

**STRATEGIC PLAN
FOR
KAZAKSTAN**

**USAID Regional Mission for Central Asia
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PART I:

ASSISTANCE ENVIRONMENT AND STRATEGIC PRIORITIES

A. US Foreign Policy Interests

Warm bilateral relations have been enjoyed by the United States and Kazakhstan since Kazakhstan declared its independence in December 1991. The ninth largest country in the world, Kazakhstan has vast energy resources, and its location between Russia and the Caspian Sea in Central Asia, makes it a key political player in the region.

Initial US- Kazakstani economic cooperation began in 1992, with assistance made available through the Open Markets (FREEDOM) Support Act of 1993. It was designed to assist the Newly Independent States in accelerating the transition from centrally controlled command economies to market-based democracies.

One of the most responsible of the nuclear successor states of the USSR in its vigorous pursuit of denuclearization and non-proliferation, Kazakhstan is now primarily important to the United States for its strategic energy reserves. These and other valuable natural resources make Kazakhstan attractive to major US investors. Kazakstani independence and sovereignty and its determination to join western economic, political, and cooperative defense organizations are keys to peace and economic prosperity in Central Asia. With these national interests in mind, the US diplomatic mission in Kazakhstan has identified four major goals, two of which depend substantially on resources made available through the Freedom Support Act:

- Encourage market reforms that will create a favorable trade and investment climate with equitable opportunities for US business, especially in the energy, mineral, and agriculture sectors.
- Promote development of democratic institutions, including Non-governmental Organizations and independent media; encourage respect for human rights, tolerance and non-discrimination in a multi-ethnic society; and promote respect for the rule of law.

To date, USAID resources have been largely dedicated to technical assistance to help the Kazakstanis introduce the policy, regulatory, and institutional reforms required to set in motion the reforms necessary for democratic and market transition. Over the next five years, funding of technical assistance will decline. USG economic cooperation will be shifted to focus on translating the economic transformations into sustainable economic growth and to support linkages and partnerships with the United States that will sustain and deepen economic and democratic reforms through ongoing relationships with the United States.

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, much progress has been achieved in the economic sphere.

Kazakstan succeeded in arresting the economy's downward spiral and in establishing an increasingly sound macroeconomic policy framework. In 1996 -- for the first time since the transition began -- the economy posted a small, positive growth rate. Exports are leading the recovery and the country's foreign exchange reserve position is healthy. Inflation was reduced from 1,160 percent to approximately 30 percent in 1996. The fiscal deficit was cut from just under 7 percent of GDP to an anticipated 2.9 percent in 1996. Deficit forecasts for 1997 are expected to be 3.16 percent.

On the monetary front, Kazakstan's stable reserve position and responsible monetary management policies have helped keep the tenge relatively stable. Also, the treasury bill market has expanded and the Central Bank, with significant USAID technical assistance, has asserted much needed control over the banking sector by establishing an effective bank supervision regime and enforcing stricter capital requirements.

These macroeconomic indicators reflect solid progress in the economy's structural transformation. A Land Law permitting long term leasing of land was approved in December 1995, followed in 1996 by a Land & Real Property Registration Law that will regulate and protect ownership rights. The privatization of the state's majority shares in most small- and medium-sized enterprises has been substantially completed, and sales of its remaining participation are well underway. Almost all prices have been liberalized and the Government has dismantled the main monopolistic barriers to market development; liberalizing the trade regime and almost completely eliminating holding companies. Consolidation of the banking system is also underway, with the introduction of major improvements in the financial sector's legal, regulatory and prudential framework, the assumption by the government of its financial responsibilities for past directed credit, and the merger or liquidation of marginal banks.

The reforms described above, require sustained effort to ensure their benefits are felt throughout the economy. A determined effort to improve fiscal resource mobilization -- specifically tax collections -- will be critical during the next year. Privatization of the 150 largest remaining industrial enterprises, which has only just begun, must be accelerated with their outright sales of the state's majority shares. Acceleration of the sale of large enterprises will help deepen the capital market and pave the way for transition from a state pension system to one based on private capital markets.

With macro-economic stabilization firmly in hand and much of the policy framework in place for the structural transformation, now is the time for the Government to shift its focus from short-term exigencies to the longer term objective of adapting public sector activities to the new role of the government in a market based economy. New targets for assistance will include transformation of the budget into a dynamic instrument of resource allocation and setting up public investment programming instruments capable of directing scarce investible funds towards the country's highest priorities, including improving the efficiency of the country's existing physical and social infrastructure.

The Investment Climate - Kazakstan's political leadership actively seeks greater western and specifically US investment. It is primarily to attract such investment that the government has undertaken a broad array of fundamental legal and regulatory reforms, and additional measures are planned. Recent reforms facilitated by Mission strategic objective teams have been undertaken in the Foreign Investment Law, the Law on Petroleum, the Law on Electricity, and the Law on Subsurface Utilization, which should clarify and strengthen the rights of foreign investors. A new Tax Code, enacted in April 1995, is the most comprehensive and nondistortive body of tax law in the NIS. Kazakstan in fact remains along with Krygyzstan one of the only two countries in the NIS to have a comprehensive western-style tax code in place. In December 1996, an Avoidance of Double Taxation Agreement between the US and Kazakstan came in force, retroactive to January 1996.

In addition, Kazakstan is now finalizing legislative reform proposals designed to achieve a radical reform of the current insolvent public pension system. Under the proposal, developed with intensive USAID technical and training support, the public pension system would be phased out over a defined time frame; and replaced with a tightly regulated private pension system. This reform, among the most radical and politically courageous yet contemplated in any transitional economy, is slated for presentation before Parliament in late spring of 1997. In November of 1996 Kazakstan became the first country in the NIS to adopt a comprehensive set of western accounting standards; thus laying the groundwork for the modernization of financial analysis and reporting functions within business institutions - a crucial requirement for private sector development. Other major policy areas where significant reform progress has been made since 1993 have included: mass and small-scale privatization, banking regulatory and accounting reform, price liberalization, establishment of a modern external debt management system, and the establishment and empowerment of a securities and exchange commission - all USAID-supported developments that should encourage the expansion of private foreign and domestic investment.

Also with USAID support, the government has developed an ambitious legal reform agenda for developing the regulatory framework needed to clarify property ownership and transfer rights and the rights of parties to economic transactions. The government also continues to move forward aggressively in its efforts to become a member of the World Trade Organization (WTO). In July 1996 the government submitted its Memorandum of Foreign Trade Regime, the core negotiating document for WTO accession. Within 7 months the WTO Working Group meetings to discuss the government's responses to questions arising from the Memorandum were carried out in

Geneva - the shortest turnaround time for this process in the WTO's history. Kazakhstan appears to be on a fast track towards WTO accession; and the Mission's Private Enterprise team will continue to work with the government on this activity until accession is achieved.

While the investment climate has improved, much remains to be done before Kazakhstan will be able to attract the continued high level of foreign investment it needs to substantially increase the standard of living for the majority of Kazakstani citizens. The lack of a strong response on the part of investors outside of the energy sector may be attributed in part to poor implementation of the existing legislation, a stifling bureaucracy, and corruption believed to exist at every level of government. While the Criminal Code contains special articles on penalties for accepting and giving bribes, corruption is pervasive among government officials and particularly problematic in the awarding of tenders and customs issues. There have been no significant prosecutions for corruption, although there have been recent dismissals of customs officers purportedly to reduce abuses.

b. Evolution of USAID's Program

Since FY 1994, USAID/CAR's assistance to market transition has followed a three stage progression:

- Initial focus on short term economic stabilization measures designed to help bring government spending and inflation under control;
- 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
- Emphasis on a policy, legal, and regulatory environment conducive to investment and enterprise growth, sound fiscal policy and management, and development of competitive, efficient financial markets.

The first two stages of this process are clearly linked and will be largely completed during FY 1997. Monetary policy reforms have contributed crucially to price stability, removed distortions in pricing and financial resource allocation systems, and increased the total volume of investment resources available to the private sector. This has, in turn, promoted the development of a stable investment environment and permitted a more rational allocation of scarce resources across sectors.

Kazakhstan has made significant progress in small-scale and mass privatization with USAID support. Approximately two-thirds of industrial assets will be privately owned by the end of 1997. Problems that impeded cash auctions under the mass privatization program in 1996 have been overcome with the result that roughly two-thirds of all state enterprises eligible for sale through cash auction will be largely privatized by the end of 1997. The World Bank-supported

privatization of large-scale enterprises is finally beginning to gather momentum, and the decision to move from management contracts to outright sale of state shares should accelerate, thereby helping to resolve the problems of wage arrears and non-payment of debts.

Throughout the privatization process, the Mission's aim has been to act quickly to channel support to programs that were fair and transparent, to help enlist the support of the population for economic reform by giving it a stake in the outcome. The point has not been to track down and transfer every last object, but rather, to break up the state's monopoly and jump start the creation of efficient markets. The strategy has been to aim at market sectors and systems rather than individual enterprises, and to privatize enough firms and assets to introduce competition and break the back of the state monopoly in the market sector or system.

As privatization progressed, additional assistance was included for corporate governance issues to strengthen shareholders. At the same time, work was begun on developing capital markets to facilitate consolidation and effectiveness of ownership. The Mission strategy assumed that privatized firms that fail to restructure ineffective management are not likely to survive. In such cases, liquidation and bankruptcy are effective means of changing management and achieving asset rationalization. In parallel effort, USAID provided assistance in the area of bankruptcy. As the Government's small and mass-privatization programs wind down, USAID/CAR will terminate its work in privatization and disband the team, while expanding programs under other market transition objectives to establish solid foundations for sustainable growth.

As Kazakhstan proceeds in its third stage of privatization, which includes the power, oil and gas, telecommunications, aviation, and public utilities, a supporting environment consisting of a clear, sound, and stable regulatory framework will be essential to ensuring mutual benefits to Kazakhstan and to its private partners. USAID is currently playing a key role in establishment of such frameworks for the power and oil and gas sectors.

From now until the year 2001, the Mission Market Transition Team will give highest priority to fiscal policy, administrative reform, financial market development, and establishment of a market friendly commercial law infrastructure. In this connection, Kazakhstan's new tax code --drafted and passed in July 1995 with AID assistance and described as the most modern and transparent in the former Soviet Union -- should benefit all parties in Kazakhstan, including new firms. USAID will provide technical advisors and training in modern tax administration procedures, at least a three-year endeavor. Also planned for the next five years are programs to improve budget planning and implementation and ensure more rational and transparent ways to raise revenues and allocate funds among the various levels of government (national, oblast, local).

Over the next three years, greater emphasis also will be placed on the efforts of the Private Enterprise Growth Team to introduce business law reforms, improve business accounting practices and support Kazakhstan's accession to the World Trade Organization. Also figuring prominently under Private Enterprise Growth objectives will be the eradication of bureaucratic obstacles related to trade and investment, with a view toward assuring that the economic climate

in Kazakhstan is attractive to both local and foreign investors.

Over the next three years, the Financial Market Development Team will intensify efforts to deepen capital markets and ensure that capital is channeled into areas of highest economic return. In this regard, initial USAID activity helped found Central Asia's first stock market in Almaty as well as establish an independent securities exchange commission to regulate it. Other steps underway include expanding the size and scope of the stock exchange and ensuring that Kazakstani counterparts are effectively equipped with the skills needed to manage a modern financial sector, including adoption of modern Western accounting practices.

Greater transparency is essential to counter corruption and ensure a level playing field for all the private sector actors. In this regard, USAID-supported work in introducing modern accounting standards, improving financial management, and offering judicial training to those involved in administering commercial laws are important tools for addressing crime and corruption and corruption issues as they relate to private investment.

Turning to the sectors that will drive future economic growth, the power sector reform is well underway, with the December 1995 adoption of an independent regulatory commission for electricity, privatization of over 60 percent of the national generating capacity in 1996, and plans for establishing a competitive wholesale power market in 1997. USAID is working with the government on drafting implementing rules and regulations that would promote the independence of the commission and the operation of the wholesale power pool, with an eye toward furthering the privatization process and attracting foreign private investment in the power generation, transmission, and distribution subsectors. On a local level, Kazakhstan ordered an end to general utility subsidies in 1996.

Oil and gas development, critical to the economic future of Kazakhstan and Central Asia as a whole, has not met expectations. Current oil production levels are still much lower than at independence in 1991. Recent agreement on a restructured consortium to construct an export pipeline for Caspian Basin oil offers new promise for accelerating the rate of production and the volume at which Kazakhstan's oil and gas reaches world markets. USAID continues to urge the government to establish an independent oil and gas regulatory agency, thereby allowing the government to play a facilitating rather than a controlling role. It would also eliminate the current confusion created by multiple government agencies with overlapping regulatory powers and authorities.

From now until the year 2000, USAID plans to continue support to Kazakhstan on restructuring its energy sector and creating an attractive policy, legal, and regulatory environment for private investment (particularly foreign) in order to realize its oil and gas potential. However, this work will be done in the context of a regional objective, implemented by the Mission's Energy and Environment Team (approved in the 1996 R4 review of the CAR program), which is predicated on the economies and complementarities of regional cooperation in energy development and investment planning, water use rights to exploit hydroelectric potential, increased energy trade

among CAR countries, and movement to a regional power pool -- a competitive international wholesale market for electricity producers. USAID plans for its Regional Team are separately described in the accompanying USAID/CAR Regional Strategic Plan.

During the period 2002 through 2006, the high level of technical assistance which currently characterizes the USAID market reform program in Kazakhstan should evolve into a combination of high level trade and investment promotion activities combined with partnership programs aimed at consolidating a long-term cooperative commercial relationship consistent with the Partnership for Freedom phase of the USG's assistance program to the New Independence States. Examples include linkages with US professional associations supporting business development, such as Chambers of Commerce, banking associations, and utilities regulation. A strong US-Kazakstani partnership arrangement in graduate management education will be another target. This evolution will represent the final stage toward the ultimate purpose of the USAID/CAR program in market transition: promoting and sustaining private trade and investment relationships for which aid is no longer needed.

c. Most Important Results to Date

- **MACRO-ECONOMIC STABILIZATION.** Kazakhstan has implemented an extremely effective macroeconomic stabilization program over the past two years. Inflation was reduced from 1,160 percent in 1994 to 60 percent in 1995 and 30 percent in 1996. The fiscal deficit was cut from just under 7 percent of GDP in 1994, to 2.3 percent in 1995. The exchange rate system was liberalized, and is now characterized by full current and capital account convertibility.
- **EXTERNAL DEBT TRACKING.** In October 1996, Kazakhstan installed a computerized external debt tracking system to monitor government loan guarantees and maintain compliance with its external debt servicing requirements.
- **PRIVATIZATION.** Roughly half of the universe of small-scale firms have been privatized through cash auction. Under the USAID supported mass privatization program, 1200 of an original universe of 1700 candidate firms have been fully or partially sold to the private sector. When USAID concludes the Mission objective on privatization at year-end 1997, two-thirds of Kazakhstan's industrial asset base is expected to be privately owned. Additionally, 30 percent of Kazakhstan's electric generation capacity has been privatized.
- **MODERN TAX CODE.** In April 1995, Kazakhstan became the first NIS country to adopt a comprehensive, western-style tax code. The code established clear definitions of the taxable base and tax obligations for personal income taxes, corporate taxes, and value-added tax, and was a major advance toward a stable, non-discretionary, easy-to-administer tax system.
- **WTO ACCESSION.** Kazakhstan submitted its Memorandum of Foreign Trade Regime

(the foundation negotiation document) to the WTO in July 1996, and proceeded to the first round of WTO negotiations in March 1997. This is one of the fastest progressions from application to negotiation on record and reflects well on the quality of Kazakstani preparations, assisted by USAID advisors.

- **COMMERCIAL LAWS.** Kazakstan has adopted fundamental legislation defining and protecting the rights of parties to economic transactions. Through a Memorandum of Understanding, the GOK and USAID have agreed to work jointly in further development of commercial legislation covering company law, contract law, collateral law, natural monopoly law, and improvement of the Civil Code.
- **ACCOUNTING STANDARDS.** Kazakstan adopted in December 1996 a comprehensive set of international accounting standards, and a westernized chart of accounts for company financial reporting purposes. It has also introduced a new chart of accounts in the banking sector. These reforms place it in front of all other CIS countries in the area of accounting reform.
- **BANKING REFORM.** Kazakstan has developed an extremely tight financial supervision system for the commercial banking system (among the most advanced in the CEE/NIS countries). This has resulted in a major consolidation of the banking system over the past 18 months, with the number of banks decreasing from almost 200 in 1994 to just over 100 now. Kazakstan has also adopted modernized central and commercial bank accounting standards, and is aggressively implementing them.
- **CAPITAL MARKET DEVELOPMENT FRAMEWORK.** Kazakstan recently signed an MOU with USAID that mandates rapid development of the regulatory framework and the organizational and technical infrastructure for the development and operation of a competitive securities market; and is aggressively implementing reform measures consistent with this objective. The reformist and proactive National Securities Commission is working with securities market intermediary institutions to form a new merged stock exchange which will be openly and democratically owned and operated by broker-dealers and other market participants; establish the regulatory framework necessary for responsible oversight of financial transactions; promote the development of a trading and back office infrastructure which will promote rapid development and deepening of competitive trading activities; and working aggressively to improve the quality of companies available for trading by bringing minority shares of a large number of large-scale enterprises previously excluded from the privatization process onto the stock exchange for trading.
- **POWER SECTOR PRIVATIZATION.** Kazakstan has introduced major legal and regulatory reforms which: (a) establish an independent regulatory agency; (b) eliminates monopoly control of the electricity sector; and (c) creates a policy environment conducive to private sector investment. This has resulted in: privatization of over 60 percent of the

national generating capacity; with another 20 percent scheduled for privatization in 1997. Planned privatization of the national transmission grid and establishment of a wholesale electricity market the first half of 1997.

- **OIL AND GAS SECTOR DEVELOPMENT.** Kazakhstan is restructuring its oil and gas sectors through legal and regulatory reforms to further attract international investment. New laws and regulations have been introduced to support the use of production sharing agreements, privatization of petroleum processing and transport, and protection of the environment. The US has mobilized the international petroleum firms working in Kazakhstan and their respective Ambassadors to lobby the government in a concerted fashion for further policy reforms. These efforts resulted most recently in the government rescinding a new decree on compulsory insurance in the petroleum sector, which did not adhere to internationally accepted norms and would have discouraged new investment. This same private sector coalition is now working to revise petroleum sector licensing and regulations.

d. Other Donor Involvement and USAID Comparative Advantage

In several areas of USAID's market transition strategy, other donors play critical roles. The IMF's Extended Fund Facility (EFF) reinforces the importance of sound fiscal and monetary policy. The Government's compliance with the EFF is considered an essential intermediate result of USAID's strategic objective on improved fiscal management. The World Bank compliments USAID programs in bank accounting reform and bank regulation (through support to on-site examination). There is substantial donor cooperation among the European Union (EU), European Bank for Reconstruction and Development (EBRD), and the Asian Development Bank (ADB) in promoting commercial law reform, and USAID's assistance to pension reform is being closely coordinated with the IBID and ADB, who have been asked by the Government to provide financial support to pay off pension arrearage. In several key market reform areas, however, USAID is the sole source of assistance or donor of preference, e.g., in securities market development where a Kazakhstan-USAID Memorandum of Understanding signals commitment to a common agenda of institutional and procedural changes.

A key to success of USAID support programs has been its rapid, flexible response capability based on two factors:

- **SIZE.** Larger field presence makes it easier to accurately target support to priority policy reform areas, areas where reform progress seems achievable in the near-term, and areas where other donors are not able to rapidly mobilize resources; and
- **SPEED.** USAID has 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 focussing on institutional development issues related to reform sustainability over the medium to long-term. This is the approach utilized in the accounting reform area, where the Mission first focused on developing a consensus on the need for reform and then worked towards adoption of western accounting standards. The program has now shifted towards dissemination of new accounting standards and practices; and working with indigenous non-governmental organizations to help institutionalize accounting reform. This last step has most often involved close collaboration with the World Bank and other International Financial Institutions (IFIs) to leverage significantly larger resources required for “nation-wide roll-out” of the reforms. Similarly, after joint USAID and EU assistance to bank training, a USAID role is no longer envisaged as the EU will provide sustained support.

2. Strategic Assistance Area 3: Social Transition

a. Constraints & Opportunities

For the majority of Kazakhstan’s population, the wrenching changes brought about by the breakup of the Soviet Union 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), of education, of municipal services (heat, electricity, water), and of 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.

Now that a sound basis has been established to continue the economic transition to a market economy, the Government has begun to shift its focus from short-term exigencies to the longer-term objective of adapting public sector activities to the new role of the government on a market based economy. This involves, *inter alia*, rationalizing and downsizing public administrations, programs, and, therefore, payrolls; professionalizing the civil service, transforming the budget into a dynamic instrument of resource allocation; and setting up systems to direct investment towards the country’s highest priorities (which should include rehabilitating and improving the efficiency of the country’s existing physical and social infrastructure). The introduction of unemployment benefits and the recent adoption of legislation on pension systems have strengthened the social safety net, but much more needs to be done.

As the state scales back its commitments and direct involvement in services previously dominated supported through government, it will nevertheless need to ensure minimum standards for education and health services. Given severe fiscal constraints, this will require consolidation an improved efficiency of clinics, hospitals, and educational institutions at all levels. On the other hand, new, targeted allowances will need to be introduced to buffer the impact on vulnerable groups of the reforms in utilities and in municipal services. As discussed earlier under “Constraints and Opportunities: The Investment Climate,” pension reform has begun in earnest, the results of which will begin to be felt in 1998.

b. Evolution of USAID's Program

USAID/CAR's program strategy has recognized that reform in the provision and delivery of social services is critical to public support for the successful economic transition. In this regard, the Social Transition Team has been instrumental in introducing reforms which help decentralize the health care system, strengthen primary health care, privatize housing maintenance, target housing and utility allowance, contract for municipal services, and institute full cost recovery for utilities.

The team has also assisted in addressing major obstacles to the provision of quality drugs at affordable prices by promoting private pharmacies and helping to break up "Farmatsiya," the large public sector monopoly that previously controlled the marketing and sales of health-related supplies across Kazakhstan. At this point, some 80 percent of all drugs are imported and distributed by private companies. The economic transition is specially difficult for vulnerable groups such as pensioners and large families headed by women. The Government's housing allowance policy raised general utility fees to cover costs, and introduced targeted housing allowances (including utilities) to enable vulnerable groups to remain in their residences.

From now until the year 2002, the Social Transition Team will focus on improving the sustainability of social services in health, housing, and municipal services. For all three areas, the program will work at the national and local level to develop appropriate technical assistance and training intervention. These interventions will be based on the combined lessons learned from pilot projects in local self-government, housing, and health. USAID will continue to demonstrate that health and housing reform can be carried out on a cost-effective basis while improving quality and availability of services. These efforts will complement the activities undertaken in the local self-government initiative described under the Democratic Transition section below.

In more detail, over the next five years, the Mission will continue to support health financing schemes that contribute to long-term financing sustainability of the sector, including decentralization of the health budget and establishment of cost-effective primary health care units such as family group practices. As a priority activity for the next two years, the Social Transition team will complete the introduction of health service delivery reforms in two pilot areas, expand successful reforms to selected regions, and phase out technical assistance in the pilot areas as local capacity is developed to continue the health reform agenda in Kazakhstan. The resources of other donors, especially the World Bank, will be actively leveraged to replicate pilot interventions on a national basis.

USAID/CAR is also promoting private housing ownership and maintenance through the expansion of residential housing associations which have already taken strong hold in major cities in Kazakhstan, including Almaty and Semipalatinsk. Based on USAID-supported pilot efforts, the Government has adopted a policy to support full cost recovery in utilities by eliminating generalized subsidies in combination with a targeted housing and utilities allowance

program. Utility cost savings of as much as 30 percent have been achieved in some communities. Given the remarkable progress to date, the housing maintenance privatization activity will end no later than FY 98. However, USAID support to the targeted housing and utility allowance program may continue for another year to ensure that all major cities have established an operational allowance targeting system. Activities in support of improved municipal services, under the pilot efforts above, will be expanded as the Mission moves into SO 2.3 (“More effective, responsible, and accountable local government”).

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. A principal environment risk-- health hazards arising from degradation of the Aral Sea Basin-- has been addressed through the CAR Regional Environmental objective which has focussed on increased availability of potable water and improved public information on safe water practices, as well as water pricing policies. The team objective in potable water improvements will be fully achieved by June 1997, with 200,000 Kazakstanis benefitting from potable water improvements and an equal number from public health information. USAID support to potable water programs will be brought to a close, and the Regional Environment team will focus primarily on increased regional cooperation in water resources management for irrigation, industrial, and hydroelectric uses, water management and pricing. The rationale and plan for the regional environment objective are detailed in the USAID/CAR Regional Strategic Plan for Energy and Environment.

c. Most Important Results to Date

- **PENSION SYSTEM.** An Interministerial working group is currently at work designing a comprehensive package of regulatory and legal reforms designed to introduce a two-tier private pension system, with the intent to make private pension plans mandatory by 1998. (Direct USAID support is under the strategic objective for improved financial sector-SO 1.4-to increase the capitalization of securities markets.)
- **UTILITY COST RECOVERY AND TARGETED SUBSIDIES.** With USAID support, Kazakstan introduced nationwide targeted, means-tested subsidies for utility subsidies in conjunction with the raising of utility prices for all full cost(from an average of 20 percent of costs). Net savings in some of the pilot cities of 20 to 40 percent of the local budget have been projected.
- **PRIVATIZATION OF HOUSING MAINTENANCE.** Some condo associations and 16 regional homeowner associations have been established in Kazakstan. As of December 1996, all housing maintenance is in private hands. In the capital city, with efforts starting just in 1996, some percent all housing stock is management by registered citizen cooperatives.
- **TARGETED HOUSING ALLOWANCE PROGRAM.** In May 1996, the Cabinet of Ministers issued a resolution establishing a national housing allowance policy, and

directing that allowance programs be promptly initiated. The number of housing allowance centers increased to 56 from the single pilot center in 1995 and will be extended to full nation-wide coverage by mid 1997.

- **COMPETITIVE TENDERS FOR MUNICIPAL SERVICES.** USAID technical assistance introduced competitive bidding for municipal services in two pilot cities. The savings were so impressive that it is likely the cities will implement bidding for all services.
- **PRIMARY HEALTH CARE.** In pilot sites, 56 Family Group Practices (FGP) have been established with expected coverage of 90 percent of the population in the two urban areas. This rapid expansion has demonstrated that FGP can provide better access to health care, reduce medically unjustified referral to clinics, and reduce overall health care costs.
- **ECONOMIES IN HOSPITAL CARE.** A case-based hospital payment system introduced in pilot sites resulted in a 20 percent reduction in the average length of hospital stays. Savings to the local health budget from shorter hospital stays can help finance primary health care facilities for preventive care.
- **PHARMACY PRIVATIZATION.** The progressive privatization of the state system pharmacies is nearly complete, with over 80 percent of pharmacies privatized. In studies of selected oblasts, the variety of pharmaceuticals and sales volume significantly increased.

d. Other Donor Involvement/USAID Comparative Advantage

USAID is the principal donor focused on alternative health care delivery and health financing program that offer improved prospects for quality care, accessibility, and financing sustainability. Other donors, such as the World Health Organization (WHO), UNICEF, and the UK Know How Fund, are targeting a wide array of programs in mother and child health, pre/post natal care, and preventable childhood diseases. UNDP is coordinating donor assistance to the Government of Kazakhstan on a national health strategy. USAID participates in this task force, particularly to assure that the strategy draws on lessons learned from the USAID- supported health reform efforts.

USAID is collaborating closely with the World Bank on plans for broad replication of health reforms successfully demonstrated in the two pilot areas. A World Bank Health Care Project currently under negotiation would , among other things, extend successful practices to an additional two oblasts, with USAID advisors assisting during the initial phase of implementation.

3. Strategic Assistance Area 2: Democratic Transition

a. Constraints and Opportunities

Despite several setbacks in recent years, Kazakhstan is making progress in its democratic

transition. Success is not in traditional areas, such as openness of the executive branch, but is quite evident in the NGO sector, growing in the parliament and evident in the independent media, where an association of television stations is using a ruling by the prosecutor general to reach settlement with the government on lost television frequencies. In order to appreciate the progress, one must understand the background.

The strong centrist character of the Kazakstani political system was reinforced by an April 1995 referendum which extended the president's term in office until 2000, and a new constitution, approved by referendum in August 1995, which further concentrated power in the presidency. A December 1996 Survey of public opinion conducted by the International Foundation for Electoral Systems (IFES) reports that a growing plurality of Kazakstanis (44 percent vs 33 percent in a 1995 survey) believe that Kazakstan is not a democracy, nor is it becoming one. Political parties are small and without broad support. Per the IFES Survey, 54 percent of Kazakstanis are more likely to support a candidate who is not party affiliated. Yet roughly two-thirds endorse the principles of a multi-party system. The dominance of the presidency, weakness of existing parties, and lack of real political alternatives leaves the citizens with few formal mechanisms for political participation. USAID assistance is developing informal means of communication and is creating links between government, independent media and NGOs.

In partial counterbalance to the closed political system, the government respects human rights and has been supportive of basic civil liberties, including independent media and expansion of an active NGO sector. Citizens are basically free to speak out and assemble. However, Kazakstani citizens perceive limits to dissent, and self-censorship is practiced by the media. Given this ambiguous civil liberties context, the USAID/CAR strategy has been to promote the growth and effectiveness of NGOs as the most viable means of providing a channel for citizens' influence on public policy. In addition, through activities carried out by complimentary SO 1.3, Private Enterprise Growth, USAID is supporting the adoption of business regulatory reforms which will limit the scope of government interference and harassment of all business entities including independent media outlets. Despite the lack of a solid legal base conducive to the growth and financial soundness of NGOs, their increase to 440 organizations has far exceeded USAID expectations. Per the IFES Survey, a large majority regard NGOs as either essential or politically useful; in fact 19 percent (up from zero several years ago) of respondents are now aware of an NGO active in their communities. Allied with support to NGO's, USAID's strategy has emphasized the growth, independence, and competence of the electronic media to inform public opinion. Like NGOs the number of independent TV stations has increased impressively, but inadequacies in management, finance, and output quality still prevail. Availability of information is vitally linked to citizen participation. The number of independent television outlets may decrease following the results of the second round of frequency auction. However, the remaining stations are expected to be stronger, due to a greater concentration of advertising revenues.

Local government officials from oblast (state) to municipal levels are appointed by, and are primarily responsible to the central government. There are elected local councils, but these are subordinated to appointed officials. The central government has progressively placed

responsibility for services, particularly health, education, and housing, with local governments who may have the authority but do not have the budget resources to discharge these responsibilities. As a result, many Kazakstanis lacked access to basic utilities and services in the winter of 1997.

The 1995 Constitution requires passage of a local Self-Government Law by the end of 1997. The Fiscal Policy and Management Team is assisting in the drafting of such 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 Reform 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 would provide fertile ground for replication of such reforms.

b. Evolution of USAID's Program

Planned democratization programs through the year 2004 will include continuation of Mission efforts to strengthen citizen participation in decision-making through NGOs, improve the availability of information, and increase the responsiveness and accountability of government--all directed to more participatory civil society. USAID will also launch a new local government initiative, to promote more effective, accountable local government, extending successful experience in pilot local government efforts.

USAID/CAR is currently not pursuing a Rule of Law objective because of the need to focus and concentrate on objectives that can be most readily attained. However, USAID is now significantly (but peripheral) involved in rule of law through its efforts in strengthening (1) institutions for commercial law and training of judges in commercial law, and (2) the courts through training of judges, strengthening of judicial and legal associations, and promoting codes of ethics.

Following parliamentary elections in late 1999 (prior to which USAID will be making a concerted effort on all fronts to foster free and open elections), USAID expects to move wholeheartedly into the rule of law area. This will be a highly collaborative effort with other donors. USAID will lead coordination, and only engage in activities which are not being addressed by other donors. In addition, USAID expects to develop activities that potential U.S. partners will be amenable to supporting.

In the meantime, USAID plans to continue assistance to the Union of Judges and the Kazakstan Bar Association, as described under our plans for Special Initiatives. The intended result is to improve the public trust in the judiciary as a fair adjudicator of disputes and arbiter of criminal prosecution. USAID/CAR believes that citizen-based efforts toward rule of law will grow from successes in their objective for better informed citizenry.

USAID's future program under the Democracy Transition Team, which include the local

government objective, will build on its early accomplishments:

- **NGO DEVELOPMENT:** Over 400 NGOs now exist in Kazakstan, though lack of funding and lack of organizational and management skills are recurring problems. Representing a variety of interests including human rights, the environment, rule of law, women's rights, agricultural development, and market transition, many have received grants and training from USAID supported PVOs. The next phase of NGO assistance will focus on advocacy NGOs, higher level training for advanced NGOs and a push for democratic governance within NGOs.
- **INCREASED AVAILABILITY OF INFORMATION:** With USAID assistance, the number of independent media has increased across the country. Of 52 independent television stations and 24 independent radio stations throughout Kazakstan, only four and four respectively are in Almaty. An additional two television stations and two radio stations won licenses in the recent frequency auction.
- **MORE RESPONSIVE AND ACCOUNTABLE GOVERNMENT:** At the request of the Central Election Commission USAID is helping to rewrite election legislation and will train election monitors and officials and educate the voters as to changes in the election law. Free elections should increase accountability of government officials. The new Parliament is becoming assertive, and USAID is helping streamline its procedures. This will include drafting and revising legislation and assisting in organizing public hearings. The parliament in Kazakstan just held its first partially open hearing in April 1997. In a major new initiative, USAID will be developing next year a new program to address responsiveness and accountability at the local administration levels, and possibly in the executive branch.
- **DEVELOPMENT STRATEGY CREATED:** In the local government area, long range development strategy (LRDS) has been created at the local level in various oblasts and taken to the national government to gain its support (in former Soviet times the local level would not have voiced local needs and concerns but would have only carried out orders from above).
- **FINANCIAL SYSTEMS CREATED:** Atyrau oblast's financial systems are now based on Western accounting practices and information is much clearer, potentially assisting control of fraudulent activities. Citizen awareness, participation, and commitment to the future of Atyrau have been considerably enhanced by innovations.
- **COMPETITIVE BIDDING:** Competitive bidding of municipal services has been initiated.
- **PRIVATIZATION:** Privatization of housing maintenance has been initiated.
- **FULL COST RECOVERY:** A system of full cost recovery in initiatives has been initiated.

- **TARGETING:** Targeting of housing and utility service has also been initiated.

USAID anticipates work toward a legal framework for operations of municipal and oblast government and improved administrative capabilities at the local government level. These activities will be closely coordinated with ongoing assistance efforts on the local resource base to guarantee a degree of fiscal independence to local government, more effective NGO advocacy and service delivery, and reforms leading to sustainable social services.

c. Most Important Results to Date

- **NGO COALITION:** In November 1996, 137 Kazakstani NGOs convened, formed Central Asia's first NGO Coalition, and agreed to an activist agenda of advocacy, skill-building training, and information exchange.
- **MASS MEDIA ASSOCIATION:** The Association of Independent Electronic Mass Media was formed in 1995 to share information among members, present a united front in advocacy, and generally protect the interests and independence of electronic media. Membership in the association has grown ten-fold. Members of the association are preparing to sue the government for the frequencies they lost in the frequency auction, using a declaration from the Prosecutor General that the auction proceedings were illegal.
- **HOUSING PRIVATIZATION:** Approximately 85-90 percent of Kazakstani housing is now privately owned. Based on a USAID-supported pilot effort, the government transferred responsibility for housing maintenance to housing associations, which increased from 500 in January 1996 to over 3600. As a result, the government no longer bears the cost of managing and maintaining housing.
- **INNOVATIVE LOCAL GOVERNMENT PRACTICE:** In separate USAID-financed pilots, one municipality utilized sealed-bid contracting for municipal services and thereby realized a 27 percent cost savings; another published its municipal budget with explanation of how the budget system works. These "firsts" in Kazakstan local administration form part of the agenda for USAID strategic objective on improving local government.
- **Municipal Service Sustainability:** In addition to the above results, pilot projects have demonstrated the positive economic and social impacts of full cost recovery for utilities, and targeting of housing and utility subsidies. The results have lead USAID to move its strategy more explicitly towards local government.

d. Other Donor Involvement/USAID Comparative Advantage

USAID/CAR coordinates closely with other donors in the area of democratic development. USAID is working with UNDP on legislature and NGO assistance, and is coordinating with UNESCO and USIS on media assistance. Local government assistance is coordinated with the

World Bank and Soros-Kazakhstan. USAID participates in the Democracy Commission in order to leverage other U.S. government funds toward our strategic objectives. Our comparative advantage lies in the fact that our work in the five countries of Central Asia enables us to apply lessons learned in other countries in NGO development, citizen participation, and other key areas to Kazakhstan.

C. Summary Rationale for Strategic Objectives

SO 1.2 Increased Soundness of Fiscal Policies and Fiscal Management Practices

Sound fiscal policy and management are critical to Kazakhstan's long-term growth prospects, particularly in maintaining a stable investment climate. Key results sought under this SO 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 objective for improved local government, SO 2.3, and in support of municipal work in mission objective 3.2 (social benefits transition). While other donors are engaged, USAID's prior assistance on improved tax policy provides a tactical advantage for follow-on work in tax administration as well as credibility with the GOK. 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 Accelerated Development and Growth of Private Enterprise

Continued improvement of the policy, legal, and regulatory environment is essential to building investor confidence, enhancing prospects for private sector expansion, and promoting the trade and investment linkages sought under the Partnership for Freedom initiative. Key results include Kazakhstan's accession to the WTO, further improvements in business law infrastructure, and full implementation of international accounting standards. Again, while other donors complement USAID's efforts, our Memorandum of Understanding with the Ministry of Justice places USAID in an advantageous position to contribute in the near term to legal reform on business formation and operation. Because of USAID's prior role in Kazakhstan's adoption of international accounting standards, we are also well placed to support implementation of these standards, perhaps in joint effort with the World Bank. We rate the Government's commitment to these reforms as very high because of its strong interest in foreign investment and membership in the WTO.

SO 1.4 A More Competitive and Market-Responsive Private Financial Sector

More competitive, efficient forms of financial intermediation are essential to facilitating private enterprise growth. In this objective USAID seeks short-term further improvements in bank regulation and bank operations; in the long-term, our key results are (1) an open and competitive securities market and, (2) pension policy reform that would increase the financial sustainability of

the pension system and channel its resources to further strengthening of the stock market. In the banking reform area, USAID envisages effort on implementing bank accounting and regulatory reforms. The Government's commitment to financial reform is demonstrated by its recent Memorandum of Understanding (MOU) with USAID on Securities Market Development, and subsequent actions to proceed with key reforms specified in the MOU. As discussed earlier, the Government also appears ready to address key aspects of pension policy reform.

SO 2.1 Increased, Better Informed Citizen Participation in Economic and Political Decision Making

More problematic than our market transition objectives, this objective nevertheless provides the best opening to increasing the interest, involvement, and influence of Kazakstani citizens in public affairs. In particular, the key result of an active, effective NGO community represents the most viable means of promoting a more participatory political process, closely complemented by a stronger media. USAID is the only donor with significant commitment to these areas, and past achievements in promoting NGOs and independent media, capacity-building, and formation of associations give USAID credibility in helping these organizations improve their operations. USAID will test the Government's acquiescence (or support) of these changes through legislative initiatives to strengthen the legal/financial base of NGO's. The success of the third key result, increased openness and responsiveness of government through work with the electoral commission and the Parliament, is harder to predict. USAID will seek openings, promote receptivity, and build on success.

SO 2.3 More Effective, Responsive, and Accountable Local Government

Improved local government plays a significant role in addressing needs of the Kazakstani people and, ultimately, in involving people more actively in public affairs. USAID's key results under this new SO 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 improved administrative performance. Because of the breadth of local government activity, support is available from several donors. However, 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 SOs on fiscal decentralization, financially-sustainable social services, and strengthening the advocacy and service delivery capabilities of NGOs. The Government's commitment to more effective local government is uncertain, but should become clearer as the new local self-government law enters final drafting stages.

SO 3.2 Improved Sustainability of Social Benefits and Services

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. This objectives 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 this objective will focus on orderly conclusion of demonstration efforts underway, readying successful pilots for replication, and assistance in the initial stages of broader implementation. The Government's commitment has been evident in various policy decisions, e.g , extending pharmacy privatization and targeted housing allowances on a nationwide basis.

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 Kazakhstan. USAID/CAR's ranking is based on factors cited earlier in explaining our rationale for selecting SOs for priority attention.

SO	OBJECTIVE TITLE	RANK
1.2	Increased Soundness of Fiscal Policies and Fiscal Management Practices	5*
1.3	Accelerated Development and Growth of Private Enterprise	1
1.4	A More Competitive and Market-responsive Private Financial Sector	4
2.1	Increased Better Informed Citizens Participation in Economic and Political Decision Making	6*
2.3	More Effective, Responsive, and Accountable Local Government	3
3.2	Improved Sustainability of Social Benefits and Services	8
1.5	A More Economically Sound and Environmentally Sustainable Energy System as the Primary Engine of Economic Growth	2
3.3	Reduction in Regional Economic and Political Tensions Generated by Transboundary Environmental Issues	7

* Contingent on greater commitment from the Government, SO 2.1 will rise in the Mission's ranking as early as 1999.

D. Customer Focus

In the fall of 1996, USAID/CAR developed a customer service plan which was widely distributed in the CAR region. This plan outlined the Mission's methods for understanding and responding to the needs of our main customers in Central Asia. These customers include US taxpayers, US business, the US Congress, the people of the host country, other donors, PVOs, and implementing partners. In all aspects of our work with these groups, the focus has been on US national interests in Central Asia which include promoting private American business, maintaining regional

stability, and developing market-based democracies friendly to the US

As regards US taxpayers and US business, the Mission has worked with Embassy officers, the Foreign Commercial Service (FCS), and local counterparts to benefit the United States. In this connection, USAID/CAR has seized opportunities to use key interests of the Kazakstan government such as WTO accession to push 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 Kazakstan.

The Kazakstani people, of course, are the key customers for the field mission. To identify and address the country's needs, Mission methods include direct dialogue with key officials, policy makers, and community leaders; regularly-scheduled Democracy Roundtables in Almaty 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 Kazakstani 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 Kazakstan achieve economic prosperity. This latter activity is especially important in Kazakstan because extreme economic hardship has produced a growing population that is both critical of the slow pace of reforms and concerned about deterioration in the quality of life. As cited earlier, annual IFES opinion surveys of Kazakstani ascertain attitudes on the impact of economic reforms, political participation, effectiveness of NGOs, and quality of media information.

To cement customer understanding of the purpose and direction of the Mission program, USAID/CAR has launched a media initiative to inform 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 Kazakstan. This initiative also involves the distribution and broadcast of over 45 video programs and radio shows about reform to media enterprises, partly through the assistance of the USAID/CAR-supported Business Initiatives Center in Almaty.

Other key tools to assess the needs of Kazakstan include forums for discussion with international PVOs, our local NGO partners and relevant outsiders. Notably, NGO Roundtables in Kazakstan to which all US NGOs, some local NGOs, and all contractors with operations in the Central Asian region, including Kazakstan, are invited is an important arena in which to obtain information about country needs and to receive feedback on Mission programs. 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.

Finally, the Mission works closely with other donors to assure effective coordination of our activities. Although these entities are technically not "customers," USAID/CARs work with them ensures that customers enumerated above are better served. Regular donor coordination meetings

with the World Bank, international donors, embassies and the Kazakstan Government provide a forum for discussion of ongoing and planned work in specific technical areas.

E. Graduation Prospects

Kazakstan has made significant progress in key economic policy reform areas. Its aggressive actions to qualify for WTO access, adopt a western-style tax code and accounting standards, strengthen banking supervision and accounting procedures and put in place the policies and structures necessary for an efficient securities market have been giant strides towards a free-market system. Despite these gains, however, Kazakstan does not have long historical experience with market mechanisms. In addition the reforms and skills to manage modernized market systems need to be deeply embedded. For these reasons, USAID/CAR project continuation of several key aspects of the Missions market transition program, e.g., improved tax administration, implementation of accounting standards, operation and regulation of securities markets, and fiscal federalism (with requisite Government commitment) through 2006, the end of the Partnership for Freedom phase of NIS assistance. Nevertheless the policy reforms and related institutional achievements to date support optimism regarding Kazakstan's likelihood to establish the structure for an enduring market economy by 2006.

On the democratization front, progress is slow in creating a representative, participatory political system. However, USAID is strengthening the parliament and judicial and legal associations, and is responding to calls for assistance from the Central Election Commission. Continued progress in these areas and Government support of NGOs will speed the process toward democracy. In 1998, USAID will expand its local government program and plans to begin a program encouraging increased government openness and responsiveness. USAID will engage in rule of law in 2000, once electoral assistance has been completed.

F. Environmental Issues

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.

PART II:

STRATEGIC PLAN ELEMENTS

STRATEGIC OBJECTIVE

1.1

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

A. Statement of Strategic Objective 1.1

Increased Transfer of State-Owned assets to the Private Sector

B. Problem Analysis

With achievement of this strategic objective in sight, USAID will conclude its assistance by the end of 1997.

Kazakhstan has maintained a strong commitment to fulfillment of one of the crucial cornerstones in the transition to a market economy - the privatization of the asset base of the economy. Without privatization of state-owned assets, the economy would not be in a position to provide a strong supply response to the improved production and investment incentives provided by a stable macro-economic climate and liberalized prices. In this regard Kazakhstan established a three tier privatization program: auction-based privatization of small-scale companies; investment fund-based mass privatization of medium and large-scale companies; and case-by-case privatization of a small group of large-scale problem enterprises and/or "strategic" enterprises. USAID/CAR has played a key role in supporting implementation of two of the three major components of the Government privatization program, small-scale and mass privatization. The World Bank continuing assistance to the case-by-case privatization program.

C. Progress, Program Approaches, and other Donors

USAID Support Strategy

Our assistance program has focused on: a) intensive dialogue on key issues related to the design and implementation of transparent, competitive and rapidly implementable small-scale and mass privatization programs. b) policy reform efforts centered on ensuring the competitiveness of auction procedures and securing adoption of asset valuation and auction pricing methodologies which would accelerate asset sales; c) implementation support through a cadre of well-trained local staff that worked closely with Government counterparts and monitored carefully each aspect of program implementation.

In addition in the case of mass privatization, USAID/CAR worked together with the World Bank to promote the breakup of large-scale holding companies whose hegemony over the industrial asset base of the economy threatened the integrity of the overall privatization process. By late 1995 the Government had agreed to a schedule for breaking up holding company structures; and over the next year virtually all holding companies were broken up into their constituent companies, and the latter included in privatization auctions.

Progress under USAID's Strategic Objective

At this point almost 13,000 small-scale objects (about half of the relevant universe of firms) have been privatized through the auction process. A targeted effort in the pharmaceuticals sector has also resulted in the privatization of approximately 80 percent of retail pharmacies. The USAID supported mass privatization program has involved two round of auctions. First was the coupon auctions for up to 51 percent of the state shares in enterprises and next were cash auctions for the remaining state shares (up to 39 percent, since the workers and management of the companies involved were given approximately 10 percent of the shares at the initiation of the program). Approximately 1700 companies passed through coupon auctions during the 1994-96 period and the coupon program ended in the summer of 1996. Virtually all of the companies which completed the coupon auctions also passed through at least one round of cash auctions. Of these, 525 have been fully privatized, and another 669 have had some of their remaining shares sold through cash auctions.

The mass privatization program failed to meet its 1996 targets of (a) 65 percent of candidate firms fully or mostly privatized and (b) 70 percent of employees in candidate firms working in privatized enterprises. Problems arose over the Government's reluctance to sell share packets in state-owned firms at market prices.

This problem was largely overcome by implementation of a Dutch Auction system, eliminating floor prices during the third round of bidding on enterprises being privatized. In addition a Memorandum of Understanding (MOU) signed by the Prime Minister and the US Ambassador to Kazakhstan in November 1996, committed the Government to offering at least 200 additional enterprises per month through cash auctions until the mass privatization program is completed. Accordingly USAID/CAR expects the mass privatization program to be completed during 1997, with fully or mostly private firms covering two-thirds of the industrial asset and employment base of the Kazakstani economy. In addition, the public sector monopoly on agricultural input distribution has been ended.

USAID is therefore concluding its Mass Privatization Project and will transition from support of the privatization process to concentrate on policy and an institutional environment conducive to private sector-led economic growth. USAID/CAR support for the small-scale privatization program terminated in late 1996. Expatriate technical support for the mass privatization program is scheduled to conclude by end-year 1997, with funding for the local project implementation unit to be transferred from USAID to the EU in June 1997 (for a final projected 4-6 months of implementation).

World Bank-supported Privatization

The World Bank supported case-by-case privatization program has been considerably more sluggish in its implementation. Only a handful of the approximately 150 companies eligible for this program have been privatized. The Government has opted frequently to utilize controversial

management contracts as an industrial reactivation strategy. Criticized for the lack of competitiveness of its case-by-case and management contracting programs, the Government now appears to be moving away from the management contracting modality. It canceled some of the sixty management contracts which it had signed, while a number of others expired. Overall, the Government has signaled its determination to move ahead with a more aggressive implementation plan for case-by-case enterprises. However, more problems could arise since the procedures for participation in case-by-case tenders have not been improved.

In a separate effort, USAID/CAR is working with the progressive leadership of the Kazakstan National Securities Agency to bring large minority shares of up to 50 strategic enterprises for competitive sales through the newly merged stock exchange in 1997. This should contribute significantly to improving the competitiveness of the case-by-case program, as well as increasing the demand for share capital in the nascent Kazak securities market.

Agricultural Privatization: A Lagging Sector

Finally, it should be noted that agricultural privatization has, as in many other FSU countries, proceeded along a separate and slower track. This has resulted in most agricultural land plots being controlled by the collectives which previously managed them. Typically this means that control is effectively exercised by the state farm management structure. Only usufructuary rights to land can be transferred by sale. Agricultural inputs supply markets have been partially liberalized. However, lack of real progress in farm privatization, and in the creation of the legal infrastructure required for the use of land as collateral, have placed the agricultural finance system in a state of crisis.

The lack of real progress on agricultural privatization has been perhaps the single most important weakness in the Government privatization program; and has limited the supply responsiveness of a major potential growth sector to pricing and other reforms. The World Bank has a major Agricultural Sector Loan in place, has set aside significant resources for a land cadastre and registration program, and is engaged in an on-going dialogue with the Government on agricultural reform issues.

D. Graduation and Sustainability

The Government has committed to rapid completion of its industrial privatization program. The share of assets which will be in private hands by the end of 1997 will essentially ensure that the privatization process in Kazakstan is irreversible. Recent signs indicate that the Government is speeding up case-by-case sales; indicating a heightened awareness of the need to complete privatization rapidly. The sticking point is agricultural privatization, where the state farm sector still plays a dominant role. Further liberalization of land use and transfer rights and demonopolization of agricultural input supply networks will be needed if the agricultural sector is to respond dynamically to newly established market incentives.

If the Government does not accelerate progress in this area, and simply waits for the state farm sector to atrophy and collapse of its own weight, this will significantly lengthen the period of time during which the agricultural production and marketing system performs sluggishly. This could in turn seriously inhibit overall supply responsiveness to a liberalized market setting. The World Bank and the ADB will continue to be the major donors on agricultural policy reform and farm restructuring issues; and USAID/CAR will provide on-the-ground input to those institutions on key policy and institutional reform issues in the agricultural sector.

This SO effectively ended in late 1996. No additional funding is required in FY 1997 or beyond.

Insert Frameworks Tree Here for SO 1.1

KAZAKSTAN 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					
						Target	Actual				
SO 1.1	Increased transfer of state-owned assets to the private sector	Percent of state-owned corporations privatized	Definition: 1) % of state-owned placed in the mass privatization program (MPP) that were fully or mostly privatized Unit: corporations in the MPP with 80% of their shares privately owned	by 1/01/94	3%	65%	37%				
			by 10/01/95	6%							
			Definition: % of employees working in privatized enterprises Unit: employees in privatized enterprises (80% or more privatized) as a percent of employees of all state-owned enterprises placed in the MPP	by 1/01/94	0.3%	70%	44.3%				
			by 10/01/95	3.0%							
IR 1.1.1	Legal authority and regulations in place	1. Published decrees & regulations on mass privatization program	Definition: Copy of the decrees and regulations in USAID possession Unit: #	1994	12	20	29				
		2. Demonopolization and segmentation legislation	Definition: The decrees and regulations for 10 sectors in USAID possession Unit: Number of sectors where legislative acts in place	1995	9	10	10				
IR 1.1.2	Increase cash auctions of state share packets	1. Number of cash auctions	Definition: Companies offered at (1) coupon auctions within the MPP subsequently offered at cash auctions Unit: # of companies	Nov. 1995	0	by 1 Dec. 1996	by 31 Dec. 1996				
				Feb. 1996	500	1700	1773				
				Apr. 1995	618	1500	1572				
		2. Number of auctions of small-scale objects	Definition: Number of auctions for small-scale objects	End of 1995	977						
IR 1.1.3	Better informed human resource base	1. % people reached through TV and radio program	Definition: # of adult population who watch TV programs and listen radio programs which inform the public about privatization and economic reforms Unit: %	1996	30%	30%	31%				

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS							
				YEAR	VALUE	1996							
						Target	Actual						
		2.Number of daily press releases	Definition: a steady stream of information on privatization and economic reforms to the Kazakstani press in (1) Almaty and in (2) all oblast through daily press releases and controlled-message texts Unit: # of daily press-releases distributed	June 1993	0	17	17						
				Feb. 1996	42								
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: %	Jan.1994	0%	-	-						
		2.% coupons invested	Definition: number of coupons invested / number of coupons distributed Unit: %	Jan.1994	0%	-	-						
				1 Oct. 1995	65%								
		3.% invested coupon sold	Definition: Number of invested coupons sold/number of invested coupons Unit: %	Apr.1994	0%	-	-						
				Feb. 1996	99.8%								
		4. % of sitizens invested coupons	Definition: % of citizens received coupons who invested at least part of their coupons	Jan. 1994	0%	-	-						
				1 Oct. 1995	85%								

Sources of information:

- S.O.1.1 - State Property Committee of Republic of Kazakstan, tel.# 62-85-39
USAID Mass Privatization Project/ Chemonics, Kazakstan (Project Manager - Gabriel Al-Salem), tel # 39-28-77
- IR 1.1.1 - USAID Mass Privatization Project/ Chemonics, Kazakstan (Project Manager - Gabriel Al-Salem)
USAID Small-Scale Privatization Project/Carana, Kazakstan (Project Manager - Veronica John), tel #62-93-17
State Propertee Committee of Republic of Kazakstan
- IR 1.1.2 - USAID Mass Privatization Project/ Chemonics, Kazakstan (Project Manager - Gabriel Al-Salem)
USAID Small-Scale Privatization Project/Carana, Kazakstan (Project Manager - Veronica John)
State Propertee Committee of Republic of Kazakstan
- IR 1.1.3 - State Information News Agency, Kazakstan
USAID Public Education Project/ Overseas Strategic Consulting Ltd (Project Manager - JeannetteSanchez)

IR 1.1.4 - State Property Committee of Republic of Kazakstan

Results Framework Narrative

Strategic Objective 1.1 “Increased Transfers of State-owned Assets to the Private Sector”

1. Transition Hypothesis and Underlying Rationale

The first, and possibly most crucial, phase of Kazakhstan'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 Kazakhstan, three tiers of privatization were created and utilized. The first tier, auction-based privatization of small-scale companies, was essentially completed in 1996 with the participation of USAID. The second tier, investment-fund based mass privatization of medium and large-scale companies, will be completed, with the assistance of USAID, by year-end 1997. The third tier, case-by-case privatization of large troubled or strategic enterprises, is underway and is not a subject of USAID assistance.

USAID/CAR's analysis isolated three sets of concerns as 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 therefore effective, privatization process.
- Second: large-scale holding companies dominating particular industry sectors needed to be broken up. In 1995 these companies owned or controlled a large percentage of assets scheduled for privatization, and have become a major political force. Without a full and effective spinning-off of the assets and subsidiaries (as opposed to the holding company still holding a plurality of shares), these de facto “line ministries” would continue to exert influence the activities of the “privatized” entities. In fact, the Project has been quite successful in galvanizing state support for the break up, and in 1996 most of these holding companies were in fact broken up into smaller units, which then went through the privatization process.
- Third:(and most simply) is the further improvement of the stake of the private sector in the ownership of all Kazakstani 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. The project is

now entering into its final stage, essentially the completion of the mass privatization program. Upon completion, approximately two-thirds of the industrial asset and employment base of Kazakhstan will have been privatized.

2. Critical Assumptions

Considerable USAID resources have been devoted toward this Strategic Objective, and continued programming through 1997 is based on one critical assumption.

- a commitment from the Government to complete the mass privatization program on the bases and procedures already established in Kazakhstan.

The final and complete fruition of the mass privatization program rests on the continuation of past policies and procedures which proved to be quite successful up to this point.

3. Causal Linkages

This Strategic Objective was organized around three main areas of activity, each of which is related to the other and each one of which is critical to the overall success of the project.

- Clear and transparent auction and methodology procedures enhance the effectiveness and attractiveness of privatized objects, which leads to:
- An increase in the percentage of former state assets being held in private hands; and
- The break-up of state monopolies has led to the same result.

The continuation of this dynamic will ensure by the end of 1997 the completion of the mass privatization program in a successful manner.

STRATEGIC OBJECTIVE

1.2

Increased Soundness of Fiscal Policies and Fiscal Management Practices

A. Statement of Strategic Objective 1.2

Increased Soundness of Fiscal policies and Fiscal Management Practice.

B. Problem Analysis

Fiscal reform is crucial to the medium and long-term economic growth prospects of Kazakhstan. 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. In addition lack of experience in modern budget management policies and practices and tax administration practices will severely constrain 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 and Other Donors

Overview on Fiscal Retrenchment

Kazakhstan has made short-term significant progress in the fiscal reform area during the 1994-96 period. This is indicated by the fall in the fiscal deficit from approximately 7 percent of GDP in 1994 to about 2.9 percent of GDP in 1996, and a fall in annual inflation from over 1000 percent in 1994 to approximately 30 percent in 1996.

This has been achieved through expenditure reductions associated with phasing out of consumer/producer subsidies and through short-term expenditure sequestration measures. USAID/CAR has supported the fiscal reform process in Kazakhstan through a comprehensive program of long-term technical assistance and targeted training support in the budget, tax policy, and tax administration areas.

IR 1.2.2 and IR 1.2.3: Tax Reform and Compliance with the IMF Program

Kazakhstan has made dramatic progress on the tax policy front. In 1995 Kazakhstan became the first country in the CIS to adopt a comprehensive western-style tax code. The code eliminated most exemptions; established clear and credible 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 35 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 provided significant technical support to the Government in the development of the code.

Far less progress has been made on effectively administering the new tax system. Tax audit and collection methodologies have not been rationalized, the payment and returns processing systems

have not been modernized, and taxpayer education efforts have been inadequate. As a result of problems in the tax administration system, tax revenues as a percentage of GDP fell to approximately 10 percent in 1996, a grossly inadequate revenue intake performance. Without a significant improvement in revenue generation, the fiscal belt-tightening carried out thus far by the Government will likely prove unsustainable.

USAID/CAR has dialogued intensively with the Government on these issues, as has the IMF, whose 3 year EFF Arrangement with Kazakhstan (which began in July 1996) calls for a major improvement in revenue performance. The Fund will be critically evaluating Government fiscal performance during the March-April time frame to establish the parameters of a follow-on one-year program. The passage in early March of an investment promotion law, which establishes the possibility of widespread profit tax and customs duty breaks within priority sectors of the economy, has created additional concern regarding the buoyancy of revenues which both USAID/CAR and the IMF have discussed with the Government.

USAID/CAR has provided significant technical support and training to the Tax Inspectorate on tax administration procedural reforms and on automation strategy and software development. In addition USAID advisors have provided a blueprint for functional reorganization of the Tax Inspectorate; along with a comprehensive plan for measures to improve revenue in-take in the short-term. Some of these activities appear to be bearing fruit - the Tax Inspectorate is moving forward with a plan to automate returns and payments processing activities in 7 (out of a total of 19) oblasts in 1997. In addition it recently approved a pilot reorganization of tax administration along functional lines in two districts starting in March 1997, with plans to extend this reform to the aforementioned 7 oblasts by the end of 1997. If the Government displays a heightened willingness to move forward on key tax administration reforms during 1997, this reform area will require significant medium to long-term support.

The recent appointment of a new reformist Deputy Prime Minister of Finance who will be in charge of tax administration provides a significant opportunity for pushing rapidly for implementation of comprehensive tax administration modernization measures. Assuming that a comprehensive tax administration reform strategy is adopted in 1997 and is begins to be actively implemented at the oblast level in the 1997-98 time frame, USAID/CAR envisages completing its involvement in this activity in the 2000-20001 time frame.

IR 1.2.4: Budget Reform

In the budget reform area USAID/CAR has provided long-term advisory and training support designed to rationalize the expenditure planning process. Initially through a USAID-funded US Treasury advisory program and subsequently through direct USAID advisory support, USAID/CAR has provided technical expertise for the development of a budget process law designed to rationalize the annual budgeting process, and a modernized budget classification system. In addition USAID/CAR advisors are working closely with the resident IMF Treasury advisor to ensure appropriate coordination between the budget planning and execution processes.

The next phase of the budget reform process will involve full implementation of the revised budget classification system and the introduction of performance-based budgeting methodologies within the Ministry of Finance (MOF) and key line ministries. This will tighten the linkage between programmatic expenditures and the actual delivery of effective services to the client population.

USAID/CAR has also provided technical and financial support for the purchase, adaptation and installation of a modern, integrated external debt management system (the UNCTAD system) within the MOF. This system, which was installed in 1996 and for which USAID is currently providing follow-on technical support for full-scale implementation, has addressed a major fiscal policy constraint faced by the Government during the 1993-95 period. Prior to development and implementation of this system, the Government had no organized system in place for tracking government loan guarantees and maintaining an accurate week-by-week record of loan repayment obligations. This had been a major source of concern to the IMF and the World Bank. It had caused debt arrearage to a number of bilateral creditors in spite of the economy's healthy international reserve position. The new system is now being implemented. Staff at the MOF and the Central Bank now have up to date information on loan repayment obligations, and the Government currently has no external debt arrears.

In addition, USAID has funded a long-term US Treasury advisory program designed to improve the Government's capacity to carry out and strategically manage the issuance of government debt. This has resulted in the issuance a higher volume of government securities and an increase in the average maturity of government debt.

Moreover this advisory support was crucial to the Government in facilitating Kazakhstan's recent \$200 million EUROBOND issuance, which was in fact significantly oversubscribed. Finally, this advisory program has made vital contributions to the development of a draft debt management law (covering both internal and external debt) which, when adopted, should significantly tighten controls over the issuance of public debt.

Support for the further rationalization of the budget process within the MOF and key line Ministries through the introduction of performance-based budgeting methodologies and full implementation of the revised budget classification system should continue at least over the 1998-2000 time frame.

Finally, efforts to further improve the Government's government securities issuance and management policies should be completed in 1998, while support for full implementation of the recently installed external debt management system should be wrapped up in 1997.

IR 1.2.1: Fiscal Decentralization

Over the medium term the most crucial area for fiscal reform for Kazakhstan relates to the system

of inter-governmental finance.

As in most Former Soviet Union (FSU) countries, Kazakhstan has yet to establish sufficient fiscal autonomy at the regional and local level to promote:

- a stable flow of revenues to regional and local governments; and
- a rationalized inter-governmental transfer system based on objectively-defined expenditure needs.

In addition, the lack of clarity surrounding the process by which revenues are passed down from the central government to regional and local governments has led to apathy and, it appears, widespread under-reporting of tax revenues. It is thus directly correlates with the serious revenue shortfalls currently being experienced.

USAID has launched a comprehensive advisory support and training program designed to promote basic fiscal decentralization reforms, and to provide selected local governments with the capability to more effectively plan and manage local budgets.

The centerpiece of this effort thus far has been work on the development of a new Local Self Government Law to establish:

- a clear and stable autonomous revenue base for local governments (as a share of the personal and corporate income taxes), and
- a pool of grant resources which would be distributed at the regional level based on objectively defined criteria related to population characteristics and service provision costs at the regional and local level.

Clearly this type of reform is absolutely crucial to improving the quality and quantity of public services in Kazakhstan, and improving both the cost-efficiency of public services and their responsiveness to local needs. Progress on fiscal decentralization under this strategic objective is critical to the success of USAID's strategic objective for improving the local government (SO 2.3), more effective, responsible, and accountable local government, particularly in establishing a stronger financial base for local government operations. It is also critical to the success of SO 3.2, sustainable social benefits.

If the Government displays willingness to move forward with reforms in the fiscal decentralization area, this is clearly an area where long-term implementation support within both the central government and, most particularly, within pilot oblast governments will be required. This would be provided through the 1998-2005 time frame. USAID will need to make key decisions regarding sustained support for inter-governmental finance as well as improvement of tax administration. Whether USAID moves forward in these crucial longer-term fiscal reform

areas will depend on the reform signals given by the Government on these issues during 1997. If these signals are positive, extensive USAID support will clearly be required to strengthen the Government's administrative capability to fully implement and institutionalize these reforms.

D. Graduation and Sustainability

USAID remains the only donor providing comprehensive policy and administrative reform support in the fiscal area. Assuming adequate funding, tax administration and budgetary management practices should be systematically and comprehensively upgraded by the 2000-20001 time frame. However it is envisaged that, barring a massive increase in other donor financing, there will remain significant work to be done within that time frame in promoting fiscal decentralization through modernization of budgetary management practices at the local government level. Under these circumstances, the fiscal policy and management objective would be phased out in 20001 and additional local budget reform work carried out under the local government improvement objective of SO 2.3.

The fiscal reform area is among the most critical 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 budget management (IR 1.2.4) will gradually phase down after 1999, while support for intergovernmental finance reform (IR 1.2.1) will gradually increase throughout the period. Support for tax administration (IR 1.2.3) will phase down in FY 2000 and FY 2001. This Strategic Objective is viewed by the Mission as a core activity and is therefore not reduced under any of the budget scenarios presented.

Insert Framework Tree Here for SO 1.2

KAZAKSTAN 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		2000		2001	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.2	Increased soundness of fiscal policies and fiscal management practices	General government deficit as a % of GDP (accrued and cash basis).	Definition: Expenditures (cash & accrued basis) less revenues as % of GDP. Unit: Percent	1995	3.0 (5.2)	2.9 (4.0)	2.9 (n/a)	2.5 (3.5)		2.4 (3.3)		2.3 (3.1)		2.2 (2.9)		2.1 (2.7)	
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	34	40	39	41		42		43		44		45	
IR 1.2.2	Government of Kazakhstan complied with the International Financial Institution's conditions.	Compliance.	Definition: Government adheres to conditions set forth by the IFIs for additional assistance. Unit: Yes/No/Partial	1995	Y	Y	P	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	12.2	13	10.51	15		18		20		22		24	
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	2.2	1.1	n/a	1.00		0.90		0.80		0.70		0.60	
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	N	Y		Y		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		Y	Y	Y	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	1995	.9	.8	.81	.7		.6		.5		.4		.3	
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		Y		Y	
IR 1.2.3.2.2	Officials are trained in modern tax administration methods		Unit: Yes - No - Partial	1995	N	Y	P	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	25	20	17	16		15		14		13		12	
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	89	160	178	200		210		220		230		240	
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		Y		Y	
IR 1.2.4.1	Expenditure allocation process rationalized	1. New budget classification system is in place 2. Budget Law passed	Unit: Yes - No - Partial	1995	Y N	Y Y	Y Y	Y Y									
		Comments/Notes:															

Results Framework Narrative

Strategic Objective 1.2 "Increased Soundness of Fiscal Policies And Fiscal Management Practices"

1. Transition Hypothesis and Underlying Rationale

As in all former Soviet republics, at independence Kazakhstan lacked the systems, procedures and technical expertise for formulating and managing coherent fiscal policies. Hence, Kazakhstan must now adopt appropriate fiscal policies that contribute to price stability, raise fiscal revenues in a neutral and non-discretionary 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

- The Government maintains its commitment to the introduction of fiscal federalism principles.
- The privatization process (assisted by the privatization objective) is completed as scheduled.
- A market friendly commercial law infrastructure is established and enforced (assisted by the development and growth of private enterprise), 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:

- The central government shifts roles and responsibilities as primary fiscal manager and regulator vis-a-vis local government. To do so, these roles and responsibilities must be

clarified and the corresponding fiscal administration mechanisms enforced. As a consequence, the local government will learn to be more efficient; the quality and quantity of public services delivered to the population will increase allocated resources based on market signals; and the overall efficiency of central government operations will increase.

- Compliance by the Government of Kazakhstan 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.
- 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.
- The central government budget is better managed. Expenditure allocation decisions need to be made using the new planning system. Government borrowing should be 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 Kazakhstan to the government for financing the deficit. Better budget management contributes to increased fiscal soundness by reducing budget arrears as a percentage of GDP.

Note: This objective, by assisting the privatization of state-owned assets will contribute to greater fiscal soundness by decreasing government expenditures and increasing revenues.

STRATEGIC OBJECTIVE 1.3

Accelerated Development and Growth of Private Enterprises

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 Kazakhstan faces three 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. Third, 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 which will promote the allocation of privatized human, capital, and technological resources to their optimal uses.

Kazakhstan has 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 45 percent during the 1993-95 period, real GDP registered an official increase of approximately 1 percent in 1996.

A relatively stable macroeconomic policy framework is now in place and productive resources are available to private entrepreneurs. Where progress is most urgently required now is in the establishment of a legal and regulatory infrastructure which will build investor confidence in the legitimacy and stability of the Kazakhstani investment climate. 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 rapidly developed.

C. Progress, Program Approaches, and Other Donors

IR 1.3.1 Improved Operating Environment

The Government has made significant progress over the past 12 to 18 months in beginning to establish the legal and regulatory framework for the operation of a vibrant private sector. In the trade area policies have been liberalized considerably. The average trade weighted tariff on imports has fallen to approximately 12 percent. Import tariffs have been reduced or eliminated for a large number of products; and tariff dispersion has been reduced. In addition export tariffs have been abolished (except for grains).

WTO Accession Progress

USAID/CAR's assistance strategy in Kazakhstan 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. 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 economic growth prospects of Kazakhstan.

In that regard USAID has helped the Government organize what had previously been a highly fragmented incipient 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 6 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 7 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 MFTR's). In addition the initial three day WTO negotiation session held this past March in Geneva to discuss Working Group questions related to the MFTR was completed in less than 1 day. This reflects 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 Kazakhstan 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 an onerous pre-shipment inspection process has already been eliminated, while customs valuation procedures are under intensive review
- **Business Licensing Reform:** licensing procedures are being streamlined through systematic Government review across all ministries of current and proposed licensing requirements, with a direct mandate from the Prime Minister to dramatically simplify these procedures ministry by ministry
- **Investment Law Reform:** the existing foreign investment law has been revised in a manner which significantly strengthens protections for foreign investors, and should be resubmitted to Parliament in 1997

In addition USAID/CAR is providing intensive support to the Government on a range of WTO-related legal/regulatory reform issues, including countervailing duties, antidumping, procurement, and intellectual property rights. These are crucial for WTO accession and for establishing

Kazakstan as a legitimate member of the international trading and financial community.

Commercial Law Reform: 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 developed with the Ministry of Justice (MOJ). This program is embodied in an MOU between the US Ambassador to Kazakstan and the Minister of Justice. It outlines a comprehensive body of legal/regulatory reforms related to business formation and operation on which USAID/CAR technical specialists and local legal experts are currently working jointly.

This covers approximately 30 pieces of legislation under development during the 1996-97 period. These include (in addition to those areas mentioned above) company law, contract law, collateral law, bankruptcy law, natural monopoly law, and amendments to Part II of the new civil code (Part I of the Civil Code was signed into law in 1996). USAID/CAR has already provided support in a number of these areas; and a progressive bankruptcy law which establishes strong protections for the rights of secured creditors was passed by Parliament this past December. USAID/CAR's current commercial law reform includes development of specific laws required to improve the agricultural finance system.

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 and judicial training program in Kazakstan. This program is designed to build the capacity of local judicial officials 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 Almaty, and subsequent follow-up seminars at the local level. By the end of 1997, the program should have reached virtually all sitting judges in Kazakstan who deal with commercial law issues.

USAID/CAR sees its support effort in the WTO accession area continuing through the 1998-99 time frame to advance accession efforts through their final stages and implement appropriate WTO-related regulatory reforms. Actual accession is projected for 1998. WTO and investment climate-related technical support and training activities are being closely coordinated with US Trade Representatives.

Broad USAID support in the commercial law reform area should also continue through 1998; to fully develop and establish a commercial law framework which effectively promotes cost-effective business formation and operation. In the training area, efforts will be shifted in 1998 to focus more directly on detailed training related to effective implementation of adjudication embodied in the new commercial law regulatory framework; and tracking of actual implementation of these reforms through the judicial system. These efforts are being closely coordinated with the World Bank. In the training area, USAID/CAR expects the World Bank to begin supporting these efforts as part of its legal institution-building technical assistance loan,

expected to come on line in 1998 and begin full-scale implementation by 1999.

Accounting Reform

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 November 1996, Kazakstan became the first country in the CIS to formally adopt a comprehensive package of international accounting standards. This reform was supported through an intensive technical support effort by USAID/CAR, and by World Bank FSAL conditionality which grew out of discussions between USAID/CAR and World Bank technical staff.

The next challenge is to train the accountants who will need to implement the new standards and practices and establish independent institutions which will actively promote their dissemination and the professionalization of the accounting profession. USAID/CAR envisages continuing an intensive support effort aimed at disseminating modern accounting practices and building indigenous capacity for promoting and appropriately overseeing the development of the accounting profession at least through the year 2001. USAID/CAR has begun a dialogue with the World Bank about a possible joint effort in this area.

IR 1.3.2 Improved Human Resources- USAID/CAR is also addressing private sector development constraints through support for an innovative academic institution which is providing western-style training in business and market economics for future Kazakstani entrepreneurs and policy-makers. The institution, the Kazakstan Institute for Economics, Management, and Research (KIMEP), was opened under Presidential sponsorship in 1992. It is now largely supported through corporate contributions and student tuition payments. It offers MBA, MPA, and MA in Economics Degrees. USAID/CAR has coordinated closely with the EU on KIMEP support programs; the EU latter was an early benefactor of KIMEP and is currently the major supporter of the MBA Program.

USAID/CAR has been the major supporter of the MA in Economics program since 1995. This support has focused on modernization of the economics teaching curriculum and training materials and developing outreach programs for state university economics faculty. In addition, USAID has provided strong support for the finance and accounting components of the MBA program.

USAID/CAR has also financed the provision of training for a small core group of superior KIMEP students in selected US Universities. Under this program the students have agreed to return to KIMEP following the conclusion of their accelerated studies (i.e. in September 1997)

as KIMEP faculty members. This will contribute directly to the long-term sustainability of improvement in the quality of the KIMEP training program.

USAID plans, beginning in 1998, to further institutionalize the upgrading of the economics education program at KIMEP by supporting the formation of a partnership between KIMEP 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 Kazakhstan and a major university in the United States.

IR 1.3.3 Access for Capital and Technological Resources- There is of course a general need to develop the technical, managerial, and financial capacity of private sector agents to operate effectively within a liberalized market environment. The most important USAID private sector development support initiative in this area is the Central Asian American Enterprise Fund (CAAEF). Operating in Kazakhstan for over two years, the CAAEF has approved eight equity/loan investments (mostly in the textile and food processing sectors) for over \$13 million. In addition it has made 22 loans through the small loan window it operates through four commercial banks in Kazakhstan.

USAID has supported an IESC program in Kazakhstan for the past three years, which has been targeted largely 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.

Moreover the USAID-financed Agricultural Cooperative Development Institute (ACDI) has provided credit analysis/administration training to staff of some of the commercial banks working with the CAAEF on its small loan program. USAID plans to continue a modest level of IESC support over the 1998-2001 period.

This will:

- support the effective targeting of private entrepreneurs for the scarce financial resources of the CAAEF; and
- maintain support for private entrepreneurial development while major policy constraints are being addressed.

D. Graduation and Sustainability

USAID/CAR will continue to support the WTO accession process and related investment

climate reform legal/regulatory work through 1999. By that point Kazakhstan is expected to have become a member of the WTO; and to have created and implemented a network of investment-related regulatory reforms sufficient to ensure a protective business climate for foreign and domestic investors. Direct support for the development and implementation of a transparent and market-supportive commercial law framework and targeted training of judges and attorneys to support its effective implementation, will continue through 1998. At that point the overall commercial law framework for business establishment and operation should be in place, and the development of the institutional capacity for effectively implementing that framework jump-started.

It is expected that the World Bank will deepen and intensify implementation-related training efforts starting in 1999. Support for the transformation of the accounting system will continue through at least 2001; while support for the development of educational capacity to train economic policy-makers will continue through a partnership with a major American academic institution through 2005.

This strategic objective covers a wide variety of activities, including trade and investment support (WTO succession is a key part of this support), commercial law drafting and implementation, commercial law training, corporate accounting reform, support for IESC volunteers, and educational support activities (including partnerships). While substantial resources are required in this area throughout the planning period, required levels should peak in FY 1999. After that, the commercial law and commercial law training work (included in IR 1.3.1) will phase down to be only partially offset by development of educational partnerships (IR 1.3.2 and IR 1.3.3). A major new educational partnership is scheduled to begin in 1998, though much of the funding for this activity will not be available until 1999. [Note: in FY 1998 and FY 1999, funds earmarked for trade impediment elimination (IR 1.3.1) will be expended in full to support WTO accession in Kazakhstan.

In the budget years FY 1999-2001, if the budgets allocated for the Fiscal Policy and Management Team, Private Enterprise Growth Team and the Improved Financial Sector Team were reduced by from 6percent to 20percent, much of the cuts would occur in the strategic objective for private enterprise (SO 1.3). Hardest hit would be the IESC program and the educational partnership program. Both of which are important activities that are nonetheless not part of the core program.

E. PFF Summary Chart

SO 1.3 PFF Initiatives

- Continued financing of CAAEF investment support
- support for Government accession to the World Trade Organization
- trade investment reforms: customs, business licensing,
investment laws
- training in international accounting standards
- partnership between US graduate school and KIMEP

Insert Frameworks Tree Here

KAZAKSTAN 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	69.2	30	77.3	80.0		85.0		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	56	10.0	-	65.0		70.0		75		-		-	
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 and regulations published with drafting and implementation assistance provided by USAID Unit: Number	1995	0.00	50	101	50		30		20		-		-	
		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 determinations drafted or implemented with USAID assistance Unit: Number	1995	0.00	8	12	6		5		3		-		-	
IR 1.3.1.1.1	Business and business advocacy groups strengthened	1. Number of groups benefiting from USAID assistance (e.g. NGOs, PIFs)	Definition: Number of groups receiving USAID advice Unit: Number	1993	0.00	108	169	110		110		100		-		-	

<i>IR 1.3.1.1.2</i>	<i>Modern financial reporting standards are used</i>	<i>Increasing % of publicly traded companies using new accounting disclosure standards</i>	<i>Definition: % of firms transferred to new accounting standards (new system being adopted for 1997) Unit: %</i>	0	0	0	40		90		97		98		100		
<i>IR 1.3.1.2</i>	<i>Courts and administrative agencies strengthened to enforce policies, laws, and regulations</i>	<i>1. Number of judicial positions filled with personnel trained by USAID</i>	<i>Definition: Number of key judicial positions filled with USAID trained professionals Unit: Number</i>	1995	0.00	100	155	170		160		-		-		-	
		<i>2. Number of legal and administrative positions trained by USAID</i>	<i>Definition: Number of key legal and administrative positions filled with USAID trained professionals Unit: Number</i>	1995	0.00	625	734	630		300		-		-		-	
<i>IR 1.3.1.3</i>	<i>Better informed public</i>	<i>1. Appearance of market transition issues in television, radio, and print</i>	<i>Definition: Percentage of broadcasting time to cover market transition issues Unit: %</i>	1995	2	5	5			-		-		-		-	
<i>IR 1.3.1.4</i>	<i>Government of Kazakhstan complied with the International Financial Institutions' conditions</i>	<i>1. Compliance</i>	<i>Definition: Government adheres to conditions set forth by the IFIs for additional assistance Unit: Yes or No</i>	1995	Y	Y	Y	Y		Y		Y		Y		Y	
<i>IR 1.3.2</i>	<i>Human resources improved to function in a market economy</i>	<i>1. Number of people trained (excluding 1.3.1.2)</i>	<i>Definition: Number of people trained through seminars, roundtables or one-on-one encounters Unit: Number</i>	1995	800	510	2000	550		400		-		-		-	

IR 1.3.3	Increased availability of and access to capital and technological resources for the private sector	Loan and joint venture funds invested	Definition: Dollar volume of joint venture funds invested Unit: Dollars (millions)	1993	0.00	20	13.3	7		9		11		11		5	
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		Comments/Notes:
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Results Framework Narrative

Strategic Objective 1.3 "Accelerated Development and Growth of Private Enterprises"

1. Transition Hypothesis and Underlying Rationale

No issue is more critical to Kazakhstan'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 Kazakstani 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 creating the environment in which this can occur. As funding levels decline and as the nature of the cooperative U.S.-Kazakstan relationship changes from one based on technical assistance to one dominated by trade and investment, the relative importance attached to legal and regulatory issues 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 also needs to be emphasized that, while oriented in large part toward the domestic Kazakstani economy, work here has clear relevance for larger trade and investment concerns. Foreign businesses are unlikely to be interested in setting up operations in Kazakhstan if Kazakstanis 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 Kazakhstan. A more supportive legal and regulatory environment and a more helpful administrative regime are also 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 trained in their new roles and responsibilities.
- Third: inadequate access to capital and technology invariably emerges as a key constraint. Previously, government-owned businesses were frequently "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; and to map out longer-term financing and market growth strategies.

The Central Asian American Enterprise Fund (CAAEF), along with similar enterprise funds provided by

the EBRD and others are meant to begin to address capital and technological access constraints. Other necessary 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.

- First: 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.
- Second: Kazakstani 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 meet international standards. As in other Central Asian countries, linking progress on a particular issue to Kazakstan's 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 Kazakstan. 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 demonstrate 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 Kazakstan. This, in turn hinges, on the success of the Strategic Objective relating to financial sector

development.

STRATEGIC OBJECTIVE

1.4

**A More Competitive and Market-responsive
Private Financial Sector**

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, through 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 or 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 secured 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, Kazakhstan 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. A vibrant financial intermediation system is crucial in facilitating the re-activation of the productive sphere of Post-Soviet economies and over the longer term attracting additional foreign capital into the economy. Thus Kazakhstan has been under significant pressure, as have all CIS countries, to play a desperate game of catch-up in the development of modern functioning financial market institutions.

C. Progress, Program Approaches, and Other Donors

Overview

Kazakhstan 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 late in 1993, and after an initial period of instability instilled reasonable public confidence in it. By mid

1995, it had essentially moved to a floating exchange rate, and has maintained this policy subsequently while maintaining reserves at a strong level.

The Central Bank developed and implemented tight monetary policies beginning in late 1994, reducing inflation from over 1000 percent in 1994 to approximately 117 percent in 1995 and 30 percent in 1996. Interest rates were liberalized and indirect instruments of monetary control introduced. USAID/CAR, in close coordination with the IMF, provided significant technical and training support in monetary policy management to the Central Bank during the 1995-96 period. This assistance played a key role in the Government's decision to move to a floating exchange rate. USAID/CAR wrapped up this support effort in early 1997.

IR 1.4.1: Regulatory Reform

Bank Regulation- The Central Bank has also achieved dramatic progress in the banking regulatory area. In 1994 the banking system witnessed an explosion in the number of "pocket" banks, which were essentially private funding vehicles for individual enterprises or enterprise groups. By late 1994 the number of banks had reached approximately 200. Beginning in 1994, USAID provided a comprehensive training and technical assistance program in bank supervision which dramatically tightened bank licensing standards and commercial bank financial reporting and performance requirements.

This program was carried out in collaboration with the World Bank, which provided technical support in the on-site examination area. By late 1996, the bank supervision department had been completely reorganized and restaffed and had established a formal and modernized system of on-site 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 by 50 percent to just under 100 banks. This has contributed significantly to the increased stability of the financial sector.

Bank Accounting Standards- USAID launched a major technical training and support program in bank accounting. This was designed to promote the adoption of modern accounting standards and practices in the Central Bank and the commercial banks.

An internationally-based commercial bank chart of accounts was introduced in 1996, and by early 1997, approximately 75 percent of commercial banks (including all major banks) had bridged to the new chart of accounts.

This development has facilitated:

- More effective oversight of commercial bank financial conditions and performance by the Central Bank; and

- more efficient financial management decisions by commercial bank.

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 plans technical assistance in these crucial inter-related areas (in close collaboration with the World Bank) over the 1998-2000 time frame.

Bank Training Support- During the 1994-96 period USAID/CAR operated a regional bank training institute which provided intensive classroom training in core commercial bank management areas to approximately 2300 commercial bankers from 130 banks in Kazakstan and other CAR countries. This activity was closely coordinated with the EU, which had a formal bank training program in Kazakstan and beginning in 1995 a joint training schedule was developed. USAID/CAR phased out of this activity at the end of 1996, after it became clear that the European Union was ready to assume a dominant role in the provision of formal bank training programs throughout most of the region.

IR 1.4.2: More Effective, Diversified Financial Intermediation

Securities Market Reform- Over the 1995-96 period, Kazakstan made only modest headway in laying the regulatory groundwork for operation of an open and competitive securities market, and the technical and organizational infrastructure for the operation of an active securities market remained limited. Compounding the lack of an adequate regulatory structure to encourage market entry, the market was fragmented by the founding of three separate exchanges. In addition, the lack of quality objects available for listing seriously limited demand for share capital.

USAID/CAR provided technical and training support for the development of key intermediary institutions (stock exchange, broker/dealer association, investment fund association) over the 1994-96 period. However the Mission became increasingly convinced that strong progress in the securities market development area was preconditioned on three key areas:

- The establishment of a strong and pro-market regulatory authority;
- the establishment of competitive and democratically organized and owned securities market intermediary institutions; and
- a commitment by the Government to make some of the more valuable companies to be privatized directly available for share sales through the stock market.

After a prolonged period of negotiation in late 1996, USAID/CAR agreed with the Government on an MOU which committed the Government to carry out reforms in each of these areas. As a

result a newly merged stock exchange is being established which is owned on a one member-one vote equal equity participation basis by its participants. In addition a clearing and settlements system is being developed which will be owned and operated by participants.

Moreover a new securities law and associated implementing regulations under development will ensure open ownership structures for all securities market intermediary institutions, and both establish the independence and clearly delineate the regulatory authority of the National Securities Commission.

Finally, the Government agreed to a schedule for making sizeable minority shares of approximately 30 of the more valuable large-scale case-by-case enterprises in the country available for competitive sale through the merged stock exchange during 1997. In addition, the Government committed to selling off shares of at least 150 companies which are completing cash auctions under the mass privatization program through the stock market during 1997. When fully implemented, these reforms could pave the way for rapid expansion in the flow of financial capital through the securities market over the medium term, and serve as a mechanism for attracting a serious volume of foreign financial capital into Kazakstan.

Pension Policy Reform- A related major financial sector reform area in which the Government appears to be ready to move ahead aggressively is pension reform. The current publicly funded pay-as-you-go pension system is running a cumulative deficit of over 2percent of GDP, and political pressures from pension arrears have become intense over the past year. In response, USAID launched in 1996 a comprehensive technical assistance and training program in the pension reform area designed to:

- Analyze the current financial status of the public pension regime;
- develop proposals for shifting from a pay-as-you-go pension system to a multi-tiered system with a major private component;
- provide recommendations on the legal/regulatory reforms required for a drastic overhaul of the public pension system and the development of an appropriately regulated private pension fund system; and
- provide systematic recommendations designed to improve the administration of the pension system and improve collections efficiency.

The Government is now moving towards a drastic reform of the pension system. An inter-ministerial working group supported by USAID/CAR technical specialists has submitted a proposal to the Government for a radical overhaul of the current pension system. Under the proposal the public pension component of the system would be phased out over a specified time

period.

It also recommends centralization of contribution collections and payments processing activities, and joint administration of the tax and pension collections system by the tax authorities. Financing of the transition costs to a new system would be partially borne by the proceeds of privatization sales of major companies made through the stock market.

In addition, the Government has requested financial support from the World Bank and the ADB to help pay off pension arrears and thereby lower opposition to drastic overhaul of the pension system. USAID/CAR is coordinating its technical support and training activities closely with the World Bank and the ADB. In addition we have discussed with the latter a joint technical support program, and participating in the design of pension-related policy conditionality for loan disbursements to defray the transitional costs of pension reform.

The proposed privatization of the Kazakstani pension system reinforces the goals of the Government's USAID-supported securities market development program by strengthening Government incentives for moving the sale of high value enterprises through the stock exchange. This will provide a channel for absorbing the additional financial resources which will be poured into the stock market by private pension fund contributions. Thus USAID has worked closely with reform elements within the Government to promote coordinated implementation of two key inter-related aspects of the financial sector reform process.

USAID/CAR envisages that the institutionalization of the securities market development process and the private pension fund development process will require a significant period of time to complete. This relates particularly to developing the capability of key securities market intermediary institutions to:

- Establish and enforce professional standards of conduct; and
- create a vibrant and liquid securities market by developing reliable and flexible trading systems and attractive financial instruments.

In addition, extensive technical support will be required for the development of the pension fund management industry. Given the important role private pension funds may rapidly come to play as a source of liquidity in the stock market and the potentially explosive political consequences if private pension funds are mismanaged (particularly in the early stages of the pension reform process). Thus USAID/CAR would expect to provide technical and training support in these areas at least over the 1998-2002 time-frame in this area (to be phased out as other donor support efforts pick up steam).

D. Graduation and Sustainability

USAID/CAR completed its involvement in macro-financial policy analysis technical and training support and broad bank training support in 1996. The Mission envisages deepening progress in the bank supervision and accounting areas over the next three years. This work, along with payments system development work to be geared up in 1998, will be completed by 2001. At this point, the Central Bank should have full autonomous capability to effectively monitor and ensure adequate financial performance and reporting standards for commercial banking institutions; and liquid banking institutions will have been fully weeded-out of the banking system. Commercial banks should be fully converted to modern accounting standards and practices, and modernized payments system instruments and practices introduced and in routine use.

In the securities market area, USAID/CAR direct support for professionalization of the regulatory oversight capability of the NSC; and support for the technical and organizational modernization of the Kazakstani securities market, should continue until 2000. At that point, the National Securities Commission (NSC) will have a stable and well-trained staff capable of effectively overseeing the activities of market participants and ensuring both the competitiveness and stability of securities market operations. Support in the pension fund policy and administrative reform area will phase out in 1998 and 1999, respectively; while direct technical support and training to promote the development and effective management of a private pension fund industry will continue through 2000.

At the same time, key self-regulatory organizations (broker-dealers, investment fund association, registrar association, pension fund association) should serve as catalysts for the competitive development of the securities market and the technological upgrading of trading, clearing and settlement, and back office operations. Finally, at this point both a direct stock exchange-based and a large Over The Counter (OTC) trading system should be firmly in place and operating vibrantly. Support to fully institutionalize these reforms through partnerships between the NSC and key intermediary institutions and corresponding US Institutions (Securities Exchange Commission (SEC), a prominent broker-dealer association, a major private pension fund association) would continue through the 2005 period.

This SO has two main components: support for Bank Restructuring (1.4.1) and support for development of domestic capital markets (1.4.2). We anticipate that the work in Bank Restructuring will phase out in FY 2000 and that no funding will be required in FY 2001. On the other hand, support for capital market development will continue throughout the planning period. In fact, beginning in FY1999, funding permitting, we will begin one or more financial sector partnership programs to supplement traditional technical assistance activities.

Insert Frameworks Tree Here

KAZAKSTAN 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 Kazakhstan's banking system as % of GDP Unit: Percent	Oct.1996 4.9	5.0	5.0	6.0		7.0		9.0		12.0		15.0	
		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	0.3	0.2172	0.5		1.5		2.0		5.0		10.0	
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: #	4	12	16	18		20		25		30		33	
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	66	75	77	80		85		90		92		95	
SO 1.3	Modern financial reporting standards are used	<See So 1.3>														
I.R. 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: #	4	6	6	8		11		12		15		20	

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
IR 1.4.2.1.1	Securities market institutions effectively serve 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: #	2	4	4	6		8		11		12		15	
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 (OTC) Unit: #	12	30	18	60		80		100		150		300	
IR 1.4.2.2.	Pension funds effectively mobilize investment capital into securities market	Pension portfolio holdings as a % of total market capitalization	Definition: # of licensed pension fund management companies	0	3	0	3		7		9		15		18	
IR 1.4.2.2.1.	Pension funds effectively support the operations of firms operating in the securities market	Increasing the # of individual investors who maintain investment accounts with pension funds	Definition: # of financial banking institutions providing full pension management services	0	0	0	2		4		5		8		12	
		Comments/Notes:														

Results Framework

Strategic Objective 1.4 "A More Competitive and Market-responsive Private Financial Sector"

1. Transition Hypothesis and 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 Kazakhstan. Given such conditions, this strategic objective seeks to build a legal/regulatory structure to provide the foundation for private sector banks and capital market institutions such as broker-dealer associations and a stock exchange; establish private-sector institutions; and develop the governmental supervisory bodies and self-regulatory associations for the financial sector. In a major diplomatic breakthrough of 1996, USAID and the Government of Kazakhstan signed a Memorandum of Understanding which calls for close cooperation between the Government of Kazakhstan and USAID in the development of capital markets, and in the reform of accounting practices. In that context 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, corporate finance and private pension funds, and an economically viable public pension system.

This task will not be easy, since the whole idea of investment and financial intermediaries is new in Kazakhstan. 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 cash in their privatization 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 financial institutions, larger private companies, and a select group of entrepreneurs and academics, teaching them to be the creators and then the first successful users of the new systems. Special attention will be paid to building associations such as investment funds, broker-dealer and bankers associations.

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 democratic practices under the hypothesis that unless people are economically empowered, they will not feel politically empowered, and further, if their business practices are fully democratized, their governmental practices will more readily follow (SO 2.1).

USAID is the lead donor in the financial sector. The World Bank, EU-TACIS, and the Asian Development Bank are becoming more active.

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.
- A market-oriented commercial law infrastructure is properly established and enforced, providing financial and commercial enterprises with the legal environment necessary to conduct business in an orderly fashion.
- Growth occurs in key sectors of the economy, supporting the development of the financial sector and attracting domestic and foreign investors.
- In transition from a central economy to an open market economy, the Government is able to decisively reform the pension system and put it on a sound financial footing.
- Sufficient growth occurs in various sectors of the economy to create customers for new financial services.

3. Causal Linkages

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

1. 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 and private pension funds.
- National Securities Commission with a new, more rigorous regulatory foundation.
- Private pension fund regulatory capacity.

2. 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, and private self-regulatory organizations. 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.

3. 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:

- Electronic fund transfers system among banks and for the business community;
- Deposit and checking accounts, primarily for business;
- Accounting and auditing services offered by firms on the basis of International Standards; and
- Corporate finance services generated by broker-dealers and investment funds.

4. 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; and
- Trading systems for both stock exchange and screen-based OTC markets.

With scarce resources, this effort will be focused on a limited number of banks, broker-dealers, 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.

Strategic Objective

2.1

**Increased, Better Informed Citizen's Participation
in Political and Economic Decision-Making**

A. Statement of Strategic Objective 2.1

Increased, Better-informed Citizens' Participation in Political and Economic Decision-making.

B. Problem Analysis

There is low participation of the general public in political and economic decision-making at all levels of government. Key obstacles to achieving such participation are that the people, having lived for so long under totalitarian governments, are not engaged in public affairs (per IFES surveys) and visibly lack:

- the institutional mechanisms (e.g. NGOs) for voicing their opinions regarding democratic and economic issues;
- adequate and impartial sources of information on which to form those opinions; and
- the means for making government officials responsive and accountable to them.

Addressing obstacles towards achieving the strategic objective, we will be focusing on the general public, which is our ultimate customer, and the NGO community in particular. Our intermediate customers include independent electronic media, law libraries, parliaments and local governments.

Public associations, which provide a principal means for citizens' voicing their concerns to government, did not exist in Kazakhstan even six years ago. Today, there are over 440 NGOs and per IFES surveys, people are gradually becoming aware of them and their potential utility. Due largely to USAID assistance, they are acquiring key skills in how to run such associations, increase membership and effectively make known their positions to local and national government. USAID is also helping Kazakhstan develop the legal framework for enabling NGOs to become self-sustainable. As a result, NGOs are gradually becoming a mechanism for citizens' involvement with Government.

Regarding the availability of information, per IFES surveys, people obtain most of their news via television. Just six years ago, there were no independent TV stations. Today, due in part to USAID assistance, there are 52 independent TV stations operating and most of them devote some time to the news. While this is a major step forward and there appear to be enough stations covering the nation, many are poorly managed and located in difficult economic locations. Often as a result thereof, many are financially unviable. Also, some stations lack even the most basic equipment and the quality of their programs is low - surveys show many people prefer Russian stations to local ones for their news. In addition, local stations rarely if ever broadcast news on controversial topics. As a result, people are still not getting enough unbiased, provocative news that would allow them to become more effective participants in the political arena.

Regarding government's responsiveness to citizens, several setbacks occurred in 1995:

The use of a referendum to extend the president's term of office to 2000 and the adoption of a Constitution considered to fall short of international standards in several areas. While new elections for parliament were held in December 1995, most seats were contested only by people who supported the President (the main opposition parties chose not to participate in the elections given what they considered to be a Parliament without adequate powers). As a result, USAID/CAR shifted its program more towards non-governmental areas.

Today, there are signs that Parliament is eager to be more than a rubber stamp on government policies. It recently voiced objections to key pieces of legislation proposed by the government, and is now voicing opposition to a proposed weapons-testing treaty with Russia and is considering legislation drafted and introduced by individual parliamentary deputies. However, most parliamentarians are unskilled in law-making and legislative drafting, and are unable to voice dissent effectively. They also do not fully appreciate the role NGOs can play in informing them and supporting their views/dissent and are uncomfortable with fully open hearings. As a result, parliament is still not completely effective. Nevertheless, some members clearly see the need for assistance to enable them to assert their independence and have reacted very positively to the recent three-week assistance to their press service, and a USIS four-week program of assistance to its legislative staff unit.

In April, parliament held a round table to discuss legislation for handicapped children. The Senate, Majilis (upper and lower houses of parliament), Ministries of Health and Social Protection, an expert, an NGO and academician all had opportunities to speak, observers were allowed and the event was covered on state television.

As for 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 and presidential elections (1999-2000), conducting voter education campaigns. USAID's partner has established an excellent relationship with the election commission, which has invited it to monitor elections and supports critically-needed legislation increasing the commission's independence. Contingent on the Government support of open elections, USAID expects to have election officials, monitors and citizens reasonably well trained on their proper roles by 1999. If at any time between now and elections in 1999 the government demonstrates lack of political will for multi-party elections, assistance to the election commission will be terminated. If elections are deemed free and fair, subsequent assistance should not be needed, but the Mission will continue to conduct periodic surveys of voter attitudes to assist in overall program guidance.

C. Progress, Program Approaches, and Other Donors

IR 2.1.1 NGOs Engage in Strengthening Civil Society- Progress is on target for the NGO development program. There are now over 440 NGOs, more than doubling targets, and over 700 members have been trained. The small democracy grants program (USAID funded and administrated by USIS) targets NGOs. The major program, however, is USAID'S civil society program which will address problems noted earlier in a phased approach.

- First: our assistance is raising levels of citizens' awareness by promoting some degree of general civic education (almost complete).
- Second: the program will help establish a core of grassroots NGOs, often with a community development concern, through small grants (largely accomplished).
- Third: grantees will continue 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, NGO assistance will target those civic advocacy NGOs which are the most viable and democratic and have the potential for advancing citizens' participation and the Mission's agenda. Assistance will focus on democracy training for their internal operations and advocacy training, in order to become more influential in national government and, in particular, local government, which the Mission is supporting in other programs. USAID is also interested in citizens organizing to solve their own problems, rather than expecting the Government to do it for them.

Additionally, USAID through its US partner, will begin building support later this year for drafting and passage of improved NGO legislation. Assistance will continue to be needed until 2004. At that time, if there are laws regulating philanthropy and supporting NGOs, USAID expects that with their prior training and a sound legal footing, NGOs should be able to function quite effectively. If, as in Russia, there are still no such laws, their financial footing will be less secure and their effectiveness potential will be less. Even now however, some organizations are reasonably strong. The electronic media association, for example, has mustered resources to bring suit against the government against for alleged illegal activities.

IR 2.1.2: Information on Domestic Economic Policies and Politics Available- Progress of the media program is also on target. There is adequate coverage of independent stations and many broadcast news from local independent sources; however, their programming is weak and assistance is likely to be required until 2004 before most stations are viable. USAID/CAR's program will overcome these problems by providing primarily training and technical assistance, also some very minimum equipment, to these stations in a phased approach, first concentrating on increasing their numbers (done) and then, for several years more, on improving their management and journalism. Starting next year, USAID assistance will shift more towards improving the

quality of programming, which impacts heavily on viability. By 2004, 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. Therefore, increasing their financial viability is critical: No major impediments are foreseen provided that the current auctioning process does not result in significantly fewer independent TV stations in the outlying regions. (It is seemingly no accident that the country's largest and more powerful independent TV station has never been shut down, and there is no doubt that its strong financial footing has given it a power base of which the Government is not ignorant).

Increased Government accountability through elections should help too, by diminishing the stations' fear of Government reprisal. Since newspapers are also a source of the news, assistance in this area will be explored in the future. In a new effort, USAID/CAR will be giving strong support (to improve quality, production and distribution) to NGO newsletters, which often tend to be more willing to speak out on controversial matters. This has the potential for having a major impact at relatively small cost.

USAID supported one law library in Almaty and plans to support another library in Southern Kazakhstan. The libraries will hold databases of legislation from other countries and are intended to be a depository for draft legislation. This combination should be a strong resource for Advocacy NGOs.

IR 2.1.3: Increased Responsiveness and Accountability of Government to Citizens-

Unfortunately, in the third area, government's responsiveness and accountability to its citizens, the Mission has made little headway. In general, the government continues to be very centralized and hold a strong grip on power. Parliament, on the other hand, does show signs of willingness to exert its independence, and this opportunity will be exploited. A real test will be its willingness to utilize open hearings; it has agreed to a first step - having seminars on proposed legislation. It recently held a round table, billed as an open hearing. It was an interactive process, but not entirely open. However, it is an excellent start and lends optimism to USAID planning as does the recent publication in a local newspaper of the full text of newly enacted legislation on state support for direct investment.

The program will focus on increasing receptivity to open hearings through, starting this year, a gradual approach of introducing seminars in Parliament on pending legislation and fielding a technical advisor, starting this spring, in the Majilis itself to help them review and draft legislation. As receptivity increases, we will also try to provide assistance, possibly in 1998, in streamlining the committee structure and training deputies on media relations and, in the future, improving constituent relations.

In early 1999, in preparation for the December 1999 Parliamentary Elections, the program will work with all interested parties on how to run an election campaign. Reinforcing these efforts, we will seek partnerships between a state legislature and the Kazakstani Parliament and between a state bar association and the Kazakstani bar/judiciary. When established, such partnerships would

allow USAID assistance to Parliament and the judiciary to terminate. 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. Assistance to achieve a responsive and accountable government will continue through 2006.

D. Graduation and Sustainability

USAID expects that by 2006, no further assistance in this area will be required. At that time, NGOs should be sufficiently strong and independent TV and Radio stations should be sufficiently viable to allow significant well-informed participation by citizens in political and economic decision-making at the local and national level. However a Government with only one forum for citizen participation would not allow attainment of 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.

The Mission expects to conclude assistance for IR 2.1.1, citizen participation through NGOs and IR 2.1.2, availability of information around 2004. IR 2.1.3, responsive and accountable government will continue through 2006, in addition to a program on Rule of Law, SO 2.2. Mission will judge completion of Intermediate Results by looking at key indicators such as:

- Number of NGO representatives elected to Parliament who are members of NGOs;
- number of NGOs seeking to influence the government or get attention and support for their activities;
- timely public availability of draft laws;
- percent of population choosing to watch domestic independent television; and
- number of consultative processes on local budgets.

Insert Framework Tree Here for SO 2.1

KAZAKSTAN 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	1995		FY 1996		FY 1997		FY 1998		FY 1999		FY 2000		FY 2001	FY 2002		
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target		
SO 2.1	Increased, better-informed citizens' participation in political and economic decision making	1. Number of advocacy NGOs	<p><i>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.</i></p> <p><i>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</i></p>	1992	0	NA	8 (entry only started in Oct.)	*	149	200	2/97 62	210		220		230		240	250		
							total NGOs in database March 96 143														
		2. Percent of citizens who feel informed	IFES survey																		
		3. Number of Parliament members who are members of NGOs	<p><i>Definition:</i></p> <p><i>Unit of Measure:</i></p>	1994	NA	NA	43%	NA	16%	NA	45%		NA		55%		55%	60%			
				1994	0	NA		NA	0	NA	NA		NA		5		5	5			
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	<p><i>Definition: contacts with media or government officials reported in grant/contract monitoring documents in response to the questions:</i></p> <p><i>Stage one: Fear and lack of public understanding</i></p> <p><i>Stage two: narrowly defined advocacy groups emerge</i></p> <p><i>Stage three: institutionalize base, and form coalitions</i></p> <p>1. "Did you have any contacts with media organizations regarding your work or issues during the past year?"</p> <p>2. "Did you have any contacts with government officials regarding your work or issues during the past year?"</p> <p><i>Unit: Percent of total NGOs in Counterpart Consortium database which answer yes to one of the above questions.</i></p> <p><i>SOURCE: COUNTERP</i></p>	NA	NA	NA	NA	yes 15%	75%	yes 25%	2/97 38%	yes 50%		yes 75%		yes 75%		yes 75%	yes 75%		
				NA	NA	NA	NA	yes 10%	35%	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	Actual	Target	Actual	Target	Actual	Target	Actual
	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 Source: Counterpart	1992	0.00	0.00	0.00	0.00	0.00	2	NGO law coalit on Women's coalitio n Enviro nment?	4		6		8		10	15
	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 Source: IFES	1992	0.00	0.00	0.00	0.00	0.00	19		25		30		40		50	50
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	0	AED 18	15 NGO Leadership	25		15		10		complete			
						NA	0	IFES 100	(200) citizens	0		0		0					
						NA	0	ALC 25	23(40)	complete									
						NA	C'part Prog Estab NGOs 30 (54)	Full Year C'part NGOs 100	300(447)	CUMU LATIV E 444 (708)		500 (1000)		800 (1600)		1200 (2000)		complete	
								ABA	0	1		2		complete					
IR 2.1.1.1	Strengthened NGO capacity: management	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	BASELINE	6%	8%		12%		15%		20%	30%

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	Actual	Target	Actual	Target	Actual	Target	Actual
	Strengthened NGO capacity for management	Percent of NGOs managed by a democratic process	Definition: An NGO will be deemed to be managed by a democratic process if it 1) has bylaws 2) bylaws allow for democratic change in leadership 3) they are following their rules. Unit: Of all NGOs monitored in the previous 12 month period, what percent were managed by a democratic process.	1992	0.00	0.00	0.00	0.00	NA	NA	NA	new indicator 5%		10%		15%		30%	30%
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 details of 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	2 of 11	1	2		2		5		5		7	7
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) Law library holds draft legislation for public access Source: ABA	1994	0.00	NA	1	NA	1	NA	new indicator yes	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	NSA	NA	NA	Baseline (new indicator)		20		40		100		100	100
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 Percent of stations with daily news. Source: Internews	1994	4	NA	NA	10	48/24	48/24		48/24		48/24		48/24		48/24	48/24
				1994	NA	NA	NA	NA	15	18		20		20		20		20	20
							40%		60%	70%		75%		80%		85%		85%	85%

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	Actual	Target	Actual	Target	Actual	Target	Actual
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 independent 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: I FES	1994	2	0	8	20	23	25		28		30		32		35	37
				1996		NA	NA	NA	?	5%		10%		15%		20%		25%	30%
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 independent 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: I FES	1994	2	0	8	20	23	25		28		30		32		35	37
				1996		NA	NA	NA	?	5%		10%		15%		20%		25%	30%
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 Definition: see indicator Source: Internews			0/NA	7/NA	12/NA	12/NA (??)	8/10 auction		9/12		10/14		10/14		10/14	10/14
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 SOURCE: INTERNEWS, ABA									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 percent of total number of passed laws Source: ABA, NDI	1994	TBD	NA	TBD	NA	TBD	4/50		8/60		12/70		16/80		20/90	24/100

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	FY 2002
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
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 2) Source : ABA	1994	0.00	NA	0.00	2	0.00	1		2		2		2		5	10
				1996		NA		NA		3		5		10		10		15	15
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 2) Number of consultative processes on the local budget between local government and citizens' organizations in Taldykorgan 3) Number of public officials removed from office for corruption.	Source: USG Human Rights reports narrative 2)Source: TBD Definition: Based on the media reports of officials removed for corruption. Unit: Number of individuals Source: USAID media records	1991		NA		NA		NA		NA		Improved					"Fair and Open"
				1994	0.00	NA	NA	NA	NA	NA	NA	NA	1		2		2	2	
				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 2) Increase in citizen information on election procedures 3) increase in training sessions for election officials.	Definition: On a scale of a possible seven attributes, how many are present in the law. Unit: See Performance monitoring plan 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 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	1) 1994	0 of 6	Need from IFES						1		4		6		End of program	
				2)1994	NA	NA	NA	NA	NA	NA	NA	NA	NA	100					
				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														
				YEAR	VALUE	1995		FY 1996		FY 1997		FY 1998		FY 1999		FY 2000		FY 2001	FY 2002	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
IR 2.1.3.2.2	More effective and independent elected officials	Number of vetoes or major changes in draft laws by legislatures	<p>Definition: Based on implementing partner reports of laws under consideration,</p> <p>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.</p> <p>2) Number of veto equivalents</p> <p>Unit: Number reported</p>	1994	NA															
				1994	NA															
				1994	NA															
		Number of political parties which participate in Presidential elections.	<p>Definition: Non government sponsored party with a candidate in the Presidential election</p> <p>Unit: Number of candidates besides current President</p> <p>Source: ABA; NDI; IFES</p>	1995	1	NA	NA	NA	NA	NA	NA	1								
		Number of parties in Parliamentary elections		1994	4		6		NA											
			<p>Comments/Notes: draft April 24, 1997</p> <p>FY 1996 dated is based on October 1996 inputs; following extended team review, October 31 prepared for Mission Review on November 6, 1996</p> <p>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.</p> <p>FY 1997 data is current as of preparation of the R4 submission.</p>																	

Results Framework Narrative

Strategic Objective 2.1 “Increased Better Informed Citizens Participation in Economic and Political Decision Making”

1. Transitional Hypothesis and Underlying Rationale

The strategy for improving citizen participation in economic and political decision making in Kazakhstan combines three areas of simultaneous development: strengthening NGOs, encouraging independent media, and developing a core group of government officials interested in working with citizens.

The underlying rationale for this approach in Kazakhstan is that the government will give NGOs and the independent media the opportunity for development, but that these organizations lack the skills to develop sustainable organizations. Further, as government officials outside of the executive branch see patterns of power stabilizing in Kazakhstan, it is clear that the only route open to them to achieve legitimacy is through increasing their power base among the citizens. We plan to develop our programming to meet these openings.

Kazakhstan has seen a dramatic decrease over the last two years in the people’s sense of well being and their feeling of involvement with the economic and political change underway (IFES survey). The transition from State sponsored social services to free market provision of services is not complete in Kazakhstan. The government has attempted to devolve many social services to local governments who have neither the authority nor the resources to deliver the services. This has left many people without access to basic utilities and services during the winter of 1997. At the present time there are only fledgling political groups, and very little election activity. This means that there are few formal mechanisms now in existence for citizens to participate in decision making. This is a priority area for USAID funding.

The strategy for working on a better informed populace has changed since the 1997 R4 submission. This R4 changes electronic media into an input to better information. It also focuses on making information on political and economic policy changes available to the population.

2. Critical assumptions

As with last year, USAID/CAR has four critical assumptions:

- The government of Kazakhstan will not interfere significantly with the development of citizen participation in political and economic decision-making. Hence, our work will be concentrated on the development of more conducive laws, not ensuring fundamental human rights in Kazakhstan.
- A strong tradition of respect for authority will not prevent democracy from taking root.

Hence, while traditional Kazak society respects the authority of elders and the clan leaders, they will none-the-less take their responsibilities for managing society through democratic means seriously, if given the information and opportunity.

- Economic development will allow citizens to maintain time and attention to NGO activities.

The economic situation in Kazakhstan has been so severe this winter that many people have not had heat, electricity or other utilities. Given this situation, it is hard for them to devote energy to civil society, or to watch the TV news. However, USAID overall forecast is that this situation will improve.

- Parliament will be receptive to working to increase democratic input and responsiveness. While this last item is a carry over critical assumption. In 1996 we did trial programming to test this assumption, and this year we will start programming aimed directly at the parliament to encourage it to be more receptive.

3. Causal Linkages

The three Intermediate Results are:

- strengthening the capacity of NGOs to act as the voice of citizens and to encourage citizens to take an active role in their lives;
- developing information sources for citizen oversight and participation; and
- development of areas and mechanisms by which the government will be more responsive to citizen input.

In the short term all three areas need development in Kazakhstan, The successful achievement of this Strategic Objective requires citizen interest and knowledge on how to participate in government decision making, sources of information to direct effective activities, and forums for interaction with the government.

The implementation activities encompassed under the first Intermediate Result, IR 2.1.1, are those supporting the development of NGOs. NGO development is the best chance for citizen involvement in a society with only fledgling political groups and minimal electoral activities. Indigenous NGO groups represent opportunities for groups of citizens to come together around issues of concern to them, along a range of activities, including human rights monitoring, women's organizations, media groups, environmental advocacy, and business associations.

Access to information is seen in Kazakhstan 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 activities which will increase responsiveness to citizens at all levels of government.

At the lower levels of the intermediate results, our long term aim for NGOs is that they engage with the government for oversight purposes and for the purpose of providing input into government decisions. However, NGOs in Kazakhstan 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 levels of the information IR, USAID resources are aimed primarily at the electronic media, which has the highest impact in providing information to the citizens of Kazakhstan. In Kazakhstan our initial programming of establishing independent television stations and providing basic equipment improvements is largely accomplished. Work will now focus on solidifying sustainability in these stations and on improving the quality of programming and journalism. In addition, this year USAID will facilitate assistance from the US Federal Communications Commission (FCC) to the Kazak Frequencies Commission. The goal is to establish appropriate roles and regulations for government oversight of electronic media.

At the lower levels of USAID work on government responsiveness to citizens, IR 2.3.1, there are three sets of activities designed to improve the likelihood of achieving this objective.

The first is to work on improving government transparency. This will include work with the parliament to develop its effectiveness, independence, the confidence of voters in its abilities, and its constituent relations.

The second area is in developing the accountability of the government and government officials to the people. This area is long range strategy, as the fundamentals of civil service reform and local government laws are just beginning in Kazakhstan (and will be reported under the objective for a more responsive and accountable local government-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 Parliamentary election is December 1999 and the Presidential election is in 2000, the election commission at this time is under little pressure and is therefore open to assistance and interested in improving the election law and the skills of election officials.

STRATEGIC OBJECTIVE

2.3

More Effective and Responsible Local Government

A. Statement of Strategic Objective 2.3

More Effective, Responsible, and Accountable Local Government

B. Problem Analysis

In the 1994 strategy submission of the USAID Regional Mission for Central Asia there was no explicit Strategic Objective for local government. It was implied under "Strengthen capacity for public participation in political processes." The strategy indicated that "Support for NGOs goes far beyond improving, for example, their ability to deliver needed services. Rather, it entails support for one or more of the essential building blocks in any civil society, representative of grassroots views and a more decentralized response to the views and concerns of the public at large." The regional strategy was the strategy for Kazakhstan.

As Kazakhstan struggles with decentralization and democracy, USAID actively seeks to promote these principles by demonstrating the benefits associated with effective, responsible, and accountable local government. There is an increasing body of knowledge on the importance of effective, responsible, and accountable local self government to the sustainability of social benefits and services. The central government has increasingly moved responsibility for social programs (notably housing, health, and education) to local levels. However, the authority over resources as well as development of a professional civil service to administer these social programs has not necessarily followed.

In Kazakhstan at the present time local government does not exist. Local authorities are appointed by the Central Government. There are currently no local elections. Local authorities have no legal foundation. They carry out Central Government edicts at regional levels. Hence, there is no legal basis for a city housing department, simply for cities to carry out the national housing departments activities in the city. This means that local authorities have little incentive to be accountable to local citizens. At the present time, cities do not develop their own budgets, they are presented with money from a higher level. This means cities have no incentive to be more efficient. Many public functions, however, are carried out by the local level officials. For instance: education, garbage collection, etc., are all delivered at the local level. Due to lack of training, however, even if the cities were to be responsible for other services, they would be unable to handle the services efficiently or even properly.

The inability of the central government to meet subsidy requirements at the local level provides an opportunity to motivate policy makers to devolve key financial and other authorities to the local level. In close collaboration with other donors USAID can promote the process of efficient and effective government. In turn, devolution to local levels put power and authority at the level of government that is closest to the citizens, giving them a better opportunity to make demands on it and hold it accountable for its use of scarce resources.

USAID has followed this strategy in a number of sectors -- housing, health, NGO development.

However, with this submission USAID is also expanding its support and assistance. The largest expense in the local government budget is provision of municipal services. Of these services, health is the largest expense. USAID's activity in intergovernmental finance supports the critical element of creating a resource base for social sector reform. The more generic results relative to the financing and administration of public services achieved under this Strategic Objective will complement and extend the more sector specific results achieved under Strategic Objective 3.2, and other Strategic Objectives

C. Progress, Program Approaches, and Other Donors

Improved local government is a new Strategic Objective for the Mission to be initiated this year in Kazakhstan. It builds on USAID efforts in training and technical assistance to demonstrate the benefits associated with effective, responsible, and accountable local government in pilot activities in Atyrau and Semipalatinsk.

Key achievements highlighted were:

- A Long Range Development Strategy (LRDS) created at the local level and taken to the national government to gain its support (in Soviet times the local level would not have voiced local needs and concerns, but would rather have only carried out orders from above);
- the cities' financial systems are now based on western accounting practices and information is much clearer and can contribute to handling fraudulent activities; and
- citizen awareness, participation, and commitment to the future of these cities has been considerably enhanced.

IR 2.3.1 Legal Foundation for Local Budgetary Decisions and Operations Established- The first linkage is the development of the legal framework for operations of municipal and oblast ("state") government to improve local authority over the budgetary process. Appropriate legislation, regulations, and other implementing documentation need to be drafted and ratified. In this regard, activities of the Intergovernmental Finance Project will strengthen the legal basis for decentralized government in Kazakhstan through its focus on delineation of fiscal responsibility within different levels of government. Draft legislation is under development by a variety of USAID contractors working with government counterparts, spearheaded by KPMG/Barents.

In order to pass the appropriate 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 governments need to be encouraged to be responsive to the needs of the local population, and not just concerned with how local resources can support the center. Likewise, local populations need to be encouraged to effectively communicate their concerns to political leaders, and to ensure that these concerns

receive due attention.

The barriers in this area can be addressed through a two-pronged strategy.

- First: the capacity of local non governmental organizations (NGOs) can be strengthened.

In order to accomplish this, USAID's effort to promote civil society in Central Asia includes work with indigenous NGOs to develop their ability to be advocates in a transitional democracy. NGO sustainability will also be improved by teaching them how to be more focuses on the needs of their constituencies. Programming this year will be directed towards developing more NGOs outside of capital cities.

- Second: government can be motivated to increase transparency in processes for policy development and implementation with informational tools, such as open hearing, budget meetings, and policy forums.

USAID's Democratic Transition Team will begin addressing some of these needs not only at the Parliamentary level this year. It is USAID's position, and Mission intent, that full local government accountability means free local elections must be held. However, incremental increases can be made along the route to obtaining this result. This year the International Foundation for Electoral Systems did two regional election monitoring site visits.

- Finally: USAID will continue to advance the cause of development of a municipal association in Kazakstan.

The Mission's intention is not to initiate this organization, but to work with municipal authorities so that they will understand the benefits of an association of people with similar interests, and that they would then move the organization forward. If such an organization develops, it may become a good forum for a US-Kazakstan partnership.

TACIS has been working for the last year on developing a plan for reorganization of the public administration sector. USAID also sees a key role for Eurasia Foundation in development of municipal services, both non-government and within government.

IR 2.3.2 Strengthened Financial Basis for Local Government- The second intermediate result seeks the development of local financial and managerial resource bases and more efficient service delivery to guarantee a degree of fiscal independence to 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 various levels of government, and examining the tax laws.

Assistance will be provided to develop administrative capabilities at the local government level. A TACIS study in 1996 concluded that there are very few additional resources available for use by

local governments in the near term, and that therefore efficiency improvements are the main avenue available to provide acceptable levels of municipal services.

In Atyrau, USAID has assisted the local government to develop and switch over to a modern municipal accounting and budgeting system. Other Strategic Objective teams are aimed at developing more efficient management of large municipal expenses, such as housing maintenance and health care delivery.

The activities envisioned include two approaches:

- small grants for innovative programs, of the type promoted by the Eurasia Foundation; and
- USAID could provide technical assistance that no other donor is providing in high return public management functions, like budgeting, competitive contracting, and assistance in identifying social services that should be privatized.

IR 2.3.3 Administrative Capacity of Regional Governments to Function in a More

Democratic and Free Market Increased- 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 throughout the country. This is an area where several other donors have developed some level of programming. USAID will be coordinating with them in order to make the most effective use of our resources.

It is anticipated that other donors will be doing the institutional development, though USAID may use these institutions as locations to fund high priority courses. For instance, the British Know-How Fund is supporting the development of a Public Administration program at KIMEP University, and EU TACIS is supporting the strengthening of the Government of Kazakstan's Institute for retraining of Public Administrators. The World Bank EDI program has done several seminars, but has no long term program in place.

D. Graduation and Sustainability

In many ways the accomplishment of this Strategic Objective requires all the other USAID objectives to be well along their paths to achieving results. Therefore, the Objective duration will be reassessed annually and programmatic and fiscal adjustments will be made based on progress and changes in prospects for success.

The progress needed in Kazakstan in order to achieve the Strategic Objective would be:

- FY 1997 Kazakstan implements progressive local government law.
- FY 1998 USAID provides technical advice to pilot localities in developing local charters

and general assistance in implementing a competitive contracting process. Government makes the decision on what levels of government will be responsible for health and municipal services. Asian Development Bank completes work on rationalization of social services.

- FY 1999 USAID provides assistance to local governments generally in conducting elections, and in pilot regions in developing budgets. Central government makes resources available in a timely manner. TACIS project has retained all governments in the responsibilities of local administrators. Local NGOs have developed oversight abilities for monitoring local government activities.
- FY 2000 USAID provides assistance on rationalization of municipal services in pilot oblasts, using ADB models. World Bank commits funding for computerizing oblast. The Government passes competitive contracting laws.
- FY 2001 USAID using NGO base gets a revision of the local government law, USAID continues budget training and increases number of pilot regions. At least one donor begins economic development offices.
- FY 2002 USAID, leveraging World Bank funds for commodity purchases and USAID funds for technical services, rolls out budgeting, rationalization, transparency work at the local level.

It is imperative to begin work in this area now, so that in the future USAID will not have to invest far greater resources to undo unguided work. Experience in Eastern Europe has demonstrated that reform is critical to deliver social services. Further, Governments will make local government reforms with or without USAID assistance. Because these governments have no experience in the development of democratic, efficient government these reforms often contribute to other problems. (For instance, locally, in early 1997 USAID/CAR recognized that the Government of Krygyzstan was moving forward with efforts to develop a municipal association. We therefore requested emergency funds to provide technical assistance. These funds were not available, and the Government of Krygyzstan developed a “top down” association of municipalities. Some FY 1998 money will therefore need to be spent to “undo” this work).

Insert Framework Tree for SO 2.3

KAZAKSTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

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	FY 2006
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	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	0	0	0	0	0	0	2	3	3	20
		Number of local budget hearings held in target cities	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	3	20
IR 2.3.1	Legal Foundation for local budgetary decision making and operations established.	Legal and policy changes that promote independent municipal finance, property management, and decentralized government.	Definition: Laws defining the role of the central government vis-a-vis local and Oblast governments. Unit: Number of laws or policies	1995	0	1	0	0.00	0	2		0.00	0.00	0.00	0.00	3 of 7	7 of 7 pieces
IR 2.3.1.1	Local constituency for public input and oversight at the regional level developed.	Increased in NGOs outside of the capital cities that say they engage in dialogue with local government.	Definition: Using Counterpart Monitoring and Reporting system desegregated 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	50%	Complete	
		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		1		1	1		

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	FY 2006	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	
IR 2.3.2	Strengthen Financial basis of local government	Share of local government expenditures financed through locally generated tax revenues.	Note: this will be a lagging indicator. Definition: Unit: Based on Min of Fin, GOK statistics, the amount of revenues spent by each level of the government on local budgets.	1994		N/A											5%	25%
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	Baseline								0 months target
IR 2.3.2.1.1	Develop 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 3)		complete Complete 3) contracted		3) pilot 3) property tax workshop		3 oblasts with property taxes
None	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	None	None	1 Atyrau	1	TACIS SOROS		TACIS SOROS		1	2	5	5	

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	FY 2006
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target
IR 2.3.2.2	Expenses for social services within available resources	Stages to be monitored 1) Minimum public service standards established by the Republican level 2) Demonstration and Capacity building for more efficiency e.g. - cost recovery, privatization, targeting services, competitive tendering 3) 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 ; Semi/ Aktubinsk; TK; Almaty		1 service (Health); 1 Oblast		1 service ; 2 oblasts	1 service; 10 oblasts	Roll-out	6 oblasts
IR 2.3.2.2.1	Efficiency and effectiveness of public services increased.	1) Budget process at local level, including eliminating "extra budgetary" categories established in target oblasts. 2) Number of territorial governments which have established competitive bid system for goods procurement. 3) Number of territorial governments which have established competitive bid system for services 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 Atyrau	1 Atyrau	Dependent upon funding		Dependent upon funding		2	3	5	20
				1994	N/A			1	2 Taldykorgan Semi-palitinsk	4		6		10	100	100	100
														3	10	12	100

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	FY 2006
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target
I.R. 2.3.3	Increased Administrative capacity of regional governments to function in a more democratic and free market .	1) World bank conditionality on staged civil service in place. 2) Number of participants trained; annually and cumulative 3) Sustainable institutes	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. 2) As proxy, use the number trained 3) Count institutes graduating MPA students; other donors	1995	No	no	No	no	no	no		no		no	yes	yes	yes
												50		200	200	200	1000
												2		2	2		no donor support
		Comments/Notes:															

Results Framework Narrative

Strategic Objective 2.3 “More Effective, Responsible, and Accountable Local Government”

1. Transitional Hypothesis and Underlying Rationale

As Kazakhstan considers decentralization and democracy, USAID actively seeks to promote these principles by demonstrating the benefits associated with effective, responsible, and accountable local government. There is an increasing body of knowledge demonstrating the links between good local government, revenue collection, and sustainability of social benefits and services. Therefore the USAID/CAR strategy for achieving more effective, responsible, and accountable local government will include activities reflected in other strategic objectives presented in this document.

Building on previous work in Kazakhstan and Kyrgyzstan the USAID/CAR strategy for achieving more effective, responsible, and accountable local government in Kazakhstan 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.

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.

The underlying rationale for this approach in Kazakhstan is that the government will give local governments more authority over the next years, and also the opportunity for development, but that these local governments lack the skills to develop effective local government.

This devolution has already happened with housing, and is likely to continue with other social services. Kazakhstan has seen a dramatic decrease over the last two years in the people’s sense of well being and their feeling of involvement with the economic and political change underway (IFES survey). The transition from State sponsored social services to free market provision of services is not complete in Kazakhstan. The central government has attempted to devolve many services. The process of privatizing state enterprises has led to many social services formerly provided by enterprises being “shed”. This has left many people without access to services. The Mission plans to develop programming to meet these openings.

2. Critical assumptions

Economic developments will continue to improve, providing a better basis for tax collection and limiting the number of “truly needy” requiring subsidized services.

3. Causal Linkage

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, where mayors and governors in Kazakhstan serve at the discretion of Central Government; receive policy guidance from Central Government; and obtain funding from the Central Government. Given this context, three linkages between the central government and local government are crucial.

The first linkage 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 Kazakhstan through focussing on assignment of fiscal responsibility within different levels of government. Draft legislation is under consideration by a variety of USAID contractors working with government counterparts.

In order to pass the appropriate 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 governments need to be encouraged to be responsive to the needs of the local population, and not just concern themselves with how the local population can support the center. Likewise, local populations need to be encouraged to effectively communicate their concerns to political leaders, and to ensure that these concerns receive due attention. The barriers in this area can be addressed through a two-pronged strategy.

- First: the capacity of local NGOs can be strengthened.

In this regard, USAID's efforts to promote civil society in Central Asia includes work with indigenous NGOs to develop their ability to be advocates in a transitional democracy. NGO sustainability will also depend upon their ability to develop services needed by their constituencies. USAID's participant training program (GLOBAL) includes courses on leadership formation for NGO directors and members in the capital city and in outlying oblasts. At a more

general level, this training program tries to identify participants from regions outside the capital city and to encourage individual citizens to become active in civil advocacy.

- Second: local government can be motivated to increase transparency in processes for policy development and implementation with informational tools such as open hearings and public forums.

USAID's Democracy Project provides technical assistance on implementing the methods and other means to ensure that citizens are fully informed and are able to influence policy at the local government level.

The second intermediate result:

- requires the development of local resource bases and more efficient service delivery to guarantee a degree of fiscal independence to 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. In Atyrau, USAID has assisted the local development authority in a comprehensive economic and urban renewal program.

USAID can serve a valuable role by providing technical assistance in how to better develop and manage programs. 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 world wide 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 several other donors have developed some level of programming. USAID will be monitoring and coordinating to make most effective use of our 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 an exemplary pilot program and foundation for decentralization which will motivate other donors such as the World Bank to fund national roll-out of decentralization programs.

Specific Indicators and Intermediate Results

In terms of our specific primary indicators and intermediate results, several linkages merit further explanation with explicit reference to current practices in Kazakhstan:

- As regards our primary indicator “number of local charters adapted,” it is important to note that local governments in Kazakhstan do not now have the right to manage cities. Hence, the development of local charters would be strongly linked to effectiveness of local government since local government can not even begin to govern without them. Also, such charters would be a milestone that would indicate the willingness of local government to be held accountable and therefore to be responsive to local citizenry.
- The second primary indicator “number of budget hearings” would also measure achievement of this Conceptual Objective through ensuring that officials would publicly receive citizen input, therefore motivating them to be more responsive and accountable. Also, budget hearings would probably force local governments to develop budgets as planning tools at the beginning of the fiscal year, instead of simply using them as archival documents simply for recording expenditures at the end of the fiscal year. Hence, the fiscal planning process and therefore government operations would be more effective.

These two primary indicators will be realized through the achievement of intermediate results focusing on three areas, namely political and legal issues, financial structure, and improved administrative capacity. These areas collectively contribute to the Mission’s Strategic Objective through development of the political, financial, and democratic base necessary for local government to become more effective, responsive, and accountable, as explained in detail below.

IR 2.3.1 Legal Foundation for Local Budgetary Decisions and Operations Established- It directly contributes toward this goal because contractors involved in relevant projects will be expected to work at local as well as national levels. Successes in this area would engender greater transparency as government officials would increasingly have to answer questions from citizenry about official procedures, laws, etc. in public forums.

IR 2.3.2 Strengthened Financial Basis of Local Government Through Better Expense and Revenue Management- Contains several lesser intermediate results. They deal with the need for local governments to not only receive income, but also to control expenses through yearly planning.

IR 2.3.2.1 Local Financial Resource Base Development- Deals with the sufficiency of local revenues. In this regard, use of the indicator “decreased number of arrears on salaries” assumes that decreased arrears will not result from drastic cuts in all other budgetary line items, but rather from better budget management. Contributing to this result are IRs 1.2.3 and 1.2.4, better tax collection. A local revenue sharing bill is required for cities to understand and be motivated to manage more efficiently, this is being addressed under Private Enterprise Growth, SO 1.3.

This indicator also includes addressing land registration. If land registration procedures are successful, local government will be able to generate revenues through tax on property, which will mean more fiscal autonomy, thus hitting at the core of a tax problem in Kazakhstan.

IR 2.3.2.2 Expenses for Social Services Within Available Resources- addresses health and municipal services, which are now financed by local governments. If, however, these services are rationalized and as appropriate privatized (and remain affordable and effective) the burden of subsidization at the municipal level will be lessened. For instance, if utilities associated with such services and other local activities are priced on a full-cost basis, general subsidies will be decreased in favor of targeted programs. The result will be a strengthened financial base at the local government level. This is tied in with the activities of the Mission Social Benefits Team, SO 3.2.

IR 2.3.3 Administrative Capacity of Regional Governments to Function in a More Democratic and Free Market Increased- Addresses increasing administrative capacity. USAID resources will not be sufficient to implement budget reforms in all oblasts, nor to effect skills transfer to all local governments. The successful implementation of this Intermediate result is however, essential for the national level.

STRATEGIC OBJECTIVE

3.2

Improve the Sustainability of Social Benefits and Services

A. Statement of Strategic Objective 3.2

Reform Strategies in Selected Social Sectors Developed and Implemented

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 economic growth 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 nevertheless 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 led in some former Soviet states to widespread disaffection and in others to reelect communist officials.

The rationale for this strategic objective as stated in the first submission remains generally current. That is, substantial public support is essential for successful transition to free markets and democratic governance. This requires that people believe that 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. Over the past three years assistance toward this goal has focused principally on developing private sector capacity (outside the government) in the housing and health areas to take a larger role in areas that government can no longer finance.

The first stage in getting government liberalization is convincing officials that a credible methodology exists for supporting social services. In this context, Kazakhstan, 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.

C. Progress, Program Approaches, and Other Donors

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 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.

The Results Framework for this Strategic Objective has been modified to reflect more attention to activities which are generic to social reform. Revisions are based on achieved intermediate objectives, increasing activity of other donors in the sector, and results of evaluations conducted over the past several years.

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

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."

One of the deepest inefficiencies in the Kazakstan health system is the imbalance between curative, hospital-based health system and primary health care. Already because of USAID efforts, there has been a dramatic percent increase in family group practices in the health reform sites. Today, approximately 56 (from a baseline of 0) such practices now have legal status to operate as independent health care providers in Zhezkazgan oblast. However, technical assistance will be necessary to help these practices become financially and technically viable units within a market oriented economy. Consumers now can choose the group practice that they want to join, unlike under the old system in which the individuals were assigned to a particular catchment area.

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

Because of the breakup of the centralized pharmaceutical monopoly, private companies are now importing and distributing 80 percent of the pharmaceuticals in Kazakstan. It is reported that private retailers charge six percent lower than state-owned retail pharmacies for similar medical

supplies.

USAID will continue to support health financing schemes that contribute to long term financial sustainability. It will also continue to support decentralization of the health budget and to establish primary health care units such as family group practices. In the next two years USAID will complete the introduction of health reform in the two pilot areas and will expand the pilot to selected regions. USAID will phase out external technical assistance while developing local capacity to continue the health reform agenda in Kazakhstan.

The housing and utility allowance program also represented a breakthrough in demonstrating the effectiveness of targeted rather than general subsidies. In some cities, savings have been estimated at over 50 percent. Budget savings of as much as 30 percent are possible in some local communities as a result of USAID supported approaches to targeted housing subsidies. These activities will be continued and expanded under the Mission's objective for a more responsive and accountable local government, SO 2.3.

USAID recognizes that resources to improve the sustainability of social benefits are unlikely to be achieved by any single donor. Thus, USAID will actively continue to leverage resources of other donors, especially the World Bank, to replicate pilot interventions on a national level.

D. Graduation and Sustainability

Mission expects that by the end of FY 2000, the following will have happened:

IR 3.2.2 Demonstration that health care and municipal services can be made available on a cost effective basis- The demonstration part of the reform model as described in the framework will be completed for this IR for broader dissemination. Mission expects that the upcoming World Bank Health sector loan will roll it out to additional oblasts and that work under the local government objective, SO 2.3, will roll out successful municipal services pilots.

IR 3.2.1 Critical social benefits and service needs identified for vulnerable populations- Mission does not expect this IR to be completed. In 1997, Mission expects to begin assessments and studies to identify the nature of the problem and to develop interventions to target health benefits to the vulnerable populations. Mission expects to implement a program on pilot basis in 1998, and expect to have the model completed for dissemination by 2001.

IR 3.2.3 Broad Dissemination of successful interventions- Mission expects that policy work based on health reform experience will be completed for IR 3.2.2 by 2000. However, policies related to the vulnerable population and their dissemination might need more time.

Insert Frameworks Tree for SO 3.2

KAZAKSTAN 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	1995		FY 1996		FY 1997		FY 1998		FY 1999		FY 2000		
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
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	2	3		3						
		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	2 Housing policy	3	2 Pension reform		1		1				
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	0.00	0.00			1 Pensions		1						
		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	Housing		0.00		1 Zg						
IR 3.2.1.1	NGO's providing sustainable social services established.	1. Number of grants awarded.	Definition: Grants awarded to support social services. Unit: 1) # Counterpart NGO grants	1994	0.00	Seed Partnership Challenge		Seed 15 Partnership 6 Corp Challenge 10	50	6	9	0	0		TBD			
		2. Percent increase in NGOs providing sustainable social services.	Definition: Based on Counterpart Database, on number of NGO s registered as providing social services. Unit: Percent increase Housing Health (under IR 3.2.2) NGO s															

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	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
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	1	1	5	86	8							
IR 3.2.1.3.	Health subsidies adjusted and targeted	1.Develop modified benefits package on pilot basis.	Definition: Modified package = minimum basic services required. % = number increase from 0. Unit: Population identified as needy.	1996	NA	NA	NA		No data	Research completed		Neediest pop. identified		Neediest pop. identified			
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	4	0.00	20	Zhez: 5 Semi: 46	Zhez: 10 Semi: 50 Almaty:4		Zhez: complete 15 Semi: 100 Almaty: 8		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 New indicator					Zhez: 20 Semi: 10		Z: 50% S: 30% Almaty: 2%		Z: 75% complete S: 60% A: 5%					
		3.National housing allowance policy introduced	Definition: A national policy must specify the time frame and parameters for development of targeted housing assistance Unit (y/n)	1994	No	NA	NA	yes	Yes								

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	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
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	0.00	0.00	Z: 0% S: 0%	20%	z: 4% S: 20% A: 50%		Z: 60% complete S: 40% A: 75%		complete		60%	
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%	0%	Z: 50% S: 25%		Z: 75% complete S: 75% Almaty: 25%					
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 management information systems All above are in demonstration oblasts. Unit: 1. Percent 2. Percent 3. Percent 4. Percent	1)1994 2)1994 1994 1994	0% 2) 0% 0% 0%	0% 0% 4) Z: 0% S: 0%	0% 0% 0%	1)Z: 5% S: 5% 2) 0% 3)0%	1) Z: 10% S: 10% 2) NA 3) NA	1) Z: 30% S: 20% A: 50% 2) Z: 10% S: 10% 3) Z: 20% S: 10% 4) Z: 25% S: 25% 4) Z: 50% S: 50%		1) Z: 50 S:40 A:75 2) Z: 20% S: 20% 3) Z: 40% S: 20% 4) Z: 50% S: 50% A: 50%	complete				
IR 3.2.2.2	Shift from public to private delivery of pharmaceuticals	1) Percentage increase in private pharmacies including retail and wholesale	Definition: 1. Increase in private pharmacies observed over time (retail/wholesale) 2. Increase of market share (retail/wholesale) of private sector companies. Units: 1) Number 2) Percent	1994	200/ 100 12%/ 15%	600/ 300 24%/ 45%	1000/ 500 50%/ 75%	1000/ 500 80%/8 0%	1000/ 500 80%/8 0%	1200/ 600 60%/70%	1300/700	90%/90 %	complete				

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	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 3.2.2.3	Shift from public to private ownership and maintenance of housing.	1. Competitive bidding for housing maintenance services introduced.	Definition: A competitive bidding process involves the city defining what service is to be privatized, setting base prices, advertising in a transparent manner what will be the bidding procedures, and following those procedures in a transparent manner. Unit: Number of cities	1994	0.00	NA	NA	4	2	8							
		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	10	10	50	500	100	3640	complete					
IR 3.2.2.3.1	Cost recovery methods of charging for utilities introduced.	1. % increase in city revenue for water, gas, heat.	Definition: Based on city records of the fees charged for non-protected consumers, there should be increases year to year in the charge. Unit: Percentage absolute charge year to year changes	Semi-palitinsk Petropavlosk Aktubinsk Taldy-Korgan		100%		Semi-palitinsk Petropavlosk Aktubinsk TaldyKor	0%	650% 263% 0%							
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 (% of proposed policy accepted)	1994	NA	0.00	NA	0.00	NA	1	2: Decree 437 - allowances #438 coops	3 anti-monopoly		3			
										Health (25%)		Health (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	
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
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							TBD		2 of 4					
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	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2					
IR 3.2.3.3	Project products developed and disseminated	N u m b e r o f 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.							Videos: 4 Manuals: 10		Video: 8					
		Comments/Notes:															

Results Framework Narrative

Strategic Objective 3.2 “Improved Sustainability of Social Benefits and Services”

1. Transition Hypothesis and Underlying Rationale

The economic upheaval of the transition from a centrally planned to a market economy in Kazakhstan 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. A key determinant of the overall success of the economic and political liberalization process in Kazakhstan, will be the ability of the government and the private sector to rationalize their social sector. Kazakhstan must develop efficient delivery systems for providing basic social services, and to cushion these vulnerable groups from the negative short term effects of economic transition.

USAID/CAR recognizes the importance of providing efficient and effective social services 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 critical to the well being of the people and closely linked with the Mission’s privatization and democratic strategic objectives. This focus means that, in Kazakhstan, where the political and economic environment is relatively supportive to structural changes, USAID has a broad based program in the health and housing sectors, which can provide an example to countries moving more slowly towards structural change.

The major emphasis of USAID/CAR’s program in Kazakhstan is to develop and implement reform in the health and housing sectors.

In the health sector, the USAID program is demonstrating that quality health care can be made available on a cost effective basis, providing services and benefits to those most in need. USAID/CAR will actively disseminate the results of reform to influence government and donor policies. To do so, the mission supports alternative health financing schemes that contribute to long term sustainability. USAID/CAR also supports making pharmaceuticals available at lower costs and supports the improvement of the overall effectiveness of the health service delivery systems.

In housing, the focus is two-fold: the mission advocates provision and rationalization to stabilize the housing stock. This includes private home ownership, reducing government responsibility for maintenance and accurate metering of municipal utilities. Simultaneously with metering, USAID/CAR supports raising utilities to full cost-pricing and introducing targeted subsidies. An added benefit of fee increases will be to provide city revenues for municipal utilities and other city services, such as housing allowances.

Concerning the needs of vulnerable populations, USAID/CAR supports NGO initiatives to provide innovative approaches and consumer advocacy for social sector services. Across both

sectors, USAID's focus is on disseminating successful reform results in order to influence national level policies and donor participation in the health and housing sectors. Broad acceptance of reforms and commitment to their expanded implementation define successful achievement of the SO.

2. Critical Assumptions

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

3. Causal Linkages

USAID/CAR realizes that sufficient resources to improve sustainability of social benefits and services are unlikely to be approved by any one donor. USAID/CAR has decided to limit the Mission objective for 3.2 to "Reform Strategies in selected social sectors developed and implemented." The assumption is that for long term sustainability, the current inefficient social sector needs to be reformed. Mission believes that this can be achieved in the next 2-5 years by achieving the following intermediate results:

IR 3.2.2: Demonstration that quality health care and municipal services can be made available on a cost-effective basis- Demonstrating cost effectiveness can be achieved through progress in a number of areas. On the health side, these include decreasing public sector responsibility and active participation by the private sector in providing services. Efficiency can be achieved by diversifying the health care financing system, shifting the delivery of pharmaceuticals from the public to the private sector, and introducing modern management and business practices.

Accountability is increased by all of the above as well as by increasing consumer participation in the market based human service delivery. The assumption is that increased knowledge by the consumers and participation will shape the market to be more responsive to consumer needs, especially as more people begin to pay for the services. On the housing side, techniques to improve effectiveness include metering municipal utilities and introducing fees in order to fund other services.

IR 3.2.1 - Meeting the needs of targeted vulnerable populations- USAID/CAR recognizes that in order to provide certain benefits for the neediest populations while maintaining economic viability, 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. USAID/CAR supports the NGO community to provide sustainable health and social services to the vulnerable populations. Housing allowances are being adjusted and targeted on a pilot basis, and a pilot program to adjust health subsidies for the neediest populations will be initiated.

IR 3.2.3 - Influencing policy at the national level and leveraging donor resources-

USAID/CAR realizes that within its limited resources, it can initiate reform but not complete it. In this regard, USAID/CAR actively works with policy makers and other donors for roll-out of the Mission's pilot efforts towards improving sustainability of social benefits.

ASSISTANCE AREA

4.0

4.1 Special Initiatives

Health Earmarks

Improved Legal/judicial Processes

4.2 Cross - Cutting Programs

Eurasia Foundation

NIS Exchanges and Training

A. Special Objectives

B. Problem Analysis

4.1 Special Initiatives

For the next several years, USAID/CAR anticipates continuation of Congressional earmarks in the following health areas: reproductive health, infectious disease, and medical partnerships. In the past we have tried to integrate these earmarked programs into Strategic Objective 3.2 to support reform of the health sector. However, given their narrow focus on specific interventions, the Mission has determined that they are best placed under Special Objective 4.1. While supportive, these activities are not critical to overall achievement of Social Sector Reform (SO 3.2). We will continue to shape the earmarked programs to the extent possible, to contribute to the sustainability of the social sector in general and the health reform agenda specifically.

IR 4.1.1. Reproductive Health- Under the reproductive health earmark, USAID will continue to focus on improving the availability of and access to modern contraceptives. To do this, we plan to continue support to the social marketing of contraceptives program and finance reproductive health activities in health reform oblasts. When USAID initiated the Reproductive Health Services Expansion Program in 1993, it was the only donor in country working on this issue, while UNFPA supplied contraceptives. As other donors have become active in this area, USAID is now able to concentrate on contraceptive social marketing, which contributes both to USAID's social transition objectives and contributes in a sector specific area towards the transition to a market economy.

Based on evaluation of the contraceptive social marketing program in Central Asia, USAID plans to focus on the following areas:

- Development of a contraceptive market size sufficient to ensure continued market growth and sustained private industry interest in the market; and
- Improvements in distributor and pharmacy operational capabilities.

Depending on the level and duration of earmark funds, the Mission will consider complementary activities including a Demographic and Health Survey in 1999, development of advocacy non-governmental organizations (NGO's) in women's health, and general improvement of women's health status.

IR 4.1.2 Medical Partnerships- USAID/CAR has little direct effect on the medical partnership earmark. USAID looks forward to guiding further earmarks for partnerships in Kazakhstan in order to support the Mission's overall strategy for the country and to support specific components of the health reform agenda. Within this context, future medical partnerships should be directed toward the areas of family practice, medical education, nursing education, and medical protocols to improve the quality of care. This can 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.

IR 4.1.3 Infectious Disease- Under the infectious disease earmark, USAID plans to focus on public health priorities of prevention and control of infectious diseases such as tuberculosis and sexually transmitted diseases (STDs). Within this framework technical assistance and training will be provided to the Tuberculosis Institute and to the Ministry of Health (MOH) to strengthen their diagnostic and management capabilities. Work will also continue with the State Epidemiology Services (SES) to help them use case-based surveillance. More effective, efficient, and cost-effective surveillance measures are essential to long-term sustainable services. We will also emphasize implementation monitoring of modern, newly-introduced immunization policies and schedules. Support will be provided for regional approaches to control of communicable diseases.

IR 4.1.4 Improved Legal and Judicial Process- 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 Kazakstan Bar Association and the Union of Judges of Kazakstan. These projects seek to improve the public trust in the judiciary as a fair place to resolve disputes and defend against criminal charge. 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 encouraged to invite other NGOs to participate in their events, and to be a conduit for the dissemination of draft legislation. The bar may also send comments on that legislation back to the parliament.

4.2 Cross-cutting Programs

IR 4.2.1 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 indigenous organizations in the private, public, or non-profit sectors. The priority areas for small grants are generally: business development, business and management training, economics education and research, public administration and local government reform, nongovernment organization development, rule of law, media, and electronic communications.

IR 4.2.2 Participant Training- The NIS Global Training program continues to provide important support for reform-minded Kazakstanis to obtain specific training in a way that exposes them first-hand to Western systems and methods. The training has proven to be especially

effective in Kazakhstan because it is strongly linked to the larger technical assistance effort and because counterparts often come back with new ideas and views on how to do things differently in Kazakhstan. In more detail, this training program provided US short-term training for 173 officials in 1996, bringing the total for Kazakhstan since 1994 to 655. Another 80 US participants as well as 75 participants from third country training are planned for 1997; in-country training is also planned for 1,000 individuals. Lower budget levels for training in coming years will mean fewer participants, but all training will still be used to support the wider technical assistance effort. Focus, however, 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 Kazakstanis at all levels by training qualified public officials who are able to establish laws and regulations that are transparent and foster the growth of markets and democratic governance.

Insert Frameworks Tree Here for 4.0

KAZAKSTAN 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									
						1995		FY 1996		FY 1997		FY 1998		FY 1999	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 4.1															
Mission SO 4.1	Family Planning	1. Decrease in abortion rates	Definition: Induced abortions per 1000 women ages 15 -49 Unit: General Abortion rate	1994	63.8	NA	54.9	NA	46.3	43		41		39	
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	0.00	23840	21000	41900	29000	80000		complete ?			
	Health Partnerships	3. Number of health providers trained in management and clinical practices	Definition: Number trained by AIHA. Unit: Number	1994	0.00	NA	NA	NA	151	301	173				

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	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
	Infectious Disease	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 Diphtheria, Pertussis, and Tetanus (DPT) A) MoH data B) corrected to world standards.	1994	NA	na	A) 93% B) 51%	-	95%	95%		complete			

Part III: Resource Requirements to be inserted here.