that consumer demand for services will shape the market. It will be to the providers' advantage to offer the demanded services at high quality.

Because USAID/CAR is working in Kyrgyzstan in selected areas on pilot basis, USAID/CAR will continue to actively work at the national level and with other donors for the roll out of successful USAID/CAR programs.

4.1 SPECIAL INITIATIVES

HEALTH EARMARKS

IMPROVED LEGAL/JUDICIAL PROCESSES

KYRGYZSTAN

A. Statement of Strategic Objective SO 4.1

Special Initiatives

Health Earmarks and Improved Legal/Judicial Processes

USAID/CAR anticipates receiving for the next several years Congressionally mandated earmarks in several areas: reproductive health, infectious disease, and medical partnerships. In the past we have tried to integrate these specific areas into the social sector reform strategic objective to support reform of the health sector. However, given their narrow focus or specific interventions, the Mission has determined that they are best placed under special objective 4.1. These activities would not affect a reform without a core program. They are supportive of but not necessary to achieving SO 3.2. These earmarks will continue to be shaped, to the extent possible, to improve the sustainability of the social sector in general and to support the health reform agenda specifically.

Reproductive Health Earmark

An external evaluation was conducted on USAID's strategic approach in contraceptive social marketing. Based on this evaluation and other factors, it is likely that USAID will discontinue the program in Kyrgyzstan in 1997.

USAID will continue to focus on improving the availability of and access to modern contraceptives. However, this will be accomplished by supporting reproductive health activities in health reform oblasts. USAID will continue strong donor collaboration, especially with UNFPA which supplies contraceptives.

The 1997 Demographic and Health Survey will be completed with publication of the full report scheduled for 1998. Consideration will be given to supporting another Demographic and Health Survey in 2001. Again depending on the magnitude and duration of earmark funds USAID will use these funds to support the development of advocacy NGOs in women's health and general improvement of women's health status.

Medical Partnership Earmark

USAID/CAR has little direct effect on this earmark. USAID looks forward to guiding further earmarks for partnerships in Kyrgyzstan in order to support the Mission's overall strategy for the country and specifically to support specific components of the health reform agenda. Within this context further medical partnerships should be directed toward the areas of family practice, medical education, nursing education, and medical protocols to support the improvement of the quality of care. This can most likely best be accomplished by partnerships of health care educational institutions and associations specifically in the family health, obstetrical, pediatric, and pharmaceutical areas. Priority should be given to moving activities to reformed or reform oriented oblasts.

Infectious Disease Earmark

Under this earmark, USAID plans to focus on the public health priorities of prevention and control of infectious diseases such as tuberculosis and sexually transmitted diseases. Technical assistance and training will be provided to strengthen diagnostic and management capabilities for selected infectious diseases. Work will continue with the Sanitary Epidemiology Service (SES) to help them use case-based surveillance at the national level. More effective, efficient, and cost-effective surveillance measures are essential to long term sustainable services. Monitoring of new and modern immunization policies and schedules which have been introduced will continue. Support will be provided for regional approaches to control of communicable diseases.

Judiciary Support

At the present time conditions do not warrant the expenditure of sufficient resources to develop all the necessary and sufficient conditions for a Rule of Law Objective to be successful. However, the opportunity exists to strengthen the judiciary in a meaningful way, even without the other pieces of the strategy. The Embassy is very supportive of this work.

Therefore, USAID is funding assistance for the development of the Association Attorneys of Kyrgyzstan, the Association of Judges of Kyrgyzstan and the Court Department. These projects seek to improve the public trust in the judiciary as a fair place to resolve disputes and defend against criminal charges. USAID seeks to integrate these activities into SO 2.1 (Increased, Better-Informed Citizens' Involvement in Political and Economic Decision Making), as much as possible. For example, the bar association is a partner in the law library, which trains citizens and members of parliament how to use its extensive databases of NIS and international legislation.

KYRGYZSTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS 1998

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	1995		FY 1996		FY 1997		FY 1998		FY 1999	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 4.1															
Mission SO 4.1	Preventive care services made available	1. Decrease in abortion rates	Definition: Induced abortions per 1000 women ages 15 -49 Unit: General Abortion rate	1994	33.4	NA	29.6	NA	26.6	25					
IR 4.1.1.		2. Increase in Couple Years of Protection (CYP)	Definition: Couple Years of Protection is the theoretical number of couples receiving contraceptive protection for a year. It is calculated using contraceptive specific denominators: 15 cycles of oral contraceptives equals one CYP; 100 condoms equals one CYP; 4 doses of Depo-Provera and six doses of Noresterat equals one CYP. Unit: Couple Years Protection	1994	0	:	:	10000	no data available	complete					
		3. Number of health providers trained in management and clinical practices	Definition: Number trained by AIHA. Unit: Number	1996	47	NA	NA	NA	47	107	57				

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	1995		FY 1996		FY 1997		FY 1998		FY 1999	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		4. Percent of oblasts using modern approaches to disease surveillance	Definition: Increase in the number of oblasts using computer-based applications for case specific diseases	1994	0%	0%	0%	50%	100%	complete					
		5. Decrease in vaccine preventable diseases	Definition: Improve and maintain the vaccine coverage for children under 2, using DPT as a proxy. Unit: Percent of children under 2 years old who have completed primary series for Diphtheria, Pertussis, and Tetanus (DPT) A) MoH data B) corrected to world standards.	1995	93%	na	93%	-	97.7%	A) 97.7% b) 87%					
		6. Percent of oblasts using modern approaches to disease surveillance	Definition: Oblasts with new Expanded Program of Immunization Management Information System (EPI/MIS) CDC data Unit: Percent of oblasts	1994	0	0%	0%	15%	50%	100%					

<u>LEVEL</u>	<u>RESULT STATEMENT</u>	<u>PERFORMANCE INDICATOR</u>	<u>INDICATOR DEFINITION AND UNIT OF MEASUREMENT</u>	<u>BASELINE DATA</u>		<u>TARGETS AND ACTUAL RESULTS</u>							
						<u>1995</u>		<u>FY 1996</u>		<u>FY1997</u>		<u>FY 1998</u>	
				<u>YEAR</u>	<u>VALUE</u>	<u>Target</u>	<u>Actual</u>	<u>Target</u>	<u>Actual</u>	<u>Target</u>	<u>Actual</u>	<u>Target</u>	<u>Actual</u>
		<u>April 17, 1997</u>											

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4.2 CROSS - CUTTING PROGRAMS

EURASIA FOUNDATION

A. Statement of Strategic Objective SO 4.2

Cross Cutting Initiatives

Eurasia Foundation

The Eurasia Foundation makes small grants on an on-going basis which are directed to support the transition from centrally planned to market economies; encourage improvement of public service delivery and greater citizen involvement in civic decision-making; and improve the flow of information available to citizens. An underlying theme of many programs is improving management in the indigenous organizations, be they in the private, public, or non-profit sectors. The priority areas for small grants are generally: business development, business education and management training, economics education and research, public administration and local government reform, nongovernment organization development, rule of law, media, and electronic communications.

The Eurasia Foundation's work in Kyrgyzstan is most closely related to USAID strategic objective 2.1 (Increased Better Informed Citizens' Participation in Political and Economic Decision-Making). In the past, the Eurasia Foundation has not coordinated its activities with USAID's SO Teams, and not reported to the Mission on program results. However, we understand that the Foundation will provide more specificity in their reports to ENI/W on results aligned with individual mission strategic objectives. We would then reflect those results in our R4 assessment for the respective strategic objectives.

Global Participant Training 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 Global Participant Training Program in Central Asia under SO 4.2 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.

This training project provided U.S. short-term training for 445 officials from 1994 to 1996, and approximately 25 more US participants are anticipated in the 1997 training program. In-country training is also planned for over 500 Kyrgyz. USAID-funded participants have been instrumental in the fiscal reform, central banking operations, commercial law, accounting standards, health reforms, and NGO development. Lower budget levels for training in the coming years will mean fewer participants, but all training will still be used to support the wider technical assistance effort. 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. This effort benefits 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 governance.