U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Budget Justification
Fiscal Year 2001
ANNEX III

Europe and Eurasia

NOTICE

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The United States Agency for International Development

Europe & Eurasia Overview

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Abbreviations and Acronyms

(text taken from the FY 2001 Budget Justification)

Introduction

U.S. National Interests

The United States' commitment to maintaining peace and stability in the Europe and Eurasia (E&E) region was strongly reaffirmed in 1999. USAID's quick response to the humanitarian crisis in Kosovo and its support for post-conflict recovery throughout Southeast Europe helped bring stability to the region within a very short timeframe. As the crisis exposed more starkly the vulnerabilities of these countries to the economic shocks it created, it underscored how far these countries still need to go in their transition to market-led democracies. The crisis and its aftermath also highlighted the high degree of interdependence among these countries and the importance to regional stability of continuing to help them move toward closer integration with Western Europe. In Eurasia, the challenge was to maintain a steady course focused on advancing reform, tailoring assistance programs as needed to take advantage of opportunities to work with reformers at all levels. Consolidating the gains of transition-oriented economic and democratic reforms throughout Europe and Eurasia to assure the irreversibility of change remains an issue of vital interest to the United States.

National Security

The precarious situation of regional hot spots such as Bosnia and Kosovo, and the multiple yet-unsettled or latent conflicts throughout the Caucasus and Central Asia pose very real threats to U.S. national security. The potential for proliferation of weapons of mass destruction in the region remains a key concern. Other concerns are nuclear power plant safety and reducing the risks of another Chornobyl accident, and securing commercial access and viable outlets for Caspian oil and gas resources. The timely entry of Poland, Hungary and the Czech Republic into the North Atlantic Treaty Organization (NATO) in 1999 was possible in part because of the success of the post-communist transition in those countries. As NATO members, Poland and Hungary played important stabilizing roles in containing the repercussions of the Kosovo crisis.

Economic Prosperity

Growing economies provide increased opportunities for trade, with direct implications for the growth of high paying, export related jobs at home. Particularly for the Central and Eastern European (CEE) countries, trade has increasingly been re-oriented to the West. The proportion of trade between CEE and advanced economies has increased from 40% of exports in 1989 to over 70% in recent years. However, growth of exports from the E&E region has slowed following the

onset of the global financial crisis in mid-1997, falling from 20% in 1995-1997 to roughly 10% in the Northern-Tier countries in 1998-1999, and stagnating or contracting overall during these later years in Southeast Europe and Eurasia. The lion's share of foreign direct investment (FDI) continues to go to a handful of CEE Northern-Tier countries, and the global financial crisis served to strengthen this trend. For the region as a whole, more than half of all FDI flows since 1989 have occurred since 1997. Yet, FDI per capita since 1989 has been more than eight times higher in the Northern-Tier countries than in Eurasia, demonstrating conclusively that investment follows meaningful reform. For many of the transition countries, the ability to attract FDI remains far below potential.

Rule of Law

Crime and corruption continue to be major issues, with cross-border implications in Southeast Europe as well as in Eurasia. USAID programs are working to improve transparency, the rule of law, and the commercial legal frameworks that are needed to establish international investor confidence. In addition to improving formal legal systems and demonstrating the commitment of the authorities to rule of law, these programs will also address the importance of engendering respect for the rule of law among the citizenry and build citizens' confidence that disputes will be settled fairly. Transfers to the State Department and Justice Department are aimed at improving law enforcement skills and technologies.

Democratic Expansion

Democracy continues to take root in most E&E countries, though there has been backsliding in some cases, particularly in Eurasia where both formal and informal democratic institutions are still in the early formative stages. An estimated 150,000 non-governmental organizations (NGOs) now exist across the E&E region, advocating for pressing social, economic, political and environmental issues and opening up the political process generally. However, organizational maturity and sustainability for NGOs remains a long-term challenge. Continued efforts are also needed to deepen citizens' understanding of democracy and the underlying values that make it work; and to broaden citizen participation in all aspects of civic affairs. The role of independent media in this process is crucial.

Global Issues

The Agency will continue using Support for Eastern Europe Democracy (SEED) and FREEDOM Support Act (FSA) resources to support the President's Global Climate Change initiative, with activities focused on countries with significant greenhouse gas emissions (e.g., Russia, Ukraine, the Central Asian Republics and Southeast Europe). USAID will work with these countries to reduce carbon dioxide (CO2) emissions and increase carbon absorption through energy efficiency improvements, energy sector regulatory reform, and better management of forests. E&E will continue to promote increased use of modern contraception as an alternative to abortion in Albania, Armenia, Azerbaijan, Belarus, the Central Asian Republics, Georgia, Moldova, Romania, Russia, and Ukraine. Programs to reduce the spread of sexually transmitted diseases and HIV/AIDS exist or are being developed for Armenia, Kazakhstan, Romania, Russia, Ukraine, and Uzbekistan. The growing threat of drug-resistant tuberculosis is being addressed through programs in Kosovo, the Central Asian Republics, Russia and Ukraine.

Development Challenge

The development challenge in E&E remains one of transforming previously authoritarian, centrally planned societies into market-led democracies with vibrant economies, open political systems, and a strong civil society. After a year-long stocktaking of the results achieved during the past ten years, and strategic analysis of outstanding issues in the region, it is clear that only the first wave of countries – those in the Northern Tier of Central and Eastern Europe – are in fact now able to continue the transition without further bilateral assistance from the United States. By the end of FY 2000, all eight of these countries will have graduated. The challenge for USAID with regard to this group is to define new relationships, relying much more on the countries' own resources and on the private sector, to make sure that support is available when and if needed in specific instances to sustain the progress of transition. At the same time, it is important to help these countries find ways in which they can provide lessons learned from their transition to the rest of the region.

The problems affecting the countries of Southeast Europe and of Eurasia differ in intensity, but in general include the following:

- In many countries of the region there is a fundamental lack of understanding and acceptance of the values

(including mutual trust, respect for human rights, respect for laws and contracts, etc.) that underpin a market democracy, and how these values must be practiced. Furtherchanges are needed in the attitudes and behaviors of individuals, and indeed of whole societies, in order to sustain economic and political transition.

- Critical obstacles to establishing the rule of law include limited political will, elites with vested interests, lack of judicial independence, and corruption. Corruption undermines democratic processes, erodes public confidence in institutions, and scares off investors critical to revitalizing the economies of the region. Without reform of existing systems, prospects for sustainable economic transition are questionable.
- Democratic systems, local governance, independent media, and a participatory civil society are in their infancy. By and large, the institutions, traditions, and values, such as balance of powers or respect for the rights of the individual, needed to support liberal democracies are lacking.
- With incomplete reform implementation, growth is lagging, exposing poor public finance policies and unequal sharing of the costs and benefits of reform among social groups. Endemic corruption combines with these factors, resulting in a deterioration of public health services and other social support systems. Particularly in Eurasia, this has led to declining support for reform among citizens that poses a threat to transition prospects. Slow growth also entails continued risk of ethnic conflict, in the Balkans as well as throughout the Caucasus and in Central Asia.
- Both men and women have suffered during the transition. Domestic violence and trafficking are on the rise in Southeast Europe and Eurasia. Young men in Central Asia are more at risk of poverty than women-headed households. Integrating gender considerations throughout USAID programs will accelerate and deepen the economic and political reform process.
- Finally, ethnic rivalries throughout countries of the former Yugoslavia compound the problems identified above, and continue to pose a severe threat to stability, and retard prospects for engaging in meaningful, self-sustaining transition.

Regional Strategy: Linkages to USAID Strategic Goals

E&E's regional strategic framework addresses Agency goals in economic growth and agricultural development, including critical energy and environmental constraints to sustainable growth; building sustainable democracies; and social issues such as protecting human health, responding to the humanitarian dimension of crises, and mitigating the adverse social impacts of the transition process. This last area represents a new focus, responding to evidence that poverty and income inequality are pervasive throughout the region. Ethnic issues are addressed throughout country portfolios on a crosscutting basis, where relevant.

Economic Growth: E&E supports USAID's goals in Economic Growth and Agricultural Development in all 24, country programs active in FY 1999. As can be expected given E&E's strong focus on development of market systems, performance in this area is particularly strong--evidenced by growth of trade and increase in foreign direct investment. The private sector now accounts for about 60% of GDP throughout the region. The setbacks of the Russian financial crisis in 1998 and the Kosovo conflict in 1998-99 have had repercussions, limiting overall per capita income growth in E&E. While there is evidence that unfinished reforms and slow growth have helped to perpetuate and even increase poverty in certain countries, there is also substantial evidence of successful reform on a country by country basis in key areas such as banking, fiscal management, and adoption of international accounting standards. E&E support for reform of economic policies and systems, including on energy and environmental issues is closely coordinated with International Monetary Fund (IMF) and World Bank initiatives. E&E's programs also support development of micro, small and medium enterprises.

Democratic Transition: The overall goal of E&E democracy programs is to foster democratic societies and institutions through empowerment of citizens, independent media, rule of law, and good governance. These programs address all of USAID's democracy objectives. In 1989, democratic institutions were essentially non-existent at the national or local levels in most E&E countries. Since then, generally free and fair elections have been held in 16 countries; and activists in over 80 political parties throughout the region have received training in political process issues. Significant reforms of legal systems have been approved. NGOs are active throughout the region. Local governments have greater authority and independence from the center and, in 17 countries, are becoming more responsive to the needs of their constituents. Indeed, E&E has found that working at the local level to build synergies among government, citizens, NGOs and businesses can yieldfruitful results. In 13 countries, independent media are operating relatively free of government control. Yet, even with such successes, reform-minded governments face institutional and human resource constraints that appear to be more fundamental than previously recognized. Corruption in particular is a severe problem that USAID

will address on a crosscutting basis throughout all programs.

Social Transition: E&E supports Agency health priorities in HIV/AIDS and infectious disease control and mother and child health. E&E programs strongly support USAID's humanitarian assistance goal, dealing primarily with complex emergencies in Bosnia, Kosovo and other countries. In these post-conflict situations, E&E works with the Office of Foreign Disaster Assistance and Office of Transition Initiatives in USAID's Bureau of Humanitarian Response, to ensure smooth integration of programs started with a relief focus into the mainstream of transition programs focused on economic and political reform. E&E is also, increasingly, building conflict prevention concerns into programs in countries at risk such as in the Balkans, the Caucasus, and Central Asia.

Social sector issues in the E&E region differ from those in most developing countries. In a number of countries, the realities of transition are creating a new class of chronically poor rather than the large and stable middle class that the shift to market systems was expected to engender. Many citizens have lost benefits (such as housing and utilities) previously provided by the State and social services such as education and health care have deteriorated. An estimated 50% of Eurasia's population and 24% of the Southern Tier were living in poverty in the mid-1990s, compared with 4% and 5% respectively in the late 1980s. Those countries that have experienced the largest and most sustained drops in GDP and have been slowest to regain their 1989 income levels have also suffered the biggest increases in income inequality. These losses, combined with limited employment opportunities, create resentments that threaten social cohesion and prospects for continued transition. It is essential to deal with social issues in order to build support for economic and political change. Beginning in FY 2000, E&E will be addressing selected social issues more strategically.

External Debt.

For most of the Europe and Eurasia region, the volume of external debt remains manageable. Debt servicing continues to be modest (roughly 10% of exports overall). However, the ratio of total external debt to exports has been increasing recently in many countries, particularly in the Southern Tier and Eurasia. In 1998, six countries were "severely" indebted by World Bank standards (Albania, Georgia, Armenia, Bosnia-Herzegovina, Turkmenistan, and Bulgaria) and seven had "moderate" external debt levels (Kazakhstan, Russia, Tajikistan, Moldova, Croatia, Kyrgyzstan, and Poland). Several countries (including Russia, Ukraine, Kyrgyzstan, and Romania) faced short-term debt repayment challenges in 1999. USAID remains committed to working hard both directly and with other donors to foster economic reforms, including fiscal reforms, which will stimulate investment and growth, in order to help these countries better manage their debt burden and end the cycle of heavy borrowing for current consumption.

Program and Management Challenges

There is a vast disparity between three groups of countries in the Europe and Eurasia region: the graduated reformers of the CEE Northern Tier, who have a sufficient level of institutional capacity and commitment to reform but still need supportive encouragement to pursue further reforms; most of the Southeast European and some Eurasian countries, who have undertaken basic reforms but have not yet moved systematically to the institutional and structural changes that are needed to continue the reform momentum and to stabilize economies; and those, particularly in the Balkans, who lag considerably behind, with only minimal economic and political liberalization, and where ethnic rivalries may strongly undermine prospects for sustainable reform.

To meet this challenge E&E is implementing a three-pronged programming approach, guided by the vision that, for a lasting benefit, the SEED and FSA programs must be complemented by an overarching effort to ensure that the United States' investment in the region is sustained in the longer term. To this end, E&E seeks **to establish sustainable partnerships between the United States and the countries of Europe and Eurasia, between these countries and other regions of the world, and among the countries themselves**. Such partnerships are both an evolving way of doing business during the transition period and a vision for enduring relationships among countries, institutions, and peoples as assistance programs are phased down. USAID's role is to help countries develop the sustained capacity to enter into fruitful economic, political and social relationships with others, at all levels of society, long after bilateral assistance has ended. This approach, for FY 2000 and beyond, includes: (1) legacy mechanisms that sustain partnerships and generate resources from the private sector for countries that have graduated from USAID assistance, but where new systems remain fragile; (2) strong country-specific programs that continue to meet the needs of those who are struggling with transition and to encourage those who have barely begun; and (3) regional programs, generally available to graduates on a cost-sharing basis, that complement country programs by disseminating best practices and contributing to stronger linkages with the world economy. Such regional programs will be particularly important in Southeast Europe.

CEE Northern Tier: Maintaining the Legacy through Sustainable Partnerships.

In the Northern-Tier countries (Slovenia, Slovakia, the Czech Republic, Hungary, Estonia, Latvia, Lithuania, and Poland), USAID has begun to implement several legacy and regional mechanisms that foster lasting and meaningful ties between the United States and CEE graduates, as well as between the countries themselves. The legacy mechanisms are endowments managed by private foundations. The Baltic-American Partnership Fund, established jointly by the U.S. Government and the Open Society Institute, provides support for NGOs in the three Baltic countries to involve citizens in political and economic decision-making. The Fund will complete its first cycle of grants in early 2000.The Polish-American Freedom Foundation began operations in late 1999 and will finance activities in support of private sector development. Regional, SEED-funded programs are other types of post-presence initiatives. One such is the Electricity Management Development Institute, which U.S. and CEE utility companies are supporting under the sponsorship of the U.S. Energy Association. The ECOLINKS program promotes regional environmental partnerships. This effort is helping to open Northern-Tier markets to U.S. environmental businesses while also addressing issues of environmental abuse. Barely six months into its first year, it has already facilitated business linkages and the formation of a joint partnership to test an innovative wastewater treatment system. The Partners for Financial Sustainability program is available on a case-by-case basis to bolster past economic reforms and help improve local institutional capacity to deal with external financial shocks.

Southeast Europe: Forging Regional Ties Based on Strong Foundations

The Kosovo crisis brought new resolve in Western Europe and the United States to accelerate Southeast Europe's integration into the Euro-Atlantic mainstream. Leaders at the Sarajevo Summit on July 30, 1999 endorsed the *Stability Pact for South Eastern Europe*, an international body comprising the EU countries, the frontline states (Croatia, Bosnia, Albania, Macedonia, Bulgaria, Hungary, and Romania), Russia, Slovenia, the United States, the World Bank, the IMF, the European Bank for Reconstruction and Development (EBRD), and a variety of other international institutions including Organization for Security and Cooperation in Europe, the Organization for Economic Cooperation and Development (OSCE), and the Council of Europe. Initiated by the European Union with strong support from the United States, the Stability Pact serves as an international clearinghouse for countries working together to promote political and economic reform, sustainable development, and enhanced security in the region, with an emphasis on establishing the necessary conditions for increased trade and investment. A number of new SEED-financed regional activities will contribute to this pan-regional effort.

The IMF estimates that the Kosovo crisis resulted in a 2% drop in GDP in the economies of the six most affected neighboring countries, Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, and Romania. This was a severe blow to countries already suffering from the impact of economic sanctions on Serbia, the economic center of the region. While the rapid return of refugees to Kosovo was a welcome development, the strain of hosting hundreds of thousands of people severely taxed Albania and Macedonia. Perhaps most damaging, the crisis exacerbated the historic reluctance of the international business community to bring long term investment capital into the region. These events helped confirm growing concerns that the countries of this region need more time to complete the transition process. Economic and democratic systems are still weak, reforms are incomplete, and the capacity to meet citizens' needs is both rudimentary and hampered by issues of ethnicity. Accordingly, bilateral programs will continue to be the backbone of USAID's efforts. USAID will work with reformers to pursue systemic changes, spur sustainable and equitable economic growth, and build a supportive civil society.

Within the remnants of the Federal Republic of Yugoslavia (Serbia, Montenegro, and Kosovo), development challenges vary greatly and call for differing program approaches. The challenge in Kosovo is to establish a viable legal framework and spur economic growth. We are committed in particular to seeing the temporary United Nations Mission in Kosovo (UNMIK) replaced by a representative and capable local government. In Montenegro, the emphasis must be on strengthening economic independence and growth in a republic that serves as a democratic model, without pushing it into the pursuit of sovereign independence. In Serbia, the principal objective is to help the democratic opposition mount a credible and effective challenge to the present government.

In Bosnia, a combination of intransigent hard liners in the Republika Srpska and reluctant reformers in Sarajevo has slowed progress getting past the reconstruction phase to the establishment of true political pluralism and sustainable market systems. Ethnic aspirations and political cronyism still rule, by and large, and a precarious peace is maintained only thanks to UN forces and continued heavy donor investment. However, there are encouraging signs that the people of Bosnia-Herzegovina have tired of the political stand-off and increasingly support implementation of the reforms needed to recover economic growth. In Croatia, the elections of January 2000 and the presidential run-off election in February 2000 clearly illustrate that the electorate strongly favors political and economic reform. USAID and other

donors are making plans for robust programs in democracy and economic growth to hasten Croatia's recovery from the arrested development and economic mismanagement of the Tudjman era.

In Macedonia and Albania, the challenge is to reestablish transition momentum following recovery from the Kosovo refugee crisis and its attendant economic disruptions. For Romania and Bulgaria, the emphasis will be on staying the course with structural reform of the economy and development of the institutional and legal systems that underpin a market economy and a democratic society.

Eurasia: Staying the Course.

Progress on democratic transition and economic restructuring in Eurasia continues to be mixed, bearing witness to the difficulties of implementing the fundamental changes required in this region. The challenge is to maintain a steady course focused on advancing reform, tailoring assistance programs as needed to take advantage of opportunities to work with reformers at all levels. But support for reform among national leaders and the public is uneven. In FY 1999, Georgia stood out with its landmark introduction of qualifying examinations for the judiciary, free and independent parliamentary elections, and initiation of land titling, as well as its accession to World Trade Organization. Ukraine's appointment of one of the most reform-minded leaders in Parliament as Prime Minister, following President Kuchma's recent re-election, and prospects for a constructive majority coalition in Parliament, offer hope of renewed vigor for its reform program. Armenia held its fairest elections to-date, and made progress in moving toward a resolution of the Nagorno-Karabakh situation, but internal political turmoil continues to undermine public confidence in the political process. In Russia, GDP growth of 1.5% does not begin to recoup the losses due to the 1998 financial crisis, and the government still has not implemented the reform measures needed to take advantage of the potential for local business growth.

Faced with such mixed situations, USAID is increasingly emphasizing grass-roots efforts with non-governmental organizations, regional and local programs, and partnerships between local and U.S. organizations or among organizations within the region. Policy dialogue at the central government level remains critical, but, especially in the larger countries, reform programs dependent on central government action are a less prominent part of the portfolio since meaningful program results are far more likely to take place at the local level. To the extent possible, USAID will retain flexibility in programming to respond to new opportunities with central governments, if they arise. Greater attention to the social impacts of the transition will be reflected in expanded health programs and technical advice for countries to put their social benefits and services onto a sustainable financial footing. Anti-corruption efforts will receive greater attention. A major U.S. initiative begun in 2000 to reduce the risk of proliferation of technology and weapons of mass destruction will receive continued significant funding.

Staffing and Operating Expenses

Many of the lessons learned by the Bureau over the last ten years point to the need for greater resources, both programmatic and human, to achieve U.S. objectives in the region. Ultimately, the financial and human resources of the Bureau are limited. Program resources fluctuate in their ability to address increasing funding requirements, and U.S. direct-hire (USDH) levels are expected to decline. During the last few years, the E&E Bureau has launched a number of initiatives to achieve greater efficiencies in the use and management of these resources.

The Bureau has reorganized. Budget and program authorities have been devolved to the field to improve program effectiveness and to increase cooperation with local partners. To accommodate this shift, the Bureau has reduced USDH staff in Washington more rapidly than in the field. To take better advantage of economies of scale, the Bureau has established a Regional Support Center in Budapest to serve CEE countries, sub-regional missions in Kiev, Tbilisi and Almaty, and specialized technical support teams in Washington. The Bureau has also formed teams to address critical concerns such as combating corruption and coordinating local development activities. To reduce the acquisition and assistance workload, the Bureau has improved planning and scheduling of procurement actions and introduced the concept of leadership/associate grants and cooperative agreements. A Bureau-wide financial reporting database has been developed to manage activity pipelines effectively. This has enabled the Bureau to monitor and reprogram unliquidated funds to improve overall performance. Increasingly, contract and grant management has been devolved to the field and activity managers have been trained to improve their effectiveness. There is greater use of FAA Section 632(a) transfer agreements with other USG agencies, thereby eliminating USAID's management of those activities more appropriately implemented by these agencies. The E&E Bureau is also refining and applying criteria for assessing progress towards the achievement of program objectives.

Other Donors.

Donor coordination is an increasingly important tool in the E&E region, used both to maximize the impact of USAID assistance and to catalyze greater resource flows from other donors and the international financial institutions (IFIs). USAID often finances the technical assistance needed to unlock major structural adjustment and sector lending by the World Bank.

Principal partners include the European Commission's (EC's) programs for technical assistance to transition countries in Europe (PHARE) and Eurasia (TACIS), the World Bank, EBRD, European bilateral donors, and Japan. Based on latest available information for official development assistance (1998), the United States stands out as the largest bilateral donor in Eurasia, followed by Japan and Germany. USAID also partners with the Asian Development Bank on activities in the Central Asian Republics. In Europe, the EC is far and away the largest donor, with a contribution about four times that of the United States which is the second largest bilateral donor after France. In 1999, European donors stepped up their assistance to Southeast Europe considerably, in the wake of the Kosovo crisis. To address concerns of regional stability, USAID has been actively engaged with the EC and the World Bank in planning a strong regional program in support of the Stability Pact for Southeast Europe. In Bosnia-Herzegovina, the international community—represented by bilateral donors, the IFIs, and other international organizations such as the United Nations, OSCE, and NATO--works closely together implementing the Dayton Peace Accords at a variety of levels. Regular meetings by members of the Peace Implementation Conference help establish priorities and implementation objectives.

FY 2001 Program

The FSA request level for Eurasia totals $830 million to fund continuing programs of USAID and other agencies supporting economic and democratic transition. It also provides funding for the Expanded Threat Reduction Initiative, started in FY 2000, aimed at reducing the risk of proliferation of weapons of mass destruction and regional tensions. This program addresses significant USG security concerns but inevitably reduces funding for USAID initiatives in countries which need substantial help in building the foundations for their democracies and markets. USAID's share of FSA funding drops from 61% in FY 1999 to just under 54% in FY 2001.

The SEED Act request level for Central and Eastern Europe totals $610 million, with the bulk of funding focused on the Balkans. This request will enable the U.S. Government to continue substantial new peace and economic stabilization efforts in Kosovo and Montenegro; to maintain, though at a reduced level, commitments of the Dayton Peace Accords in Bosnia; to respond to new opportunities for democratic development in Croatia; and to encourage pro-democracy forces in Serbia. Macedonia, hard hit by the Kosovo crisis as well as by years of hardship due to the trade embargo on the Federal Republic of Yugoslavia, will receive increased support. Bulgaria, two years into a serious commitment to broad-based reform and also hard hit by trade disruptions due to bombing of bridges over the Danube River in Serbia, will see its funding levels maintained, as will Romania and Albania. At the same time, USAID will support new opportunities for regional programming in the context of the Stability Pact for Southeast Europe, along with other donors. No funding will be provided bilaterally to Northern-Tier countries. However, selected regional programs, and the few legacy mechanisms such as the Baltic-American Partnership Fund and the Partners for Financial Sustainability, will make funding and/or services available to Northern-Tier countries.

Under the Economic Restructuring and Growth goal, USAID proposes $142.7 million for SEED and $206.8 million under FSA to foster the emergence of competitive, market-oriented economies in which the majority of economic resources is privately owned and managed. Increasing emphasis will be placed on partnerships, assistance to small and medium enterprises, and sub-national initiatives. Under the Democracy and Governance goal, USAID proposes $112.5 million in SEED funds and $76.6 million under FSA to support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes and freedom of information. Under the Social Stabilization goal, USAID proposes $117.0 million in SEED funds and $78.4 million under FSA to respond to humanitarian crises and strengthen our capacity to respond to the human dimension of transition to market-oriented democracy. Funding for economic reconstruction and other activities in Bosnia comprises about 15% of the total FY 2001 SEED request, a dramatic indication that the program is phasing down and will move to a more conventional transition mode. In FY 1999, Bosnia funding accounted for 42% of SEED resources (or 33% if the SEED, Supplemental funding for FY 1999 is included). In Kosovo, about two-thirds of FY 2001 SEED resources will go to the State Department to support human rights, the Yugoslav War Crimes Tribunal, UNMIK, police training and other costs of civilian administration and security.

USAID proposes $237.8 million for SEED and $468.2 million under FSA under crosscutting and special initiatives. Examples of crosscutting efforts include training programs and activities with the Eurasia Foundation that channel small

grants to grassroots organizations under both the economic restructuring and democracy rubrics. Expanded programs that relate to reducing the risks of proliferation of weapons of mass destruction also would be included under this rubric. In addition, funding under this category includes other USG agencies participating in technical cooperation programs through inter-agency transfers from USAID, such as the Departments of State, Justice, Energy, Treasury, Agriculture, and Commerce, Environmental Protection Agency, etc.

Other Accounts

ESF. USAID also proposes use of $34.6 million in Economic Support Funds (ESF) in the region in FY 2001, including $19.6 million for Ireland and $15.0 million for Cyprus.

Turkey. Turkey is not covered under either the SEED or FSA acts. Since 1975, USAID has implemented a population assistance program in Turkey that has been centrally managed by USAID's Global Bureau in recent years. This program is in its final phase. The approved closeout plan provides for Development Assistance funding of $1.5 million in FY 2000 and $ 1.0 million in FY 2001. USAID investment in the program will have resulted in contraceptive self-reliance for operations managed by the Ministry of Health and the Social Security Institute, use of sustainable models for post-abortion family planning, and improved NGO advocacy skills. Turkey will have the capacity to be a strong partner in providing technical assistance to other countries in the region.

Through OFDA, USAID provided a total of $4.4 million in FY 1999 and plans to allocate $2.0 million in FY 2000 to respond to the earthquakes of August 19, 1999, and November 12, 1999. OFDA will also provide modest funding to the Federal Emergency Management Agency (FEMA) to help FEMA work with Turkish authorities on developing an emergency management capacity in Turkey.

The United States Agency for International Development

ALBANIA

Development Challenge

FY 1999 Kosovo Supplemental

Humanitarian Assistance

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Introduction

The importance of supporting Albania's economic prosperity and strengthening the country's governing systems and democratic institutions was demonstrated during the North Atlantic Treaty Organization's (NATO's) recent conflict with Serbia in Kosovo. Albania played an important role in preventing complete destabilization of the Balkan region by supporting NATO in the conflict, and hosting hundreds of thousands of refugees fleeing Serb atrocities in Kosovo. Albania's participation during the crisis signaled its interest in integration with the West – and at the same time, spotlighted the obstacles to its full integration, including weak infrastructure networks, weak public and civil society institutions, fragile government authority, crime, and corruption. U.S. interests lie in helping Albania to address these weaknesses and consolidate its transition to a stable, market-oriented democracy – one able to enhance its contributions to stability in this volatile region. A stable, prosperous Albania will be in a good position to help U.S. efforts to combat terrorism, arms proliferation, narcotics trafficking, and international organized crime. The USAID-implemented, Support for East European Democracy (SEED) program in Albania pursues economic restructuring and growth, democratic development and social stability – objectives that coincide with interests identified in the U.S. Strategic Plan for International Affairs. Notably, promoting broad-based economic growth; opening foreign markets to free the flow of goods, services, and capital; increasing foreign governments' adherence to democratic practices and respect for human rights; and ensuring that local and regional instabilities do not threaten the security and well-being of the U.S. and its allies.

The Development Challenge

In 1999, Albania posted encouraging economic indicators despite spillover from the Kosovo conflict. The inflation rate continued to decline – from 10% in 1998 to about 4% for the last half of 1999. Official statistics showed a gross domestic product (GDP) increase of about 8%. Official unemployment increased only 1% -- from 17% to 18%. However, Albania continued to run a high fiscal deficit – fueled in part by the burden of hosting Kosovo's refugees, but indicative also of Albania's need to strengthen fragile regulatory and administrative systems. For instance, a considerable amount of income from criminal and unlicensed, non-criminal activities probably goes unreported and thus untaxed. The health of Albania's economy in 1999 continued to rely heavily on remittances from Albanian workers abroad, foreign assistance from international donors, and mostly subsistence level output from the agricultural sector which generates 52% of official GDP and employs about 70% of the workforce.

Albania remains behind most other Eastern European countries in the pace of economic reform (Bosnia and Yugoslavia excepted). SEED assistance funded technical support to help in Albania's fairly successful implementation of first-round economic policy reforms such as implementation of macro-economic stabilization measures, small-scale privatization, and promulgation of land market laws and regulations, and bankruptcy and collateral laws. However, the

U.S. Government evacuation of Americans in August 1998 due to security concerns, and subsequent restriction of American presence in country impeded efforts to support Albania's consolidation of critical second-stage reforms. Albania will need continued U.S. assistance to accelerate transfer of state assets to the private sector, particularly key strategic industries; establish and effectively administer laws, regulations and institutions that improve corporate governance; and establish a disciplined financial system that attracts and mobilizes outside capital for private sector growth. Probably the most severe obstacle to Albania's achievement of strategic economic restructuring and sustained economic growth are the pervasiveness of crime and corruption, and lack of internal security, that have retarded the growth of foreign direct investment in Albania's economy.

Albanians need to institutionalize essential democratic concepts and practices. U.S. assistance has contributed to some of Albania's democratization successes; e.g., passage of a constitution (1998); devolution of authority for municipalities' control of local property revenue (1998); Government efforts to improve the treatment of ethnic minorities (1999); and steps to improve the judiciary and court administration (1999). However, gains have been overshadowed by continued political conflict and alleged political repression – with the opposition Democratic Party (DP) charging the Government with responsibility for murders of DP members in 1998 and 1999. Violence and discrimination against women, trafficking in women and children, and child abuse are largely unrestrained. The judiciary continues to be inefficient, often unqualified, and subject to bribery, corruption and executive pressure. Albania's government is viewed as largely passive in its approach to law enforcement, and its efforts to restore civil order are too often undermined by crime, corruption, and vigilantism.

Albania is the poorest country in Europe with the least developed system of social infrastructure among East European nations. Social welfare indicators such as average income and poverty rates, infant and maternal mortality and education suggest that the quality of life for Albanians has declined since transition started. Most of Albania's urban health care facilities are seriously dilapidated and outdated, and adequate health care in rural areas is not readily available. The influx of refugees from Kosovo strained already fragile health care delivery systems. Despite its evacuation status through most of 1999, USAID continued to provide assistance to improve the sustainability of health benefits and services in Albania with some progress. Through partnership arrangements, USAID has helped to improve women's reproductive health services; train healthcare providers; increase public awareness of the availability of health and family planning services; and improve health care policy, health care management systems, and the planning capacity of the ministry of health. Humanitarian assistance provided during the Kosovo refugee crisis is expected to support communities, enabling target municipalities to better meet their needs.

Economically, politically, and socially, Albania faces some fairly intractable and complex challenges to transition. Given current conditions in Albania, additional time and effort will be needed to help Albania meet transition objectives. Planning parameters of the U.S. assistance program in Albania are being reviewed consistent with Southeast Europe initiatives, including plans for regional security and integration outlined the Stability Pact for Southeastern Europe.

FY 1999 Kosovo Supplemental

SEED resources, totaling $14 million were provided in FY 1999 to address crisis-related requirements for major clean-up, rehabilitation of physical and social infrastructure, and community development in areas stressed by the refugee populations. The FY 1999 SEED supplemental funds were programmed as special initiatives, and assigned to two municipal development activities: the Municipal Infrastructure Support Program; and the Social Sector Rehabilitation and Support Program. These programs are designed for short duration (up to 12 months). Activities stress rapid restoration infrastructure, services, and the environment in crisis-affected communities, complementing the programs of other donors, such as the World Bank, European Union, and UN Development Program. In addition to SEED supplemental funding in FY 1999, Economic Support Funds totaling $12 million were budgeted for budget support to the Government of Albania.

Humanitarian Assistance

With the influx of 465,000 Kosovar refugees into Albania, the international community struggled to help Albania meet refugees' needs for shelter, food, clothing, medical services, and psychosocial assistance. USAID, through the Office of Foreign Disaster Assistance (OFDA) and the Office of Food for Peace (FFP), responded quickly, obligating about $11,890,000 million for programs, commodities, transportation and disaster assistance and relief team support in Albania. Programs funded by OFDA focused on non-food distributions, psychosocial counseling, baby hygiene and

health. The USAID Office of Transition Initiatives (OTI) implemented a community improvement program to relieve the strain of refugees on Albanian communities. OTI provided a $3 million grant in FY 1999 to implement a program that combined community development, small-scale infrastructure rehabilitation, and media work in communities around the country. The OTI program is closely coordinated with two municipal development programs in USAID's regular, country assistance strategy.

Other Donors

In FY 1999, the United States was Albania's second largest bilateral donor. By far the most substantial financial assistance is provided by a group of major multilateral institutions, including the World Bank, the International Monetary Fund, the European Union, the European Investment Bank, the European Bank for Reconstruction and Development, and the International Fund for Agricultural Development. The donor community continues to be very committed to Albania's development as demonstrated in the Stability Pact for Southeastern Europe.

The United States Agency for International Development

Albania

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USAID's portfolio in Albania is dominated by an emphasis on sustainable economic growth. USAID's assistance will continue to focus on the private sector and agriculture. The Albanian-American Enterprise Fund (AAEF) will continue to invest in Albanian firms. Support to farmer associations will continue in FY 2001, focusing more attention on women-owned and operated enterprises; expanding assistance to private associations; and integrating micro credit programs more fully into the private sector program. Support to land privatization will continue, focusing on institutionalization of a viable land market. Completing the restructuring of the state banking systems will be a high priority for the Government of Albania, and USAID expects to continue assistance in this area through bank supervision activities. USAID's support for capital market development will continue, addressing the trading, clearance, and settlement mechanisms needed to ensure proper regulation of the market.

Sustaining economic growth through prudent natural resource management will continue to receive attention through FY 2001. The watershed management activity – using a framework of community decision-making – will be a high priority. Community-based, private sector development activities will be linked to grassroots civil society strengthening efforts. In FY 2001, helping Albania to solidify the rule of law – including efforts to fight corruption and reestablish control over its borders – will be a major thrust of USAID's democracy and governance programs.

USAID will continue to promote participatory and representative government, respect for diversity of beliefs and human rights, and effective administration of the law. Assistance to media, local government and NGO sectors will spotlight citizen awareness and participation in the democratic process. Support to local government will also encourage decentralization and the development of new civic intermediaries for the people of Albania. USAID will intensify anti-corruption efforts, working with selected NGOs to help citizens realize they have a right to information on government operations; mobilizing public concern about corruption; and encouraging government to take corrective action. This civil society effort will complement activities to upgrade law enforcement bodies and regulate financial institutions. Assistance to the Albanian Customs Department, in direct collaboration with the European Union, is an important component of USAID's anti-corruption program.

USAID will continue efforts to improve access to and the quality of health services in Albania through training, and increasing public awareness and service delivery points in the country. In FY 2001, efforts will be expanded to four, additional, major cities. FY 2001 funding will provide financial management advisory services to support a hospital payment system, and to help achieve sustainable health insurance mechanisms. USAID also plans to help establish a wellness center for women and a national association of nurses.

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Accelerated Development and Growth of Private Enterprise, 182-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $14,290,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $15,730,000 SEED
STATUS: Continuing

INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: In Albania, the absence of experience in private business and the poor performance of state enterprises left a legacy of inappropriate institutions and a severe shortage of skills in both the public and private sector. Considerable portions of the public enterprises and assets have been privatized or terminated, but the private sector has not been effective in establishing active markets in most areas of production, distribution, or finance.

USAID activities associated with this objective are designed to accelerate development and growth of private enterprises. USAID's strategy has been to operate primarily in the private sector, raising returns in the agricultural sector through more efficient production technology, improved collection of raw production, and higher quality final agricultural products. Agriculture, one of the first sectors to privatize, dominates the economy by providing over 50% of GDP and employment inadequate credit for agriculture – and small- and micro-business enterprises in general – still limit business opportunities.

USAID supports reform of the legal and regulatory environment for business and commerce in Albania, and is a major donor implementing the land titling and property registration system. The system will facilitate secure tenure to farm families and help establish a fledgling land market, which will allow for consolidation of small parcels into economically viable holdings. The small- and medium- enterprise sector is being supported through training activities implemented by a high quality technical high school (the Fultz School); the University of Nebraska MBA training program; and a network of Business Assistance Centers and Business Development Centers in Tirana and other urban centers. The Albania American Enterprise Fund (AAEF) is providing foreign and domestic investment in promising Albanian enterprises, and USAID supports lending to micro-enterprises through other mechanisms. To complement activities for improving the policy, legal and regulatory framework in support of the private sector, USAID is providing training for judges in issues related to business and commercial law, and in judicial administration. This training will continue through 2000.

Key Results: Three principal results demonstrate progress toward achieving this objective: (1) Commercial Business Regime Improved; (2) Business Support Services Improved; and (3) Trade Associations Active in Supporting Private Agriculture.

Performance and Prospects: Without the presence of the American staff for over half the year, producing results for this objective was difficult during 1999. With the help of Albanian staff and the return of U.S. personnel in May 1999, however, expected progress was made.

Albania's disappointing performance in privatization in 1999 was more than balanced by good performance in the creation of new private enterprises, and in the improvement of the business regulatory and legal framework. USAID assistance with land titling laws and regulations, for instance, played a role in this improvement. Land titling and the recording of ownership by individuals and local community groups have moved ahead. To date, about 100% of agricultural land has been titled and about 32% has been recorded. When this activity is completed, there will be a legal basis for the sale of land and for collateral for farm credit. The USAID-supported, Land Tenure Center facilitated the recording of almost 330,000 registered land titles during 1999. This brings the total number registered under this program in excess of 1.75 million parcels. The targeted number of land registrations was not achieved principally because the evacuation of U.S. personnel in August 1998 resulted in delays.

USAID has provided vital support to agriculture trade associations. For instance, help was given to set up a network of input supply dealers to provide fertilizer, seeds and other critical inputs. Results have been impressive. Nearly 100% of fertilizer is distributed by nearly 150 private dealers, who are also leading the distribution of farm chemicals and seeds. While the total number of fertilizer dealers decreased from last year (these were smaller, very low volume dealers) the total volume of fertilizer traded through the remaining dealers has risen. USAID supported the dairy sector by transferring new technology, organizing an active network of dairy producers, and by providing training. Different areas of agricultural activities were given substantial help by short-term consultants and support was provided to the largest association of farmers in Albania.

Association members have maintained about $4 million in revolving credit for operations, and a new, small and micro-credit lending activity began this year. AFADA, the preeminent agricultural trade association in Albania, was created with a focus on institutionalizing a private agricultural input network. AFADA is now a self-sustaining organization with 100% of its expenditures derived from domestic sources. Operating revenues exceed expenses by a comfortable margin. Association assets are more than $100,000 and they have established a national generic brand name associated with high quality and safe products. This success is well on the way to replication. A core of successful

agricultural entrepreneurs in seven agribusiness sectors has formed nascent associations. They look to AFADA as a model in its success in advocacy and development of their markets.

Nevertheless, Albania's problems with enforcing standards and licensing could impede potential growth of agricultural markets. Imported agricultural inputs are certified by foreign agencies, but domestically produced inputs, and agricultural products are not reliably standardized or graded. Several of our activities focus on improving these practices. Licensing is successful because it usually involves a small fee paid directly to a notary. On the other hand, grading, certification, and taxation are still encumbered by administrative weaknesses of a non-transparent framework that encourages corruption. Violators incur little risk or cost of non- compliance.

During its 45 years of isolation under communism, Albania did not benefit from investment in capital improvements that more open Eastern Block countries enjoyed. New investment is thus more crucial to the restructuring and development process in Albania than other former communist countries. Political instability and insecurity have adversely affected domestic investment. The Albania American Enterprise Fund with USAID assistance has proved an alternate source of investment and credit for Albanian enterprises. The Fund has invested $25 million in 30 projects. The American Bank of Albania, created by the fund, began operations this year and now has total deposits in excess of $39 million. With the change of government, adoption of a new constitution, and a focus on improving internal security and stability, the prospect for increased domestic and foreign investment should improve.

Business support centers services are important to Albanian economic development because the populace is not accustomed to market processes or institutions. Their services help overcome misconceptions. Revenue from service fees paid by customers of USAID-assisted centers was $90,000, against the target of $115,000. USAID will build upon its success with programs that provide credit through non-bank financial institutions, credit unions, trade associations and group micro-credit programs. These programs are expected to have loaned $22.6 million to around 4,600 clients by mid-year 2000.

USAID will continue its emphasis in promoting economic growth and enterprise development, with a special focus on Albania's important agriculture sector. In particular, USAID will continue to assist in liberalizing the business regime, expanding sources of credit, and supporting trade associations.

Possible Adjustments to Plans: The mission plans to undertake an in-depth agriculture sector review in mid-2000, and an economic and small business development analysis in late 2000. These reviews will serve as the basis for a major strategic strategy review and possible revision of the private enterprise sector strategy.

Other Donor Programs: The European Union (EU) and World Bank continue to be active in many of the sectors USAID supports. Indeed, linkages are deliberate. These include support to small and medium enterprises and implementation of a property registration system. USAID actively collaborates with donors in other areas as well. The major donors to agriculture include USAID, Italy, the German aid agency (GTZ), the World Bank, and the EU. USAID and GTZ collaborated in strengthening the faculties of the Agricultural University of Tirana, while the EU is working on the development of an extension service. The EU has set up farm mechanization centers, while USAID has helped set up private wholesale dealerships and has assisted with agricultural imports such as fertilizer, animal feeds, seeds and pesticides. USAID supports private farm forestry and the World Bank supports the Forestry Directorate with programs in high forest areas. This complementarity, together with Government support in the form of personnel, facilities and a demonstrated willingness to make policy and legal changes in support of the private sector, combine into a strong coordinated program. USAID is working directly with the EU to provide the Albania customs authority hands-on training in ethics and customs procedures.

Principal Contractors, Grantees or Agencies: USAID implements these activities through University of Wisconsin Land Tenure Center, American Albanian Enterprise Fund, Deloitte & Touche, Land O'Lakes, IFDC, Agricultural Cooperative Development Institute/Volunteers in Overseas Cooperative Assistance, Harry Fultz School, University of Nebraska, and East-West Mgt. Institute.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Real GDP Growth	-27.1%(1991)	+8%	+5%	+5%	+5%
Percentage of labor force Unemployed	27%(1992)	17.6%	18.2%	8%	7%
New private sector enterprises Number	2,600(1991)	56,000	82,000	90,000	*

Domestic Investment (USD)	$509 m(1993)	$75m	**		
Membership of SelectedBusinesses	0(1991)	18,650	17,580	20,640	*
Foreign Investment (USD)	$10 m(1991)	$45m	$110m	$120m	$120m
Accession to the World Trade Organization	No(1997)	No	No	Yes	***

*Performance indicator expires in FY2001.

** Performance indicator will not be used for reporting in future due to changes in data availability.

*** If achieved in 2000, target is met and will not be tracked further.

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: A More Competitive and Market-Responsive Private Financial Sector, 182-014
STATUS: Continuing
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $1,100,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,600,000 SEED
INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE**; FY 2002

Summary: This objective assists Albania in developing the fundamental institutions and elements of a private financial sector. USAID's small capital market development program is designed to reflect the realities of the country. On the public sector side, the task has been one of restructuring and privatizing the remaining state banks, while encouraging expansion of private banks and ensuring proper regulation of the banking system. USAID has joined other donors in supporting the winding down of the pyramid schemes, with the intent of liquidating assets and distributing proceeds to depositors. Beneficiaries include foreign investors wishing to do business in Albania, all depositors, borrowers and entrepreneurs who rely on the banking system.

Key Results: The principal results necessary for achieving this objective are: (1) sound, regulated and efficient banking system established, including restructuring of publicly owned banks; and (2) component capital markets institutions in place; (3) collateral law implemented; and (4) pyramid schemes liquidated.

Performance and Prospects: Security threats necessitated the withdrawal of all, American implementers from Albania from August 1998 to May 1999. Implementation was maintained by conducting training and workshops in neighboring countries and by utilizing third-country staff. The U.S. Treasury assistance program terminated in November 1998, but the World Bank and the International Monetary Fund (IMF) have continued to support the Government of Albania through their fiscal and financial programs. USAID expects the Treasury program to resume in 2000 and focus on banking privatization.

USAID's efforts in establishing a sound, regulated and efficient banking system continued to make progress, as measured by the declining percentage of non-performing loans – down from 69% in 1998 to 34% in 1999. USAID helped to increase the capacity of the Bank of Albania's (BOA) supervision department to regulate and monitor the banking system, enforce banking laws and regulations, and strengthen the BOA's bank licensing and bank liquidation policies. The Albanian Center for Economic Research (ACER) has conducted intensive public education efforts to inform the general public about the need for sound regulated private banking system. ACER estimates it has reached two-thirds of Albania’s newspaper readers and 30% of the people involved in bank-related issues. USAID banking supervision assistance will continue to comprise a significant portion of this objective. These activities are planned to strengthen Albania’s ability to assess for risk and to ensure a steady growth of the banking system.

USAID continues to support the liquidation of insolvent, non-Bank financial (Pyramid) schemes. Most of the schemes collapsed in 1996 and early 1997. The five remaining schemes were placed under Government of Albania administration in November 1997. In 1999 USAID contributed to the World Bank organized multi-donor effort to complete the remaining audits and wind down the funds.

Because Albania's capital market is still in a very early stage of development, USAID has concentrated assistance on developing the institutional and regulatory capacity of the Albanian Securities Commission and the Tirana Stock

Exchange. Due to the evacuation of 1998-1999, this activity did not meet its targets. However, the Albanian Securities Commission received extensive training and as a result improved its institutional and regulatory capacity. The Tirana Stock Exchange has not become fully functional, and the Share Registry continues to be an entity of the Ministry of Privatization. USAID expects to provide these two with limited institutional support in FY 2000.

With USAID assistance, the Government of Albania completed a draft collateral law, which was vetted with key decision-makers and widely publicized. Despite the evacuation of American personnel, this program was able to continue. USAID expects Parliament to pass the Collateral Law in 1999, and place it in force in early 2000.

Possible Adjustments to Plans: No major strategic changes identified at this time.

Other Donor Programs: The International Monetary Fund (IMF) has been the lead donor on fiscal and macroeconomic policy advice, and the World Bank coordinates donor financial-sector assistance. An IMF advisor currently advises the central bank governor on monetary policy. The World Bank has been responsible for the wind-up of the pyramid schemes and the privatization or liquidation of the state-owned banks. The World Bank assists in the implementation of the value-added tax. The German aid organization, GTZ, has provided technical assistance to the National Commercial Bank and will provide training in bankruptcy procedures as well as expertise in drafting commercial laws. Bank of Ireland provided technical assistance on restructuring the Savings Bank prior to its privatization. The European Union is providing technical assistance in the establishment of a new Chart of Accounts for the banking sector.

Principle Contractors, Grantees, or Agencies: USAID implements these activities through the U.S. Securities and Exchange Commission, the Financial Services Volunteer Corps (FSVC), the University of Maryland/IRIS Center, Barents Group, World Learning and Chesapeake Associates.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Percent of financial sector funds to private enterprise	5%(1995)	83.7%	85%	90%*	95%
Non-performing loans/public sector (90 days past due)	25%(1997)	69 %	50%	35%	20%
State-owned banks restructured (i.e., privatized or liquidated - cumulative number)	0 (1995)	1	1	2	3
Trading mechanism in place that is financially viable	No (1996)	No	No	Yes	Yes
Percent of insolvent, non-bank schemes liquidated	0 (1997)	95 %	100%**		

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* Target value increased for 2000 because performance in 1998 exceeded the original 2000 target.

**This indicator will not be tracked once the 100% target is reached.

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Increased Environmental Management Capacity to Support Sustainable Economic Growth, 182-016
PLANNED FY 2000 OBLIGATION AND FUNDING SOUCE: $ SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $ SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1998 **ESTIMATED COMPLETION DATE**: FY 2002

Summary: Nearly two-thirds of Albanians rely on agriculture, forest and pasture land for their livelihood, but the country's natural resource base has been undergoing severe deterioration in the last decades, threatening sustained economic growth. Currently, 76% of total forest area is classified as having low productivity. What was once forested land for timber is now reduced to shrubs and coppice, good only for fuel wood and fodder. Mismanagement and over grazing of pastures has also contributed to deterioration of natural resources. Albania is estimated to be losing on average 20 tons per hectare of soil annually because of erosion.

Given the magnitude of the environmental problem in Albania, and concerned with its impact on agriculture, employment and economic growth, USAID established its objective to effect better management of natural resources in Albania in mid 1998. Ordered evacuation off USAID's American personnel delayed launching the comprehensive, 5-year program originally envisioned. Currently, two principal activities support efforts for this objective: Albania Private Forestry Development Project (APFDP), and a comprehensive watershed assessment and related training activity implemented by the U.S. Department of Agriculture's Forest Service. In addition, a pest management activity is being implemented under the Collaborative Research Support Program (CRSP). Despite the evacuation, the objective is considered to be performing satisfactorily, primarily due to the strength of the APFDP, which has completed its fourth year of activity.

Key Results: Two principal results are deemed critical to achieving this objective: (1) increased local and private participation in natural resources management; and (2) increased use of environmentally-friendly, sustainable natural resources technology.

Performance and Prospects: Despite the inability of the U.S. contractor to provide in-country oversight during the first six months of the year, two key results capture the progress in this strategic objective: in the agro-forestry program, every participating village within target areas had at least one case of collaboration between the local authority and the private sector; and the agro-forestry program also had more than ten times the independent replications of its demonstration activities than were targeted. Support to community forestry resulted in the production and marketing of seedlings as a new source of rural income and developed information essential to restoring productivity to rural lands. Support to new non-governmental organizations (NGOs) has started to inform the public about environmental quality, conservation, and sustainable development. Nascent producer associations are becoming aware of the importance of sound environmental management practices. Growers are adopting sound practices with respect to the use of crop control chemicals. Several research institutes and the universities are working with the worldwide USAID crop research support program to develop and implement integrated pest management procedures which are both environmentally friendly and support internationally marketable olive oil and other food products. Despite its slow start-up the U.S. Forest Service program is now making progress and has generated enthusiasm within the Government.

Possible Adjustments to Plans: The mission will undertake a review of this objective over the next year. Of particular concern, is the need to explore the relationship with, and impact of this objective on the democracy, economic growth, and health objectives in the country strategy.

Other Donor Programs: The World Bank has two projects – a $45,000,000 project to restore irrigation facilities and hydrological monitoring systems, and a forestry support program in high forest areas of Albania. Germany is providing technical training for new extension officers. The EU has funded some watershed and land-use assessments and may expand its programs in the near future.

Principal Contractors, Grantees or Agencies: Chemonics, U.S. Forest Service, U.S. Resources Conservation Service, Colorado State University, Regional Environment Center (REC)/Albania, Integrated Pest Management Collaborative Research Support Program, Virginia Polytechnic Institute.

Selected Performance Measures:

ActualTargetTargetTarget

Baseline 1998 1999 2000 2001

% increase in villages within

USAID agro-forestry target

areas in which there is at least

one case of local and private

participation 0 (1995) +2.75% +1.5% +1.5%+1.5%

Number of villages in USAID Agro-forestry

target areas with at least one independent

replication of USAID-introduced

packages 0 (1995)77 95 72 *

Local requests for USAID-promoted

extension services10(1996)42 25 30 *

Environmental activities actually

undertaken 0 (1996) 6 6 8 *

Protocols established to communi- 0 (1998) **

cate hydro-meteorological and

socio-economic data from

scientific to management staff

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* Target for 2001 will be set during upcoming review of this objective.

**Due to delay in implementation as a result of evacuation, activities supporting this indicator were not initiated. Performance targets that were to be developed were not.

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Increased, Better-informed Citizens' Participation in Political and Economic Decision-Making, 182-O21
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $3,550,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $4,000,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: Albania’s society continues to reflect the country’s polarized environment. However, citizen participation, a critical element for the political process of a democracy has increased. Non-governmental organizations (NGOs), independent media, and democratic political parties were unknown before the fall of communism. USAID's strategy for improving citizens’ participation focuses on strengthening Albanian civil society organizations that are independent of the conflicting political parties, and that have the potential of working throughout the countryside as well as in the large cities.

These efforts benefit a wide range of politically active citizens by strengthening the organization of NGOs, as well as the linkages between them, young party leaders, and the print and broadcast media. A new program will emphasize the importance of the diversity of opinions, of resolving conflict without resorting to violence, and of public participation. Another initiative will support citizen organizations as watchdogs in the struggle against widespread corruption in the courts and in the public administration across a broad spectrum of society. Finally, with local elections to come in 2000, all civil society implementers will contribute to the mass education effort to promote voter registration and participation.

Key Results: Five principal results are essential to achieving this objective: (1) more effective political parties as demonstrated by outreach of major parties at the regional level; (2) free and fair elections ensured through transparent, effective operation of the Central Elections Commission, and as verified through monitoring of local and national elections; (3) improved capacity of non-governmental organizations (NGOs) to participate in political, economic and social decision-making, particularly as demonstrated in their advocacy performance; (4) institutionally strengthened, professional and independent media, increasing public access to information; and (5) increased Parliamentary transparency and effectiveness.

Performance and Prospects: In spite of the evacuation of USAID's American staff, USAID advisors continued to work very closely with their Albanian counterpart organizations. The November 1998 referendum on the new constitution was very important and was supported by USAID programs. In terms of performance measures, passage of the constitution is considered an indicator of success in the electoral process. The number of NGOs participating in policy formation and implementation has increased much more rapidly than targeted. In 1999, the number of NGOs was more than double the target. The legal and regulatory framework for media improved. The law on broadcast media passed in 1998 was a major success associated with the USAID program. There was slow progress in establishing a permanent professional staff in Parliament, a measure of the continuing problem of partisan dominance of issues within the legislative branch.

In 1999, USAID also turned available resources to helping their Albanian counterparts provide support to the Kosovo refugees during the summer. Following initial assistance and with the return of U. S. staff, efforts to address the refuge crisis and other civil society needs have doubled. The momentum of implementing civil society activities that were difficult to manage from a distance during the evacuation has increased – in part out of necessity to respond to the refugee crisis. These activities will continue, with an emphasis on rural and locally based activities, as well as expanding their scope beyond Tirana as the security situation is eased for U.S. citizens. The new programs will engage NGOs in conflict resolution, and in anti-corruption activities. Civil society organizations are expected to take a very active role in up-coming elections. Work on such crosscutting issues is being coordinated by several organizations in this sector, as well as with the implementers of the local government programs.

Possible Adjustments to Plans: No changes in strategic plans identified.

Other Donors Programs: Denmark, Norway, the Dutch and the UNDP continue to offer support to local NGOs. The Organizations for Security and Cooperation in Europe (OSCE) now has a full-time person designated to work directly on NGO support throughout the country. The OSCE, UN Development Program, USAID (International Foundation for Electoral Systems) and some of the Embassies are coordinating efforts in the election laws and voter registration. Soros, the British Broadcasting Corporation and individual Embassies are putting their efforts together in several media projects. The Council of Europe and the OSCE supports Parliamentary and party activities.

Principal Contractors, Grantees, or Agencies: USAID implements their on-going activities through the National Democratic Institute (NDI), the International Republican Institute (IRI), the International Center for Not-for-Profit Law (ICNL) the International Research and Exchanges Board (IREX), the International Foundation for Electoral Systems (IFES), and the American ORT Foundation.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
More women run for office	20%(1992)	5%	20%	30%	40%
Free and Fair Elections	No (1996)	No	Yes	Yes	Yes
NGOs participating in making public policy decisions	0 (1995)	0	70	185	300
Independent media strengthened making an impact	0 (1995)	0	17	20	35
Improved effectiveness of Parliamentwith professional staff hired	0 (1994)	0	5	58	*
Participatory practices in the Education system (# of classrooms)	0 (1997)	0**	**	**	**

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* Target for 2001 will be set during upcoming review of this objective.

**Indicator linked to cancelled activity, and will not be tracked in future.

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Legal Institutions that Better Support Democratic Process and Market Reforms, 182-022
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,050,000 SEED

PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $4,000,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: USAID has been tracking the extent to which the legal framework and viable legal institutions are in place. Albania has far to go before its legal systems can be considered to support democratic processes and market reforms. The Albanian people perceive their judiciary to be corrupt, incompetent, and politically motivated. USAID advisors focus on strengthening governmental legitimacy and authority. The popularly approved constitution was a beginning, but attention now must focus on its implementation.

USAID's rule of law program in Albania is aimed at promoting reform in the judiciary, supporting the legal profession, offering continuing legal education and improving the commercial law regime. USAID's program emphases which are intended to ensure that laws and legal institutions support democratic processes, include: (1) Support to help the Albanian judiciary become respected and effective, including efforts related to court administration; (2) Assistance to the national and regional bar associations; (3) Support to the Magistrates School, which trains law school graduates to become competent judges; and (4) Training in commercial law for judges, lawyers and law students. USAID programs in other objectives directly support the legal reform efforts through their emphasis on fighting corruption. These activities are operating to strengthen civil society and heighten the public's awareness of corruption and its impact on society. USAID's support for the Albanian Customs Department, in collaboration with the European Union, is also a means of addressing the problem of corruption in Albania.

In parallel with USAID's legal reform and related rule of law issues, the U.S. Department of Justice (DOJ) continues to implement two programs under SEED auspices. The Overseas Prosecutorial Development and Training (OPDAT) program trains prosecutors and defense attorneys in the Albanian criminal code and criminal procedures. New activities are focusing on the collaboration between the police and prosecutors. The second DOJ program, the International Criminal Investigations Training and Assistance Program (ICITAP), has been training the Albanian police, collaborating where possible with similar EU programs. ICITAP also has provided advisors to the Ministry of Public Order to help develop its institutional capacity

Setbacks occurred during the governmental crises of late 1996 and early 1997, and again in September 1998. The Kosovo Refugee Crisis in 1999 was a further impediment. Despite these difficulties, the Albanians adopted a constitution by popular referendum in November of 1998 and continue to implement it, albeit haltingly. The direct beneficiaries of these activities are the Albanian judicial system, and indirectly, every member of the Albanian public.

Key Results: Three key results are needed to achieve this objective: (1) more competent legal professionals as a result of training and better access to information on laws and legal reform issues; (2) restructuring of the legal system in line with international norms; and (3) promoting an environment in which citizens have legal recourse through the justice system.

Performance and Prospects: Performance for this SO suffered as a result of the absence of U. S. staff for half the year due to the evacuation. Progress did not meet expectations. USAID advisors assisted in drafting the governing statute and code of ethics for the National Chamber of Advocates. USAID continues to work with the Council of Europe (COE) to establish a National Judicial Association and to create better court administration throughout Albania.

The new constitution gives the Government of Albania a strong framework for building democracy and civil society. The challenge is to bring the document to life and implement its provisions through legal drafting and law enforcement. USAID activities in the rule of law sector will adjust to focus on these issues as appropriate given the changing emphases of the Government.

Possible Adjustments to Plans: No change in strategic plans identified at this time.

Other Donor Programs: The Organization for Security and Cooperation in Europe was instrumental in the preparation and passage of the new Albanian Constitution, and serves as a focal point for legal reform and anti-corruption activities. The COE provides legal expertise and training for the Magistrates School in Tirana, and for the judiciary. Additional donors to Albania's legal reform process are the Soros Foundation, Danida (Denmark) and GTZ (Germany).

Principal Contractors, Grantees, or Agencies: USAID implements this activity through the American Bar Association's Central and East European Law Initiative (ABA/CEELI) Project and the U.S. Department of Justice (DOJ). USAID's work is coordinated closely with the law enforcement and anti-corruption efforts of DOJ/OPDAT and

DOJ/ICITAP.

Selected Performance Measures:

	Baseline	Actual (1998)	Target (1999)	Target (2000)	Target (2001)
Magistrates School functioning	No (1995)	Yes	Yes	Yes	Yes
Number of professionals trained	0 (1995)	0	25	50	*
Constitution adopted by referendum	No (1995)	Yes	**		
Citizens have legal recourse and are trained in legal issues	0 (1995)	0***			

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*Target for 2001 will be set during upcoming SO review.

**Once achieved, there is no need to continue reporting on this indicator.

***This indicator was reviewed and determined not valid in 1999. New measure to be developed.

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: More Effective, Responsive, and Accountable Local Government, 182-023
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $1,400,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,760,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: Although in the past, local governments have been simply the extension of the central government, the potential for enhancing the devolution of power was increased by the passage of the new constitution in November 1998. The process of decentralization is being managed by a bi-partisan task force, which considered a wide spectrum of issues in weekly meetings throughout 1999.

USAID's local government programs are being implemented to support decentralization, and effective execution of newly devolved authorities and responsibilities of local officials, in about a dozen pilot cities. Citizens of these cities have found their quality of life improved through strengthened local administration and municipal services, according to recent citizen surveys. In some cases the cities have opened the decision-making process up to citizen participation, especially for economic development; and a few cities have broadly publicized their budgets. During the Kosovo Crisis in the summer of 1999, the necessity for local governments to participate in providing shelter and basic social services for large numbers of refugees emphasized the importance of increasing their management and service delivery capacities, and the need to enhance their decision-making authority.

Key Results: The following key results are needed to achieve this objective: (1) Central government transfers responsibility and authority to local governments; (2) Local government capable in budgeting, managing, planning, implementing and reporting on use of resources; (3) local governments provide improved services; (4) transparency and openness of local governments increased; and (5) local governments empowered to engage constituents in planning and implementing local, economic development plans.

Performance and Prospects: USAID advisors have worked with the Government of Albania at a ministerial level and through the decentralization task force to foster an informed, non-partisan dialogue on decentralization. At the same time, intensive work has continued to strengthen the capacity of administrations in pilot cities. The Association of Municipalities, a core group of city mayors, continues to be trained by USAID advisors in the modern budgeting process, public management, citizen participation and economic development.

Two of the three cities targeted to use formal priorities as a basis for actual spending met that objective. They were particularly successful in attracting funds from non-governmental sources, validating the effectiveness of a transparent budget process. The increase in municipal expenditures on services greatly exceeded the targeted increase, even after

accounting for inflation. Increased expenditures were possible in large part due to donor assistance in response to the civil unrest in 1998 and the Kosovo crisis in 1999.

USAID advisors have worked to improve service delivery as an essential component of building public confidence. Land management and water delivery by local authorities have improved, although gains continue to be mitigated by internal migration and were severely taxed by the influx of Kosovo refugees in the summer of 1999. During the crisis, USAID was instrumental in helping coordinate multi-donor infrastructure rehabilitation activities within the model cities. Implementers continue to work to ensure that as many as possible of these essential projects are completed.

The progress made in this sector has been considerable, especially given the historically limited role of local government in Albania, the setbacks from unrest in 1996-97, and the evacuation of U.S. citizens in August of 1998, and the Kosovo crisis of 1999. Decentralization and municipal capacity building are important Government of Albania priorities, and USAID activities receive strong Government support. The challenge is to maintain the momentum to implement the National Decentralization Strategy and, at the same time, to maintain the gains in citizen participation, especially given the coming local government elections in 2000. It will be necessary to streamline the local government activities while combining the efforts of USAID in this sector with those in the civil society programs.

Possible Adjustments to Plans: No strategic change in this objective has been identified.

Host Country and Other Donors: The World Bank and a bilateral Italian program provide support in major infrastructure (water, sewerage, etc.). The German Government has provided some technical assistance and training. The Netherlands is active in local government development. The Council of Europe provides equipment to selected municipalities and supports the decentralization efforts. Government of Albania contributions to the activities are principally in the form of personnel and facilities.

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

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Central government transfers responsibility and authority to local government (law allowing devolution of power in place)	No (1995)	No	Yes	*	*
Local government capable of budgeting, Planning and managing (cities Implementing)	0 (1995)	0	7	8	16
Local government provides improved service	0 (1995)	0	5	8	16
Local government supports economic development (cities with implemented economic development plans)	0 (1995)	0	4	5	10

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*Once "yes" achieved, this measure will no longer be reported .

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Improved Sustainability of Health and Social Benefits and Services, 182-032
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $1,000,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,240,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE:** FY 2005

Summary: Albania has the least developed public health system in Central and Eastern Europe. Many of its health care facilities are seriously dilapidated and outdated. The health delivery system still emphasizes curative services over primary care and preventive services. It suffers from weak planning and management capacity. The influx of refugees

from Kosovo added strain. The country's prior isolation, official pro-natalist policy, poor information, and lack of family planning alternatives have resulted in high mortality and morbidity rates for women. Abortion has been the predominant form of family planning.

This objective seeks to improve the sustainability of health benefits and services in Albania with an emphasis on women's health. Improved health services will fortify the productive capacity of Albania's human resources. Increasing the efficiency and lowering the cost of health services will reduce the social investment required to maintain a healthy population. Medical professionals (doctors, nurses, technicians and managers) are the channels through which projects are functioning, with the primary beneficiaries being Albanian citizens seeking quality health care. Women in Albania are gaining access to family planning information and services.

Key Results: Three principal results are necessary to achieve this objective. (1) Improved Reproductive Health Practices: Reliance on abortion and lack of familiarity with modern reproductive health methods contribute to the high maternal mortality rates. USAID's program emphasizes information dissemination, family planning counseling, improved access to services, and provision of higher-quality services. (2) Improved Hospital Services in Tirana: Albanian hospitals need to modernize their administrative procedures, clinical methods, and financial management. Through partnership arrangements USAID's program introduces improvements in administration, nursing, maternal and childcare, emergency medicine, and infection control. The participating Tirana-based hospitals will serve as models for replication to other hospitals. (3) **I**mproved Health Administration and Management: It is especially important to improve health management, performance budgeting, and cost control in Albania, which has a low level of health expenditures. USAID's program helps improve management skills and training, both at the ministerial and at the health provider levels.

Performance and Prospects: The implementation of this objective was set back by the August 1998 evacuation and travel restrictions. Program implementers responded by transferring training programs to locations outside of Albania, increasing the use of third country (non-American) technical consultants, and delegating greater responsibility to Albanian staff. With the return of the American staff, normal operations have resumed.

The Government of Albania is aware of the urgent need to revitalize and modernize its health care system. Working with USAID advisors, key health care administrators have acquired the knowledge and skills needed to manage more efficiently and effectively at the central level (the Ministry of Health) and at the district, hospital and polyclinic levels. Durres Hospital and University Hospital Center of Tirana have implemented techniques to improve hospital operations. They serve as models for the rest of the hospital system. Because of high vacancies, the number of hospital beds has been reduced. At the Durres Hospital, where the main hospital building collapsed in 1995, a strategic planning process has matched available resources with a long-range plan for a replacement hospital. At the University Hospital Center, administrative and medical records were computerized. In both hospitals, pharmaceutical and medical supply purchasing and distribution were computerized. Several national conferences have been held to share the information and management techniques developed at the pilot hospitals with over eighty hospital managers and administrators from all over Albania.

The planning capacity of the Ministry of Health has been improved through management training, computerization and a hospital facilities survey. A Learning Resource Center, which has been opened at the National Institute of Public Health with USAID support, provides access for students and faculty to modern management literature and research through the Internet. Health management courses were designed and are now being taught at the University of Tirana. Four Tirana hospitals have received extensive training in emergency medical services through a partnership program with Spectrum Health of Michigan. Albanian nurses from across the country are receiving in-service training opportunities to improve their skills and status in the health care system.

More than 1,400 service providers who were trained in five districts of Albania are now providing upgraded women's reproductive health services at 296 upgraded service sites. Training of additional providers is well underway, and the program will be expanded nationwide. In addition, information, education, communications and logistics management activities contribute to strengthening the service delivery points and private pharmacies throughout Albania. An intensive countrywide multimedia campaign especially focused in the five program districts was started in 1999. The campaign launched the presentation of the National Quality Family Planning Services logo. This campaign has the dual objectives of increasing public awareness of where to seek reproductive health/family planning services, and increase public usage of these services. Contraceptives are being provided throughout the country by the United Nations Population Fund (UNFPA) with assistance from USAID in logistics management.

Possible Adjustments to Plans: No strategic change in objective has been identified at this time.

Other Donor Programs: The World Bank is supporting the reconstruction of rural hospitals throughout Albania. The University of Montreal and the Paris Hospital System are providing planning assistance and management training to the Ministry of Health. The United Nations Development Program has provided health care manuals to medical facilities. Switzerland is strengthening the nursing school capacity. The European Union has a Public Health Facilities Maintenance project, and has supported capacity building at the Ministry of Health. The UNFPA is providing significant contraceptive commodities.

Principal Contractors, Grantees, or Agencies: USAID's current implementers are the American International Health Alliance, John Snow, Inc., and the U.S. Department of Health and Human Services.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Health Services Improved:					
--infant mortality (deaths/1,000 live births)	35.7(1994)	20.4	27	25	23
--Maternal mortality (deaths/100,000 births)	40.6(1994)	39	23	20	19
Access to Quality Health Services Improved:					
--cumulative number of primary health care clinics in compliance with quality standards	199 (1995)	513	625	625	*
--clinics providing family planning services	2 (1995)	108	220	250**	*

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*Performance measurement period currently ends in 2000.

**Target revised downward in light of program slowdown during evacuation.

The United States Agency for International Development

Albania

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	27,400	49,300	32,000	32,000
SEED Act Supplemental Funds Request	0	0	0	0
Economic Support funds	0	12,000	0	0
P.L. 480 Title II	607	11,890	8,645	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**28,007**	**73,190**	**40,645**	**32,000**
Operating Expenses	784	570	900	1,500
Trust Funds	0	0	0	0
Total Operating Costs	**784**	**570**	**900**	**1,500**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	5	3	5	5
Other U.S. Citizen	1	1	2	3

FSN/TCN DH	10	7	13	15
Subtotal	**16**	**11**	**20**	**23**
Program Funded*				
U.S. Citizen	1	1	2	2
FSN/TCN	0	0	2	2
Subtotal	**1**	**1**	**4**	**4**
Total Direct Hire Work Force	**17**	**12**	**24**	**27**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**17**	**12**	**24**	**27**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
182-013 - Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	15,730	0	0	0	0	0	15,730
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
182-014 - A More Competitive and Mkt.-Responsive Priv. Fin. Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	1,600	0	0	0	0	0	1,600
- ESF	0	0	0	0	0	0	0

- P.L. 480/II	0	0	0	0	0	0	0
182-021 - Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	4,000	0	0	4,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
182-022 - Legal Systems that Better Support Dem. Processes and Mkt. Reform							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	4,000	0	0	4,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
182-023 - More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	1,760	0	0	1,760
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
182-032 - Improve the Sustainability of Social Benefits and Services							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0		0	0	0	2,240	2,240
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
182-041 - Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0

- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
182-042 - Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	2,670	0	0	0	0	0	2,670
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	20,000	0	0	9,760	0	2,240	32,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Howard Sumka

The United States Agency for International Development

ARMENIA

Development Challenge

External Debt

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FY2001 Program / Activity & Budget Information

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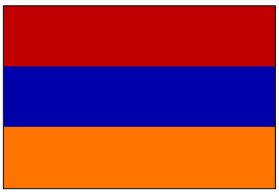
Introduction



Since its independence, Armenia has emerged as a strategically important republic in the Caucasus, whose progress towards a democratic political order and free market economy is critical to U.S. interests in the region. Specifically, U.S. engagement in Armenia is focused on promoting a settlement of the Nagorno-Karabakh conflict, as well as regional economic integration and political cooperation. This approach is designed to contribute to regional stability and security in the Southern Caucasus; ensure that countries in the region have access to world markets for their natural resources and products, especially Caspian energy supplies; and strengthen Armenia's linkages to the world economy. Furthermore, Armenia's importance to the United States emanates in part from the two nations' strong cultural ties – including a very active and committed Armenian-American Diaspora community. The current USAID program is an integral part of the U.S. Government's broader efforts in Armenia to address a range of U.S. national interests including conflict resolution, democracy and human rights, economic prosperity and social sector development.

The Development Challenge

Armenia is a small, landlocked, mountainous country with few natural resources. About the size of Maryland (29,800 square kilometers), it is situated in the Caucasus Region, surrounded by Georgia, Azerbaijan, Iran and Turkey. The break-up of the Soviet Union in 1991 brought an end to the commercial ties and protected markets which had helped make Armenia among the most prosperous of the former Soviet republics. The dissolution of the Soviet Union also exacerbated ethnic and national tensions in the region, contributing to the outbreak of armed conflict between Armenia and Azerbaijan over Nagorno-Karabakh. Although a cease-fire has held since 1994, Armenia continues to face a trade embargo and closed borders imposed by Azerbaijan, as well as closed borders with Turkey.

Armenia's early years of independence were characterized by severe economic decline and energy shortages. This situation precipitated a new humanitarian crisis, while the country was still recovering from the economic and social fallout of the 1988 earthquake that had resulted in over 25,000 people dead and 500,000 homeless.

Armenia's economic transition has been hampered by the legacy of central planning, severe economic shocks arising from the collapse of the Soviet Union, and limited will on the part of national decision makers to undertake critical reforms to restructure and privatize the economy. The continuing impasse with Azerbaijan (and indirectly with Turkey) over Nagorno-Karabakh limits Armenia's access to many of its traditional, and prospective, new trading partners.

While the Parliamentary and local elections in the spring and fall of 1999 were considered to be the most free and fair conducted in Armenia thus far, the shortcomings of previous elections and perceptions of widespread government corruption undermine public confidence in the political process. The October 1999 slayings of the Prime Minister and several key government officials represent a dramatic setback for the country. The new government – formed by the late

Prime Minister's brother, Aram Sargsian – has promised to continue the efforts started by Vazgen Sargsian to reinvigorate economic restructuring, fight corruption, and pursue peace negotiations with Azerbaijan.

In recent years, the Government of Armenia -- with U.S. support -- has pursued policies that have resulted in improved macroeconomic trends. Growth has been positive since 1994, including 7.2% GDP growth in 1998 and projected growth of 5% in 1999. Inflation has also stabilized,

falling from 176.7% in 1995 to a 4.9% target for 1999. Moreover, from 1995-1998, the budget deficit declined, contributing to lower interest rates and exchange rate stability.

While foreign direct investment and exports remain below the levels needed for sustainable growth, modest gains have been made in these areas. Overall, the pace of structural reforms, leading to a market economy, has lagged behind earlier expectations that were based on progress achieved in the mid-1990s. With USAID assistance, mainly since 1998, there has been reasonable restructuring progress in conversion to International Accounting Standards, tax and fiscal reforms, banking, the energy sector, and land privatization. Comprehensive privatization and capital markets development have made little headway in last two years. However, late in 1999 three privatization decrees were issued that can accelerate privatization and the Government of Armenia is giving the capital markets security law, very high priority for passage in 2000. The Government of Armenia must be more vigorous and focused in its efforts to complete comprehensive privatization and to develop its capital markets.

The economic and political turmoil experienced by Armenia in recent years has had a negative impact on living standards. For example, per capita income fell from approximately $2,500 in 1991 to $500 in 1998; official unemployment increased threefold from 1992-1997; and more than half the population now lives below the poverty line. Maternal mortality climbed nearly 70% between 1991 and 1997, and there is evidence of increased abortion rates. A recent World Bank report suggests that Armenia's poor typically experience periods of malnutrition, have insufficient heating in winter months, and have less access to educational and health services than before the fall of the Soviet Union.

Nevertheless, Armenia has significant assets on which to build a stable democracy and sustainable economy. A skilled and educated workforce (e.g., 99% literacy and 22.8% higher education), strong national identity, and political and financial support from the Armenian Diaspora help facilitate economic recovery and growth. Assistance from the U.S. Government and other donors has played a key role in this process, first in the form of humanitarian aid during the early- and mid-1990s, and increasingly through longer-term programs which support the transition to a market democracy.

In the spring of 1999, USAID approved a new, five-year, program strategy. At a macro-level, USAID will continue to support Armenia's transition to a free-market economy, governed by democratic principles and providing for the basic needs of its citizens. This work will be balanced by USAID's renewed emphasis on community-level initiatives to increase income and employment opportunities, encourage grass-roots participation in resources management and systems of governance, and improved delivery of social services. Specifically, USAID's objectives focus on employment, promoting private sector growth and investment, ensuring an economically and environmentally sustainable energy sector, supporting civil society's expanded role in decision-making processes, facilitating the impartial adjudication and enforcement of laws, and strengthening the social safety net.

External Debt

Despite concerns about Armenia's future ability to service its foreign debt (which currently stands at approximately $900 million), the Government of Armenia has successfully maintained the classification of a low debt-burden country. Its levels for ratio of foreign debt and debt service are projected to be 46% and 2.6% of GDP, respectively, at the end of 1999.

Humanitarian Assistance

About $2.114 million in PL480 II (commodities and transportation) were budgeted in FY 1999 by USAID's Office of Food for Peace for emergency feeding needs in Armenia. An additional $1.127 million is estimated for FY 2000.

Other Donors

Between 1994-1998, it is estimated that more than $450 million in assistance was provided to Armenia through multilateral mechanisms and approximately $825 million by bilateral donors. The United States has been the largest single donor, providing $425 million during the same five-year period. Major sources of multilateral financing include the International Monetary Fund (IMF), World Bank, International Development Agency, United Nations and European Union. Major bilateral donors include France, Germany, Great Britain, Japan, the Netherlands, Sweden and Switzerland.

In each sector in which it is active, USAID has coordinated its activities with those financed by other donors. Likewise, policy priorities related to the USAID portfolio have been developed and pursued in consultation with other donors. For example, USAID has been instrumental in influencing World Bank conditionality, and leveraging large World Bank loans through targeted technical assistance, especially in the areas of privatization and energy. IMF recommendations on monetary policy and systemic problems are integrated into USAID technical assistance activities. The World Bank's assistance in civil service reform is a key component of the reform process and impacts all of USAID's programs, particularly in the fight against corruption. The European Union's technical assistance program for the Commonwealth of Independent States complements USAID programs in a number of areas, including agriculture, regional energy policy, judicial training, and social security. USAID's technical assistance program has mobilized the support of the IMF, World Bank and the European Bank for Reconstruction and Development – in terms of loan conditionality and advocacy – to initiate the privatization of Armenia's energy sector, starting with the power distribution companies through a transparent international tendering process.

The United States Agency for International Development

Armenia

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID's FY 2001 assistance efforts will focus simultaneously on economic, political and social institution building, as well as on grassroots initiatives to provide concrete improvements in the quality of life of the population.

In the area of economic restructuring and growth, USAID is requesting funds for tax and fiscal modernization, public sector resources management, customs reform, privatization, land registration and titling, capital markets development, and enterprise-level assistance (credit and technical assistance). Energy sector activities will focus on the privatization of distribution and generation companies, increased operational efficiency, and analysis of alternative energy sources.

USAID’s FY 2001 democracy and governance programs will support political processes, citizen advocacy, government accountability and transparency, media development and rule of law. With continued Government of Armenia enthusiasm for addressing issues related to corruption, USAID will place increased emphasis on anti-corruption efforts across the USAID portfolio, as well as initiate a targeted anti-corruption activity under the rule-of-law program. Similarly, to ensure citizen awareness of and support for the reform process, USAID will enhance public education efforts in all of its programs.

In the social sectors, USAID will provide targeted support to Government of Armenia efforts to broaden the benefits of reform. Programs will develop options for social insurance systems, demonstrate different approaches to increasing the efficiency and effectiveness of social assistance and health care systems, and design alternate mechanisms to meet the immediate needs of the most vulnerable populations. In this context, USAID will continue to promote recovery and reconstruction in the zone affected by the 1988 earthquake.

USAID will pursue options to promote Caucasus regional cooperation in the sectors outlined above, with a possible new focus on the regional implications of water resources and environmental management. The U.S. Congress has directed the Administration to provide some FY 2000 FSA funds "...for confidence-building measures and other activities in furtherance of the peaceful resolution of the regional conflicts, especially those in the vicinity of Abkhazia and Nagorno-Karabagh." USAID and the State Department Coordinator are collaborating in the design and implementation of such activities.

Training to support USAID’s overall objectives and multi-sectoral logistical requirements are funded under the crosscutting and special initiatives category cited in the attached funding tables. The major portion of resources under this rubric is allocated to technical cooperation programs of other U.S. agencies funded under the FREEDOM Support Act (e.g., U.S. Departments of State, Energy, Justice, Agriculture, Treasury and Commerce). These programs complement USAID-funded activities. In Armenia, for instance, U.S. Treasury advisors play a strong role in modernizing tax administration and drafting a new Customs Code in accordance with WTO standards. As in FY 2000, FREEDOM Support Act funds will be provided in FY 2001 for programs designed to enhance border security and export control capabilities under the Administration’s Expanded Threat Reduction Initiative (ETRI). ETRI assistance is expected to play a role in reducing regional tensions, and contribute to the nonproliferation of weapons of mass destruction, and associated delivery systems, material, technologies and expertise.

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: Growth of the Competitive Private Sector, 111-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $10,000,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $9,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY 2003

USAID has been providing support since 1993 for a variety of initiatives. Activities have been designed to facilitate Armenia's recovery from the negative impacts of the 1988 earthquake, the collapse of the Soviet Union, the war with Azerbaijan, continuing restrictions of access to external markets, and new shocks related to the financial crisis in Russia. However, a comprehensive approach to supporting private sector growth was not initiated until late 1998. This objective was redefined and approved in 1999 as part of a new USAID strategy for Armenia. In conjunction with other economic objectives, it contributes to the Mission's goal of creating employment opportunities in Armenia and supports the U.S. Mission goal of economic prosperity by making Armenia more attractive to potential investors. The assistance approach is two-fold: (1) concentrate on firm-level interventions to create jobs and generate income; and, (2) promote policy, legal and regulatory changes to improve the prospects for competitive business development. By 2003, it is expected that the private sector will be contributing at least 85% of GDP (compared to an estimated 60% of GDP in mid-1997) and will account for 72% of total employment (compared to 56% in 1997). These changes will reflect a more productive and dynamic private sector, directly benefiting entrepreneurs and labor, and indirectly benefiting the entire Armenian population.

Key Results: The USAID program is designed to accomplish four results: (1) improved business skills; (2) improved business climate; (3) access to broader markets; and (4) local economic development. The major impact of USAID's work in these areas is expected to occur in the coming years—pending policy commitments and legislative action. Nevertheless, Armenia has experienced growth in private sector activity--which now exceeds 70% of the total GDP from a 1997 baseline of 60%, and exports have increased two-fold since 1997.

Performance and Prospects: Performance over the past year has been somewhat uneven, especially in terms of a slowed privatization process. However, USAID views these problems as delays, not course changes. With USAID technical assistance and training, the Government of Armenia has undertaken a series of measures to move towards a modern market economy. Agricultural land, housing, and a significant percentage of state-owned enterprises have been privatized. Price and trade liberalization accomplished. A civil codes has been adopted, creating the legal framework for property rights and contract enforcement. Significant progress has been made toward World Trade Organization accession. The legal and institutional framework for commercial banking established.

Despite the slowing pace of macro-level reforms, conversion to free-market principles remains the only means for Armenia to develop a sustainable national economy. However, as a result of USAID's strategy exercise in spring 1999, the Mission recognizes the need for shorter-term employment creation and income generation to sustain political support for continued economic reform. Responding to this need, USAID's program has been expanded to support the improvement of business skills, the identification of export opportunities, and the provision of credit. Micro and small/medium enterprise sectors are specifically targeted, in order to tap their potential for rapid job creation and income growth. Without the requested funding for this objective, USAID and the Government of Armenia will lose an important opportunity to expand the benefits of reform to the firm and individual level.

Prior to 1999, Armenia made rapid progress towards mass privatization: most of the country's state and collective farms were dismantled and distributed to individuals as private farms, and more than 90% of small enterprises and about 70% of medium and large enterprises have been privatized. With the transition from voucher privatization to cash privatization at the end of 1998, the pace of privatization slowed considerably, and only 50 of the remaining state-owned medium and large enterprises were privatized in 1999. USAID, in close partnership with the World Bank, has encouraged the Government of Armenia to take vigorous action in support of the privatization process. As a result, it is now expected that the Government of Armenia will issue a key decree to remove many of the roadblocks to privatization; this measure will also result in over 700 medium to larger enterprises moving into the privatization pipeline in the coming months.

In order to promote transparency in business transactions and reduce opportunities for corruption, USAID has assisted the Government of Armenia and private sector firms to revise their accounting systems to meet international standards.

In keeping with expected performance, Armenia will have adopted by the end of CY 1999 the core group of 28 accounting norms, which are in accordance with International Accounting Standards (IAS). By the first quarter of CY 2000, USAID will have provided direct assistance to over 600 enterprises in converting their accounting systems; all Armenian firms are currently scheduled to convert to IAS by the end of CY 2002.

The small and medium enterprise (SME) sector is the most dynamic part of Armenia's economy, despite being in the early stages of its development. For example, registered private entrepreneurs and enterprises grew by 18.2% and 9.4% respectively in 1998. USAID-funded activities have provided direct assistance to local firms and agribusiness that have been successful in solving business problems, developing growth strategies, introducing new technologies, finding business partners, and improving products and services.

Business and professional associations are emerging as strong advocates for the market-oriented reforms. For example, a number of local USAID-assisted organizations have appeared before National Assembly committees to address legal and budgetary issues impacting on the business community. As another example of USAID's impact in this area, the Armenian Bankers Association formed an Arbitration Court that will adjudicate business disputes.

Possible Adjustments to plans: In recognition of the dire employment/income situation faced by most Armenians, USAID will conduct a comprehensive assessment of the potential for SME development and Armenia's comparative advantage in regional and world markets, with the expectation that increased support will be provided for community-based SME activities. USAID will consider supporting a reinvigorated Government of Armenia push in the privatization process by assisting case-by-case privatizations and recently privatized enterprises. In early 2000, USAID will conduct an assessment of its portfolio supporting private sector growth; adjustments in USAID assistance will be based on the findings of this review.

Other Donor Programs: Conditionality for World Bank loans is closely linked to progress in privatization. The European Union's technical assistance program (EU/TACIS) has a small program providing training in accounting reform that is complementary to USAID's broader program. Various non-USAID credit programs target particular niche. For instance: EU/TACIS and the U.S. Department of Agriculture target the agricultural sector; the World Bank and Lincy Foundation provide larger loans ($100,000 - $1,000,000).

Principal Contractors, Grantees or Agencies: Current grantees and contractors include: 1) the Eurasia Foundation, Shorebank, Foundation for International Community Assistance, and World Vision International (credit and technical assistance for micro, small and medium enterprises); 2) International Executive Service Corps and Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (technical assistance to firms and farmers); 3) Sibley International (accounting reform); 4) International Business and Technical Consultants, Incorporated (privatization); and 5) Academy for Educational Development/AED (training).

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Private sector share of GDP (%)	60 (1997)	70	75	80	82.5
Private Sector Exports ($millions)	162 (1995)	300	330	360	400
Euromoney's Country Risk Index (0 - 100)	28 (1995)	32.7	40	42.5	45

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: Investment Increased, 111-014
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $8,000,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $10,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: The mobilization of greater levels of financial capital from domestic resources and foreign investors is essential to Armenia's sustainable long-term growth. The purpose of this strategic objective is to increase gross fixed investment to 24% of GDP (from a 1997 baseline of 17%) and to realize an annual flow of foreign direct investment of $160 million (from a 1997 baseline of $51 million) by 2003. USAID has been financing activities designed to promote investment in the Armenian economy since 1995, but a comprehensive approach did not begin until late 1998. During the spring of 1999 strategic planning exercise, this objective was redefined to include fiscal reform activities.

USAID assistance addresses a series of structural, policy and institutional constraints, relating closely to activities under the previous objective ("Growth of the Competitive Private Sector") —with the common ultimate goal of increasing employment and income opportunities. The most significant constraints to investment in Armenia are: a legal and regulatory framework that is not investor friendly; a dilapidated stock of fixed assets and obsolete production techniques; an under-developed banking sector, absence of capital markets, and high interest rates; inadequate tax and fiscal systems; and insecure land ownership. In addressing these issues, USAID programs will directly benefit private sector actors by enabling them to expand business activity and make rational investment decisions, and the Government of Armenia agencies overseeing the emerging market framework. Ultimately, all Armenians will benefit from increased employment/income opportunities and economic stability. This objective directly supports the U.S. Mission goal of economic prosperity by helping to create the policy and institutional environment conducive to private investment and open markets.

Key Results: USAID has identified two results to pursue under this objective: (1) business laws and regulations are equitable and administered effectively; and (2) increased access to financial capital. USAID's support for banking, accounting and land registration reforms, as well as other restructuring efforts, can be linked to the recent growth of savings, private sector credit and foreign direct investment levels in Armenia. It is hoped that the 50%-100% increase that is expected in each of these areas between 1997 and the end of 1999 will be the precursor to longer-term positive trends.

Performance and Prospects: USAID, in coordination with other U.S. and donor agencies, is working with the Government of Armenia and the private sector on a variety of initiatives to attract investment. USAID technical assistance and training are instrumental in creating a commercially viable, systemically sound, open and fair capital market that will allow the purchase and sale of securities to form long-term savings. In conjunction with U.S. Treasury advisors, USAID is helping to reform the tax system and improve Armenia's budgetary and payments systems in ways that meet the needs of a market economy. Both of these efforts will contribute to increased government revenues. In the banking sector, USAID technical advice and training are strengthening the Central Bank's capacity to oversee the banking sector through on-site and off-site supervision. Policy reform is helping to make commercial loans more affordable by reducing interest rates to their true market levels. Efforts to support land titling and registration ensure the comprehensive and secure right to private urban and rural land ownership, enabling individuals to buy or sell property or use it as collateral to obtain loans. In coordination with USAID's democracy program, technical assistance and training contribute to the development of critical commercial laws, while enhancing the independence of the judiciary and its capacity to enforce those laws. Many of these activities have the collateral impact of reducing opportunities for corruption.

In some instances, performance in 1998 exceeded expectations. Armenia has had success in attracting foreign direct investment (FDI), mainly as a result of large-scale privatization involving the telephone utility, the cognac factory, and two hotels. The estimated $218 million net inflow between January 1998 and September 1999 far exceeded the combined total for the four previous years ($95 million). While the privatization process has slowed, USAID continues to support reform efforts to address key investment constraints, such as incomplete legal and regulatory reforms and a lack of transparency and predictability in the business environment. In FY 1999, USAID assisted in the drafting of new securities market legislation, which includes provisions for an independent securities commission and provides the framework for market development and regulation. Progress also was made in the development of an independent registry of share-holding companies and training securities brokers and dealers. However, further movement and future USAID assistance in this area are contingent on the Government of Armenia's political will to pass the Securities Law, which is pending the National Assembly's approval.

Since late 1998, the Armenia -- with USAID and U.S. Treasury assistance -- has moved rapidly toward implementation of comprehensive and modernized tax administration, and performance is considered on track with expectations. Transparent and efficient practices--including the automation of records, provision of taxpayer services and criteria for audit selection--have been established in two Tax Inspectorate offices in Yerevan. Early indications are that collections by the pilot offices have increased substantially; rollout of the new systems is scheduled to take place shortly in the remaining 18 Yerevan-area offices. Extensive technical assistance has been provided to the Government of Armenia in

the drafting of a new Customs Code that will comply with World Trade Organization norms. As a result of USAID technical advice, Armenia is now developing modern revenue and expenditure forecasting models, market-based valuations, and program-based budgeting techniques for the 2000 cycle, with a focus on the Health and Education Ministries.

USAID assistance was critical to upgrading the technical skills of Central Bank of Armenia staff, resulting in the establishment of improved bank supervision practices. Deposit mobilization appears to be growing, but public confidence in banks remains low. USAID is addressing this issue by facilitating the conversion of banks to international accounting systems and the development/installation of an electronic payment system; the latter will allow for the issuance and processing of international credit and debit cards by commercial banks.

One of the major constraints limiting the potential borrower pool for banks is the lack of an adequate framework for pledging land or other assets as collateral for loans. A major step forward was taken in 1999 with the adoption of a title registration system for real property, although well-defined procedures to foreclose on pledged assets are still lacking. Current USAID assistance builds on the progress Armenia has made in land privatization, which to date has resulted in the transfer of 75% of agricultural land to private ownership. In November 1998, a new law was enacted which mandates the privatization of the remaining 25% of reserve lands. In coordination with the World Bank and EU/TACIS, USAID has supported the use of a streamlined methodology to survey, register and title urban and rural land throughout the country. Largely as a result of USAID technical support, 100,000 parcels have been surveyed to date.

The activities under this objective are highly interrelated, where the successful outcome of one activity supports the successful completion of another. Reduced funding for this objective would result in significant delays in achieving comprehensive market reform in Armenia.

Possible Adjustments to plans: USAID is considering an expanded program of support in the area of customs reform--perhaps with regional linkages—as a means to increase trade and revenues and decrease the opportunities for corruption. For similar reasons, and based on requests from the Government of Armenia, USAID is considering options to improve public resources management. In early 2000, USAID will conduct an assessment of its portfolio supporting private sector growth; adjustments in USAID assistance will be based on the findings of this review.

Other Donor Programs: The Department for International Development (British), EU and World Bank are providing assistance on civil service reform, which has a potential impact on all of USAID's market reform efforts. The British also have provided an advisor on customs systems; this work could form part of the basis for a broader USAID initiative in this area. The UN Conference on Trade and Development (UNCTAD) is providing assistance on customs taxes, as is the World Bank. The IMF has a resident advisor for bank supervision. The Government of Armenia will utilize World Bank credit to support its land-titling program.

Principal Contractors, Grantees or Agencies: Current contractors include Price-Waterhouse-Coopers (capital market development); the Barents Group (tax/fiscal reform, bank supervision); RONCO (land registration/titling); Chemonics (commercial law); and the Academy for Educational Development (training).

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Foreign Direct Investment ($millions)	51(1997)	88	100	130	150
Household Deposits ($ millions)	27 (1997)	41	55	70	80
Loans to Private Enterprises ($millions)	68 (1997)	89	105	120	150

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: Economically/Environmentally Sustainable Energy Sector, 111-015

STATUS: Continuing
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $8,000,000 FSA **PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE:** $6,500,000 FSA
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: Energy supply became a critical issue for Armenia in late 1991, when Azerbaijan shut the main pipeline transporting Russian gas to Armenia. This action meant that a smaller pipeline through Georgia, which was subject to disruption, remained the only source of natural gas supplies for electricity generation and heating. The ensuing energy crisis was the major motivation for the Government of Armenia's controversial 1995 re-opening of the Armenian Nuclear Power Plant (ANPP), which had been shut down after the 1988 earthquake. While this action alleviated the immediate energy shortfall, the Soviet-designed ANPP is considered inherently unsafe by international nuclear regulatory agencies, despite extensive safety improvements made in recent years. Armenia's continued dependence on Russia as its sole source of natural gas could weaken its commitment to close the ANPP. While Armenia has significant hydroelectric power potential, increased output in this sector has resulted in the reduction of the water level in the country's largest lake (Sevan) to ecologically dangerous levels.

USAID energy sector assistance began in FY 1992, responding to the emergency situation faced by Armenia in that period (e.g., power outages as the norm, limited winter heating options). This humanitarian-oriented assistance included the provision of fuel oil and spare parts for electricity generation from the thermal power plants, and weatherization of numerous facilities (hospitals, schools, etc.). Since 1995, USAID's energy sector program has evolved to focus on systemic reform, increasing the efficiency and private-sector participation, and reducing the hazards presented by the nuclear plant. The current strategic objective, which was approved in 1999, is intended to promote the development of an efficient, reliable and financially self-sustaining energy sector that is appropriate for the emerging Armenian market economy. By FY 2003, it is expected that the energy sector in Armenia will be economically and environmentally sustainable, with revenues covering operating costs and depreciation of assets and greater efficiency in the production and consumption of energy. The immediate beneficiaries will be the restructured energy enterprises, regulators and Government of Armenia agencies that will be better equipped to contribute to the development of a rational energy sector. The entire Armenian population will benefit from the economic revitalization and stability engendered by USAID's energy sector support. Achievement of this objective contributes to U.S. interests in economic prosperity and regional peace and stability.

Key Results: This objective is designed to achieve three key results: (1) increased private sector participation; (2) increased economic efficiency; and (3) replacement power projects developed to facilitate the closure of the Armenian Nuclear Power Plant by 2004. Significant progress against indicators for these macro-level results has not been achieved to date. However, the privatization of distribution companies is imminent, energy prices have been rationalized, metering systems are being installed, collections have increased in areas participating in USAID pilot programs, and safety at the ANPP has been improved—pending its eventual closure.

Performance and Prospects: Ongoing USAID interventions in the area of metering, include technical assistance, training and targeted equipment provision to improve the commercial operation of the Armenian power sector, and help address the non-payments problem. Institutional and policy reforms assistance addresses issues such as restructuring and privatization, pricing and tariff methodologies, and the regulatory framework. Analytical work for new power projects is also provided. To date, USAID assistance has resulted in some critical successes: the passage of an Energy Law; the creation of an Energy Regulatory Commission; restructuring of the electric power sector; and the privatization of 13 mini-hydroelectric plants. Armenergo, the power utility previously responsible for all electricity generation, transmission, and distribution, has been effectively "debundled". USAID, EU and World Bank technical assistance and policy dialogue have led to increased tariffs which now approach full cost recovery. As part of its efforts to identify power projects to replace the ANPP, USAID financed a coal exploration program to assess the possibilities of increased extraction and use of coal in Armenia and is considering the funding of pre-feasibility studies to exploit the country's wind energy potential. USAID supports the work of the U.S. Department of Energy to improve the operational safety of the ANPP. USAID also funds U.S. Nuclear Regulatory Commission efforts to strengthen the regulatory capability of the Armenian Nuclear Regulatory Authority.

In early 1999, USAID and Armenia reached an agreement outlining planned energy sector assistance and a series of Government of Armenia commitments to facilitate those efforts. While major Government of Armenia actions remain to be taken over the next year, USAID's technical and commodity support is laying the groundwork for the privatization of power distribution--now scheduled for May 2000--and the later privatization of energy generation. Systems have been developed for the regular collection and analysis of financial data. Through technical assistance and the ongoing provision of equipment, transmission and distribution metering capacities are being upgraded. In two pilot areas,

collections have increased by as much as 35%. Nationwide metering of the transmission system and distribution sub-stations will be completed by the end of 2000, thereby reducing commercial and technical losses and making the wholesale power market more attractive to private sector investors. Technical assistance developed and implemented the conversion of energy sector agencies to International Accounting Standards. A strategy has been developed for the self-financing of the Armenian Energy Regulatory Commission. USAID advisors have reviewed Armenia's least-cost generation plan and suggested improvements; and conducted an operations and maintenance cost study. They also drafted the tendering documents for privatizing the electrical distribution companies in support of World Bank and IMF loan conditionality; and developed market rules for energy sales which are expected to form the basis of future commercial operations.

While substantial progress has been made under this objective, a cut in funding would disrupt the privatization of power distribution and prematurely cutoff efforts to build transboundary energy linkages in the Caucasus region.

Possible Adjustments to plans: A USAID-funded needs assessment of transboundary energy linkages in the Caucasus is expected to generate recommendations for a regional energy initiative. Consistent with improving the energy security of Armenia, Georgia and Azerbaijan, this initiative will support the re-integration of the Caucasus regional power grid to increase regional energy trade, stabilize the three national energy systems, and facilitate least-cost power generation, transmission and distribution.

Other Donor Programs: USAID's energy sector initiatives are coordinated closely with World Bank programs, which support the rehabilitation and strengthening of the power transmission and distribution infrastructure. The European Union assists the Ministry of Energy in developing energy efficiency policies and legislation, as well as billing and collection systems.

Principal Contractors, Grantees or Agencies: Current contractors include Hagler Bailly (restructuring and privatization) and the Academy for Educational Development (training). Partnerships have been established with the U.S. Energy Association and U.S. National Association of Utility Regulatory Commissioners (exchanges and training). USAID also provides funding to other U.S. agencies for energy sector programs in Armenia including: the U.S. Department of Energy; and the U.S. Nuclear Regulatory Commission (for operational safety at the ANPP).

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Percentage of privatization process completed for:					
--Distribution enterprises	0(1997)	0	35	100	N/A
--Generation enterprises	3 (1997)	3	3	10	25
Collections from end-users ($millions)	66 (1997)	80	85	90	95

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: Increased Citizen Participation in Political, Social and Economic Decision-Making Processes, 111-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $8,000,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $6,500,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: USAID has been providing support in this area since 1994, focusing on political party development, improved elections administration, NGO development, civic education, and strengthening independent media. This objective was then redefined and approved in spring 1999, as part of the USAID strategic planning process. In general, Armenia's transition to democracy can be characterized as incrementally positive, although progress has proceeded at an

uneven pace. While elections have become the norm within the political culture, early presidential and parliamentary elections were marked by numerous allegations of fraud. Public opinion polls show a high degree of cynicism and apathy in the democratic process, which has been reflected in low voter turnout in recent elections. There continues to be a widespread public perception of powerlessness, largely as a result of economic hardship and endemic corruption. While many of the institutions required for a democracy are now in place, processes are not fully matured and citizen involvement is too low to ensure government accountability and responsiveness to citizen needs. The revised objective focuses on encouraging and enabling citizens to engage elected officials and their appointees (at both national and local levels) in meaningful dialogue. All citizens of Armenia benefit from this program through increased awareness of their rights and responsibilities in a democracy and through the development of more responsive political institutions. Achievement of this objective supports U.S. Mission goals in democratic practices and human rights.

Key Results: This objective is designed to achieve four key results: (1) strengthened political process; (2) increased citizen advocacy; (3) enhanced circulation of information and (4) increased government accountability and responsiveness to citizens, primarily at the local level. In 1999, progress towards strengthening the political process was particularly noteworthy. International and domestic observers reported improved performance in parliamentary and local elections. Citizen advocacy also improved as NGOs became more active and institutionally more mature.

Performance and Prospects: USAID support to political party development and election administration has helped citizens become increasingly familiar with their rights, roles and responsibilities in a democracy. In turn, citizens have begun using various mechanisms to participate in the political process. The continued development of independent media and NGOs is also encouraging. In early 1999, the Government of Armenia passed a new Universal Electoral Code addressing the problems identified in earlier elections, providing for a more transparent electoral process, and establishing mechanisms for election observation by domestic monitors. USAID played a key role in ensuring that domestic observation was included in this new law. USAID also provided funding and training for the largest group of domestic observers in the country, ensuring that observers were located in almost every precinct. As a result of this USAID support, as well as assistance from UNDP and encouragement from the Council of Europe, parliamentary and local elections held in 1999 received relatively positive reports from most domestic and international observers, with few of the gross violations that marred earlier elections.

Progress in citizen advocacy was significant, although slow, due to the nascent stage of NGOs. In the coming years, USAID will expand its support for general NGO strengthening, emphasizing increased NGO advocacy and constituency-building skills and developing the more nascent NGO community outside Yerevan. USAID will also work with local governments to increase their receptiveness and outreach to NGOs and citizens. In addition to making public sector entities more accessible to citizens, USAID’s new program will improve national policies to provide more autonomy and responsibility to local government, strengthen local government-related professional organizations, and modernize local government management systems. To increase citizens’ understanding of democratic political systems, USAID has also financed the training of teachers in over 270 secondary schools to conduct civic education classes.

Journalists, production staff, and managers from independent television stations across the country continue to benefit from professional technical and journalistic training, regularly contributing objective news reports for programs in Armenia and in the southern Caucasus region. A new activity focusing on developing the skills and financial viability of the print media is underway; plans also call for a special emphasis in the coming year on investigative journalism for both television and print media reporters.

Possible Adjustments to Plans: The revised objective approved in spring 1999 calls for new programs with the print media and for local government strengthening. No other major adjustments are planned at this time, although USAID may consider assistance to the legislative branch to help increase government accountability and responsiveness to citizens. USAID will continue to review its program and the results that are achieved, and make changes as needed.

Other Donor Programs: USAID is the lead donor in democratic development in Armenia. Other donors, including The Open Society Institute and the European Union, provide limited assistance to media and NGO development. International organizations such as the Organization for Security and Cooperation in Europe (OSCE), the Council of Europe, and UNDP provide special election-related assistance with USAID and UNDP providing ongoing assistance for general election administration and preparation.

Principal Contractors, Grantees, or Agencies: Current USAID funded activities are implemented by the following grantees: Internews (independent media), the Eurasia Foundation (small grants for citizen participation and media development), the National Democratic Institute (political party development), the International Foundation for Electoral Systems (election support), the Armenian Assembly of America's NGO Training and Resource Center, Junior

Achievement of Armenia, and International Research and Exchanges Board (training and exchanges). Training support is also provided under contract with the Academy for Educational Development.

Selected Performance Measures:

	Baseline (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Improved evaluation of elections by observers	Flawed	Improved	NA*	NA*
Improved advocacy score from the Regional NGO Sustainability Index	6	5	5	4
Number of commercially viable media outlets	0	0	1	1

* There are no targets for the years 2000 and 2001 because there are currently no scheduled elections. The next scheduled elections are in 2003. The target for 2003 is free and fair elections.

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: Laws are Enforced and Adjudicated Impartially, 111-022
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $1,500,000 FSA
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $2,500,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: Although this objective was redefined and approved in 1999, USAID has provided limited support since 1996 for initiatives designed to promote the rule of law in Armenia. In 1995, Armenia adopted a new constitution, which establishes the legal basis for the national government. According to opinion surveys, however, citizens still do not trust the judicial system. The Armenian legal system is widely considered to be ineffective at its main task of dispensing justice. Public perception remains that judges are influenced by politics and money, that advocates are ineffectual, and that regulatory agencies are swayed much more by bribes than by their own regulations. The purpose of this revised objective is to help develop a properly functioning, impartial legal system in Armenia that provides justice according to the rule of law. With USAID assistance, much of the legislation required to promote a free-market democracy is already in place. Therefore, USAID is now focusing its efforts on ensuring the fair and transparent adjudication of the law. The direct beneficiaries are judges and court personnel, advocates, regulatory agencies, and law students; ultimately, a properly functioning, impartial legal system will benefit all Armenians. Achievement of this objective supports U.S. Mission goals in economic prosperity (through fair and transparent application of commercial laws), increased democratic practices (more independent, effective and efficient judicial system), and human rights (impartial judicial rulings).

Key Results: There are four key results being sought under this objective: (1) regulatory agencies administer laws impartially; (2) the judicial system effectively applies the law; (3) an effective court system; and (4) impartial and efficient enforcement of court judgments . Two key indicators of success in this area are the passage of an Administrative Procedures Act and passage of a mandatory of code of judicial ethics. Through USAID assistance, a concept paper on a new Administrative Procedures Act was developed. USAID also worked with the judges association to develop and adopt a voluntary judicial code of ethics.

Performance and Prospects: Progress under this objective has been steady and has generally met expectations this past year. Previously, USAID's rule-of-law efforts focused on assisting the Government of Armenia in the drafting of legislation to promote a free-market democracy, with the development of many key laws in 1998—including a new Civil Code. Performance over the past year has been on track with expectations. Of the eleven laws and regulations that USAID targeted for passage in 1998, seven have been adopted. Passage of this body of legislation marks a significant step along the road to a fair and impartial legal system. However, actions must now be taken to ensure that the laws are applied and adjudicated fairly and consistently. Accordingly, USAID has moved its focus to helping Armenia establish the mechanisms to ensure the fair and transparent implementation of the law.

Changes in the structure of the legal system were especially notable in 1999. USAID-funded technical assistance has

helped make the system much more adversarial. The passage of the Law on the Judiciary has allowed for the restructuring and greater independence of the judiciary. Although still influenced by the executive branch, judges are now more independent of the Ministry of Justice. New judges for the trial and appellate courts were appointed in 1999, based on a testing and re-certification process. While the judicial examination process went well, the overall plan for the exam was seriously flawed and the selection of judges from a pool of qualified candidates was not transparent. A related problem exists due to the often-inappropriate role of the executive branch, which overwhelmingly controlled the selection of judges and also has influence over judicial discipline. To increase judicial independence, USAID is working toward adoption of a mandatory ethics code and transfer of the discipline function to an independent body.

Although the Law on Advocates is still weak, defense attorneys have been given much more influence, while some authority has been taken away from prosecutors. These structural and legislative changes have done much to help set the stage for a fair system of justice. However, it may be some time before the judiciary, the prosecution, and advocates all understand their new roles. The prosecution will likely still be able to exert considerable, if informal, influence and pressure on the judicial system. USAID, therefore, will work closely with judges and advocates to ensure that they understand their new authorities and effectively apply them.

As part of its new strategic approach, USAID will place an increasing emphasis on: 1) improving the overall impartiality of regulatory administration; 2) improving the effectiveness of the court system (through training for judges, lawyers and students, availability of affordable and accessible legal services and more transparent and efficient court operations); and 3) encouraging impartiality and efficient enforcement of court judgements (through improvements to the Service for the Execution of Court Decisions). In addition, USAID will continue to promote greater judicial independence, including consideration of a Constitutional amendment to formally eliminate executive branch influence over the judiciary.

Achievement of this objective is key to several other objectives of the Armenia program. A fair, transparent and effective judicial system is critical to fighting corruption and guaranteeing the economic and political rights of citizens. Reduced funding for this objective would delay the enforcement and impartial adjudication of laws relevant to a market democracy and, thus, negatively impact progress in other parts of the USAID program.

Possible Adjustments to Plans: USAID will coordinate with the World Bank and the German assistance program (GTZ) on planned support for the execution of court decisions and court administration to ensure complementarity in the respective programs. In addition, USAID is currently reviewing the possibility of supporting explicit anti-corruption activities.

Other donor programs: USAID coordinates closely with the World Bank, which is in the planning stages of a broad judicial reform program. USAID programs also relate to those carried out by EU/TACIS, which plans to fund a Judicial Training Institute. The GTZ, the Open Society Institute, and the Netherlands also have provided limited judicial sector support.

Principal Contractors, Grantees, or Agencies: The American Bar Association's Central and East European Law Initiative (ABA/CEELI) and Chemonics International are USAID’s principal implementing organizations. Training support is provided under contract with the Academy for Educational Development.

Selected Performance Measures:

	Baseline (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Administrative Procedures Act	None	Concept Paper Developed	Act Drafted	Act Adopted
Judicial Code of Ethics	None	Voluntary Code Adopted	Mandatory Code Adopted	----
Number of institutions providing free legal services	1	5	7	7

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE: Strengthened Social Safety Net, 111-034
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $24,300,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $9,500,000 FSA
STATUS: New
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: Armenia, with the help of international donors, is attempting to improve its social protection and primary health care systems, which deteriorated significantly after independence. However, the current economic environment is creating an increasingly large number of vulnerable people who require assistance and for whom adequate and/or appropriate social protection systems do not yet exist. Since 1992, USAID programs in this area have focused primarily on providing humanitarian assistance. Activities under this new strategic objective will focus on developing sustainable public and private sector systems that can meet the population's immediate as well as longer-term social and primary health care needs. While providing assistance to establish the institutional foundation for sustainable social insurance and health systems, USAID also will address the short-term health, nutrition, income and shelter needs of vulnerable groups. As a collateral impact of such a program, it is hoped that public support for economic and democratic reforms will be enhanced. Direct beneficiaries will include those targeted populations receiving improved services in the short-term, as well as governmental and non-governmental organizations involved in the management and provision of social insurance, social assistance, and health care. Ultimately, all Armenians will benefit from the institutional changes supported by USAID. Improved health and social well being contributes to Armenia's domestic stability and enhances economic productivity. This new objective directly supports the fourth goal of the U.S. Mission's Performance Plan that identifies social sector restructuring in Armenia as a necessary element of sustaining reform and promoting broad economic growth.

Key Results: The key results expected under this program are: (1) establishment of the necessary legal, institutional and information bases for the development of sound social insurance systems; (2) increased efficiency and effectiveness of the government in planning for, providing and supervising social assistance and primary health care; and (3) the development of alternative mechanisms to meet the urgent social and health care needs of the most vulnerable. Since this is a new objective, with few pre-cursor activities, there are no key results to report at this time. Two indicators of future success will be increases in the Government of Armenia budget allocation to social sector expenditures and increased value of family benefits.

Performance and Prospects: USAID considers the prospects for achievement of this new objective to be very positive. With USAID technical support, Armenia has taken a number of steps required to support the development of a strengthened social safety net. These include increasing the retirement age, consolidating government-financed benefits, developing a system for targeting family benefit payments to the most needy (with USAID support), drafting key legislation related to compulsory social insurance, and endorsing an increased emphasis on primary and preventive health care. The Government of Armenia recognizes that the former "cradle-to-grave" social protection system is unsustainable and has expressed its enthusiasm for the reforms envisioned in USAID's new program. By the end of the strategy period in FY 2003, it is expected that each Armenian citizen will have a unique identification number for pension system use. This identification system will also allow the Government of Armenia to track all social insurance contributions and benefits for each individual over time. In addition, based on USAID assistance, it is expected that the foundation will be in place for the implementation of sustainable and effective social insurance systems, covering health, pension, unemployment and disability.

Another focus of USAID support will be improving the implementation of the family benefit system and increasing access to other types of social services and support. USAID will identify and test options for the cost-effective delivery of social services to the most needy through non-governmental organizations or private providers. To complement the provision of services described above, USAID will also support public works in targeted areas to develop needed small-scale community infrastructure and provide immediate employment opportunities. As part of its ongoing efforts to provide support to vulnerable groups, USAID also plans to focus efforts on the earthquake zone, where the World Bank and USAID have conducted assessments and determined options for moving vulnerable populations out of sub-standard, temporary housing. In FY 2000, USAID will conduct a pilot certificate program allowing individual families to purchase adequate housing. At the same time, USAID will assess options for promoting the recovery and economic reconstruction in the regions most severely affected by the 1988 earthquake. Future support in the earthquake zone could include an expansion of the housing certificate program, other shelter initiatives, income generating activities

and/or delivery of social services.

Another focus of USAID support will be improving the implementation of the family benefit system and increasing access to other types of social services and support. USAID will identify and test options for the cost-effective delivery of social services to the most needy through non-governmental organizations or private providers. To complement the provision of services, USAID will also support public works to develop needed small-scale community infrastructure and provide immediate employment.

In the health sector, USAID expects that the health care system will be restructured and rationalized. An emphasis will be placed on primary health care--as opposed to hospital-based approaches, and the government's provision of basic health benefits will be targeted to reach the most vulnerable groups. USAID will also expand its reproductive health efforts in order to address the negative health impacts associated with high abortion rates, by providing better access to family health information and range of services. Finally, pilot activities in the health sector are expected to demonstrate greater efficiencies and effectiveness in increasing access to higher quality primary health care at the community level, allowing for their replication on a more widespread basis. A USAID-financed demographic and health survey, to be conducted in 2000, will support the planning, design and implementation of USAID's activities—as well as those of other donors, NGOs and the Government of Armenia.

Possible Adjustments to Plans: While plans at the current time do not include assistance for the implementation of new social/health insurance systems, USAID will continue to monitor the situation to assess whether this type of support will be required in the future.

Other Donor Programs: In developing this new objective, USAID has coordinated closely with the range of other donors active in the social sectors. The World Bank is supporting programs for social infrastructure rehabilitation, primary health care, and general social sector reform. Armenian Diaspora contributions to charitable organizations (e.g., schools, orphanages, health clinics and hospitals) are significant. The European Union has worked with Armenia to design a social security numbering system, but does not plan to fund the actual development and implementation of this system. Various UN programs also involved in aspects of primary health care provision, and the World Health Organization is focusing on pharmaceutical reform.

Principle Contractors, Grantees, or Agencies: In the health sector, the American International Health Alliance (AIHA) is supporting primary health care partnerships between Armenian and American health institutions that seek to better serve beneficiaries in regions outside of the capital. With Johns Hopkins University/Population Communication Services (JHU/PCS), USAID is implementing a nationwide Information, Education, and Communication (IEC) campaign in reproductive health. Save the Children, ADRA, and Cooperative for Assistance and Relief Everywhere, Inc (CARE) are currently designing a program to develop a local network of NGOs to improve the availability of reproductive health information and services. In non-health social areas, USAID contributes to the multi-donor efforts of the World Food Program. Training support is provided under contract with the Academy for Educational Development (AED). Additional implementing partners will be identified once the social transition program moves to the implementation phase.

Selected Performance Measures:

	Baseline	**Target** (1999)	**Target** (2000)	**Target** (2001)
Percentage of national budget allocated to social sector expenditures	10 (1998)	12	12	12
Value of the family benefits divided by the standard market basket needed to meet minimum needs (%)	N/A (1998)	22.5	25	27

Note: Other indicators, especially those relate d to the provision of health services and possible employment initiatives, will be developed as activities are designed.

The United States Agency for International Development

Armenia

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	87,897	80,082	102,380	74,960
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	2,114	1,127	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**87,897**	**82,196**	**103,507**	**74,960**
Operating Expenses	2,483	2,500	2,600	2,700
Trust Funds	0	0	0	0
Total Operating Costs	**2,483**	**2,500**	**2,600**	**2,700**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	6	7	6	7
Other U.S. Citizen	5	5	5	5
FSN/TCN DH	23	17	19	19

Subtotal	**34**	**29**	**30**	**31**
Program Funded*				
U.S. Citizen	2	3	8	8
FSN/TCN	13	13	13	14
Subtotal	**15**	**16**	**21**	**22**
Total Direct Hire Work Force	**49**	**45**	**51**	**53**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**49**	**45**	**51**	**53**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
111-013 Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	9,000	0	0	0	0	0	9,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
111-014 A More Competitive and Mkt.-Responsive Priv. Fin. Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	10,000	0	0	0	0	0	10,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

111-015 A More Econ. Sustainable and Environ. Sound Energy Sector

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	6,500	0	0	0	6,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

111-021 Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	6,500	0	0	6,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

111-022 Legal Systems that Better Support Dem. Processes and Mkt. Reform

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	2,500	0	0	2,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

111-034 Mitigate Social Impact

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	9,500	0	0	0	0	9,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

111-041 Special Initiatives

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0

- FSA	25,960	0	0	0	0	0	25,960
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
111-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	5,000	0	0	0	0	0	5,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	49,960	9,500	6,500	9,000	0	0	74,960
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Dianne Tsitsos

The United States Agency for International Development

AZERBAIJAN

Development Challenge

Other Donors

FY2001 Program / Activity & Budget Information

Summary Tables
- Program Summary
- Work Force Data
- Program/Sector Summary

Introduction

Advancement of free market and democratic reforms in Azerbaijan will improve economic, political, and social conditions in a country critical to the achievement of U.S. regional goals and objectives. Located in the Trans-Caspian energy corridor, Azerbaijan is a strategically important link in the region's energy export system. Currently in the process of building up its oil and gas industries, Azerbaijan represents a growing market for American goods and services. Azerbaijan's long-term stability and market growth, however, will be dependent not only on revenues from these fuel industries, and on the Government of Azerbaijan's (GOAz's) development of democratic principles of rule of law, freedom of expression and other basic human rights.

Section 907 of the Foreign Assistance Act prevents the U.S. Government or its contractors from providing most direct assistance to the GOAz and its officials. Promotion of U.S. interests of market reform and a democratic society is thus targeted to non-governmental organizations (NGOs) and direct humanitarian assistance. Following recent exemptions to Section 907 granted by Congress in annual appropriations legislation, program activities have been expanded in private sector development, humanitarian assistance and democracy building. USAID's development assistance activities fully coincide with the Azerbaijan Mission Performance Plan, which identifies transition to a democratic society and an open market economy as basic tenets of U.S. Government efforts in Azerbaijan.

The Development Challenge

Eight years after the breakup of the Soviet Union, Azerbaijan continues to adjust to the new challenges and responsibilities of an independent state. The GOAz has been slow to embrace the principles of democracy and a market economy, while the society has been slow to demand them.

Billions of dollars resulting from signed oil contracts have had little trickle down effect on the general population. While growth is apparent in Baku as a result of oil industry development, the economy outside the capital remains in stasis. The agriculture industry has the potential to employ a large segment of the population, however, this sector lacks support from the central government. Agricultural regions in Azerbaijan are not adequately represented at the national level and state-funded credits and loan programs are insufficient.

With Soviet-era state industries nearly defunct, the fastest growing segment of the economy has been small and medium enterprises. Nonetheless, limited credit access and rampant corruption have hampered growth in this promising sector. Government reluctance to enact regulatory reform and privatization of state property has resulted in a cautious "wait and see" approach with potential investors.

Azerbaijan's authoritarian government discourages dissent and does not support a free press. Despite government obstacles, NGOs -- with assistance from Western countries, including the United States, and international institutions --

have established a foundation for public advocacy and political reform. Moreover, the GOAz does recognize the important role NGOs play in delivering the bulk of the humanitarian assistance to those displaced by the Nagorno-Karabakh conflict.

With assistance from the international donor community, the GOAz has achieved a degree of macro-economic stability and growth. A nascent small business sector concentrated in Baku is taking root. The foundation for future political change is being put in place with the emergence of civil society. Opposition political forces are organizing, and an increasing number of citizens are participating in various types of political and social-service-delivery NGOs. These important steps, which have been supported by the U.S. assistance program, do not include the comprehensive economic or judicial reforms needed to create a fully democratic, market-based economy.

From the outset, U.S. assistance to Azerbaijan has primarily been for humanitarian relief to refugees and internally displaced persons. Those programs have been administered largely by NGOs and international organizations whose activities include: distribution of food, clothing and medicines; provision of basic medical services; construction of shelters; and rehabilitation of water supply and sanitation systems. Emergency relief has reduced human suffering, but cannot substitute for longer-term development assistance efforts. In recent years, humanitarian assistance has been augmented with U.S. support for grass roots democracy-building and small private enterprise development.

To take advantage of its vital link in the Trans-Caspian energy export system, it is essential that the GOAz develop a market-oriented, transparent and corruption-free economic, legal and regulatory system. Nevertheless, Section 907 still limits the U.S. Government's ability to assist Azerbaijan to achieve these economic restructuring goals, and the United States cannot rely on other donors to promote U.S. interests in Azerbaijan.

Other Donors

Major bilateral donors (France, Germany, Japan and the Netherlands) and multilateral lending institutions (the International Monetary Fund and World Bank) have approved tens of millions of dollars in credits to support critical reforms geared to restructuring the economy and stimulating small business development, as well as loans for rehabilitation of Baku's main power plant and water-supply system. Under an IMF Systematic Transformation Facility, the GOAz is committed to a comprehensive program of economic stabilization and structural reform. The UN High Commissioner for Refugees plays a prominent role in coordinating humanitarian assistance. Direct humanitarian aid in large quantities and dollar amounts is provided by the United Nations Development Program, United Nations Children Fund, World Food Program, World Health Organization, the International Federation of the Red Cross, and the International Rescue Committee.

The United States Agency for International Development

Azerbaijan

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID's program in Azerbaijan has three central objectives: (1) accelerate development and growth of private small and medium enterprises in agriculture and other targeted areas, with particular focus on building a critical mass of successful SMEs and associations to represent their interests for future sustainability; (2) support for a civil society better organized and represented in areas of law, environment, media, politics, elections, academia, human rights and women's issues; (3) reduced human suffering in conflict areas, with more emphasis on income-generating projects that lessen dependence on humanitarian assistance.

In addition, the Congress has directed the Administration to provide FY 2000 FREEDOM Support Act (FSA) funds "… for confidence-building measures and other activities in furtherance of the peaceful resolution of the regional conflicts, especially those in the vicinity of Abkhazia and Nagorno-Karabagh." USAID missions in the Caucasus region are working with USAID/Washington and the U.S. Department of State Coordinator for the FSA to design and implement such activities.

The U.S. Government will continue to implement activities to assist victims of the Nagorno-Karabakh conflict. In the event of a peace settlement, USAID will provide humanitarian and rehabilitation assistance while expanding overall support for economic restructuring and growth objectives.

Crosscutting and special initiatives include a variety of training programs designed to bolster the capacity of selected Azerbaijani citizens, groups, and institutions to advance the reform process. Increasingly, training will be focused on economics and business development, and related leadership fields. USAID-funded training will continue to be U.S.-based or conducted in country by U.S. implementors, although some third-country training is being promoted. All of these initiatives will be carried out in accordance with Section 907 restrictions. The request for cross cutting and special initiatives also reflects programs implemented by other U.S. Government agencies, such as the U.S. State Department's training and exchanges and humanitarian transport. As in FY 2000, FREEDOM Support Act funds will be provided in FY 2001 for programs designed to enhance border security and export control capabilities under the Administration's Expanded Threat Reduction Initiative (ETRI). ETRI assistance is expected to play a role in reducing regional tensions, and contribute to the nonproliferation of weapons of mass destruction and associated delivery systems, material, technologies, and expertise.

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Accelerated Development and Growth of Private Enterprises, 112-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $5,650,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $13,013,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1997 **ESTIMATED COMPLETION DATE**: FY 2002

Summary: Azerbaijan has made little headway in dismantling the central planning system inherited from the Soviet

Union. Privatization and economic restructuring are in their infancy. Industrial enterprises including oil and gas, power generation and various types of manufacturing remain overwhelmingly in state hands. Privatization has occurred in the agricultural sector and slightly more so in retail trade. Officially, the private sector provides 30% – 32% of employment and GDP. In reality, the private sector's contribution to GDP and employment likely equals the public sector's, with foreign and informal employment accounting for the remainder. Agriculture is the largest private sector contributor to GDP at 28 percent.

With Section 907 precluding economic assistance to the Government of Azerbaijan (GOAz) and a need to support nascent elements of private enterprise, USAID is proposing in its forthcoming strategy to focus its economic programs on the business support, agribusiness and small and medium enterprise (SME) sectors. This strategic objective is limited to geographic "targeted areas" because of the combination of overall policy and legal environment constraints and resource limitations. The intention is to create a critical mass of financially successful private enterprises and associations of those enterprises so that continued economic growth is sustainable. The impact of achieving this result could multiply under the following possible scenarios: (a) the central government approves of the results and encourages other local authorities to replicate them, or (b) the policy, legal, and regulatory environment improves through donor and central government efforts at reform.

This objective directly benefits small and medium entrepreneurs in Azerbaijan by substantially expanding their access to credit and technical production inputs, and by fostering professional associations that will advocate on their behalf. Indirectly, all Azerbaijan citizens will benefit from the increased economic activity generated by a strong SME sector. This objective supports the U.S. Embassy Mission Performance Plan that identifies the transition to an open market economy in Azerbaijan as a high priority.

Key Results: USAID-funded activities focus on five intermediate results: (1) increased access to production inputs; (2) increased access to credit; (3) increased market responsiveness of enterprises; (4) private membership associations organized; and (5) improved policy/legal/regulatory environment and physical infrastructure supporting small and medium enterprises. While restrictions in the Azerbaijan environment have limited the impact of USAID's program, over 1,000 loans, valuing more than $1.7 million were made to small and micro entrepreneurs during the first two years of the small business lending program (1998-1999).

Performance and Prospects: USAID-financed activities in Azerbaijan over the past six years have been humanitarian in nature, focusing on crisis intervention and critical needs of refugees and internally displaced persons (IDPs). Only during the past two years has USAID become involved in enterprise development and growth activities in a limited way. These modest pilot initiatives have centered on refugees and IDPs, with little measurable impact on the collective vulnerable population. The progress described below is presented within these parameters of the current USAID program.

The focus on the small business sector began in 1998, and has met its modest expectations. ShoreBank provided training to loan officers, credit committees, and management information systems personnel, as well as technical assistance on the loan process, to three private Azerbaijani commercial banks. These banks have received lines of credit totaling $3.4 million from the International Finance Corporation (IFC) for on lending to production firms in amounts of up to $100,000. To date, 25 loans totaling $1,100,300 have been made in this effort to create a small business lending capacity within the private banking sector.

The Foundation for International Community Assistance (FINCA) has provided micro-enterprises with access to credit. By the end of 1999, FINCA served about 630 clients and disbursed nearly $583,000 based on the group solidarity model of Village Banking. These levels are actually less than half of original targets. Due to taxation issues with the Azeri Government, the FINCA component of the small and micro lending program was forced to suspend operations in June 1999. The U.S. Embassy and USAID are working with the GOAz to resolve this matter.

The Barents Group has conducted a training program for technical and managerial staff of private banks. Working through the Association of Azerbaijan Banks, training in bank management, risk management and basic international accounting standards was given to over 230 officers from 45 banks. Private banks account for only 20% of Azerbaijan's banks. Given that Section 907 precludes working with government banks, the training has been quite limited. Since the European Union's technical assistance program (EU-TACIS) is planning a similar training project that will be able to work with all banks, USAID is discontinuing this program.

The Citizens Democracy Corps (CDC) began in-country implementation of the Economic and Enterprise Development (EED) Program in September 1999, which supports the development of business support organizations (BSO) and

SMEs. The program is designed to: (i) provide training and capacity building to the local suppliers of firm-level technical and managerial assistance; and (ii) establish domestic and international linkages in finance, trade and technology. EED identifies and targets sectors where demand for products and services exists. Plans call for 200 companies to be assisted during the first year of the activity.

In support of small business development, the Agricultural Cooperative Development Institute and the Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) provides hands-on technical assistance and intensive training to farmers and farm cooperatives in the areas of production management, business techniques, processing, packaging, marketing and finance. A total of 18 technical experts and agro-processors have traveled to Azerbaijan on two to four-week assignments as part of this Farmer-to-Farmer program, and have reached 3,000 farmers, directly and indirectly. Farm products impacted include honey (production and marketing) and mushrooms (production for domestic and export markets). ACDI/VOCA assisted in creating a food processing system for 2,000 IDPs, 90% of whom are women. The system involved providing technical services and training in high-value fruit and vegetable production, setting up two food processing lines to make preserved products, and marketing these goods. The result of this activity alone has been a 25% rise in income among those participating in the project.

One of the most significant achievements of ACDI/VOCA has been to assist in forming of an indigenous agribusiness consultancy and training firm with an array of technical and business planning skills. This local private enterprise support organization, with a staff of 90, sells its services to farmers, processors and other entrepreneurs in agribusiness, thereby substantially increasing the number small and micro businesses that can access expert advice.

Possible Adjustments to Plans: USAID will be submitting a new program strategy for assistance to Azerbaijan during spring 2000. The lifting of restrictions in Section 907 of the Foreign Assistance Act would allow the implementation of a policy reform and support program to the Government of Azerbaijan. Technical assistance and training opportunities could be provided to select Ministries of the government to support reforms and institutional strengthening in such areas as tax and fiscal policy, accounting, capital markets, banking supervision, and customs and commercial law. Lifting restrictions would permit delivery of this very complementary and highly supportive assistance for developing the private sector.

Other Donor Programs: The World Bank has identified agriculture as a priority sector and is supporting programs in farm restructuring/privatization, infrastructure rehabilitation (e.g., irrigation systems) and credit. The European Union is concentrating on banking and marketing in the grain and bread industries. Also, the International Islamic Relief Organization, the International Rescue Committee, OXFAM, and the International Federation of Red Cross and Red Crescent Societies are funding income-generation projects, mostly agribusiness-based, and primarily targeted at IDPs and refugees.

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities are implemented by ShoreBank (bank strengthening for small business lending), FINCA (micro-credit), the Eurasia Foundation (small grants and loans), ACDI/VOCA (agribusiness technical assistance and training), and CDC (development of business support organizations and SMEs).

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of Strengthened Financial Institutions	3(1997)	3	3	3	4
Number of SME Loans	195 (1997)	367	1384	4373	6559
Value of SME Loans ($000s)	317 (1997)	577	2567	2246	3369
Sales volume of fertilizers (tons)	3 (1999)	*	*	5	7
Sales Volume of Improved Seeds (Kilograms)	300 (1999)	*	*	500	1000

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*These indicators are being introduced in FY 2000 as a result of the USAID strategic planning. Thus baseline is established in FY 1999 and the first target is for FY 2000.

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Civil Society Better Organized and Represented, 112-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $4,250,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $10,250,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1996 **ESTIMATED COMPLETION DATE**: FY 2002

Summary: This strategic objective seeks to lay the basic foundation for citizen participation in Azerbaijan. USAID limited the scope of this objective because of the long-standing authoritarian government ruling the country.

Domestic instability and the consolidation of executive power has slowed Azerbaijan's post-independence progress toward democratic governance. The political system in Azerbaijan is highly centralized, with decision-making largely concentrated in the hands of an already constitutionally strong presidency. Limited press freedom, a nominally independent judiciary and legislature, and a weak civil society constitute an ineffective counterweight to a powerful executive branch. In addition, the conflict over Nagorno-Karabakh has impeded the development of democratic and legal reforms by diverting attention and resources from the task of building a democratically oriented nation.

USAID-funded activities are primarily targeted at citizens and citizens' groups that can benefit from the training and expertise provided by international nongovernmental organizations (NGOs), with the expectation that these civil society groups will become more engaged in public advocacy activities such as combating the corruption that prevails throughout the country.

This objective also seeks to improve the environment in which these citizen groups operate through technical assistance to the Central Election Commission (CEC) to improve election administration, as well as training for election officials and judges, and voter education.

In mid-1999, a USAID-funded assessment of the environment for rule of law activities led to the decision to limit the scale of the legal reform program initially proposed for start-up in FY 2000. For now, limited legal reform activities will be implemented under this civil society objective with a focus on increasing citizen respect for legal systems through non-governmental organizations and associations. Implementation of a more comprehensive rule of law objective is open to reconsideration when conditions change in Azerbaijan.

The direct beneficiaries of USAID's assistance are journalists, lawyers, environmental and social NGOs, political parties, professional associations, scholars, and human rights and women's advocacy groups.

Key Results: USAID-funded activities focus on three intermediate results: (1) issue-based, formal and informal associations/advocacy groups are organized and active; (2) legal policy and political advocacy environment supports civil society and media development; and (3) increased access to objective and varied information. Progress under this objective is measured in small, incremental steps. An indicator to track performance of limited rule of law activities will be identified later in CY 2000.

Performance and Prospects: The most successful area of performance has been in supporting the development of advocacy groups, with expectations of about 50 new groups initiating activities per year. USAID's principal contributions in democracy building have been in the areas of independent media and NGO strengthening. Support for election administration and political party development has been provided through grants to U.S. NGOs such as Internews, Initiative for Social Action and Renewal in Eurasia (ISAR), International Foundation for Election Systems (IFES), National Democratic Institute (NDI), International Republican Institute (IRI), American Bar Association (ABA), and Eurasia Foundation. Performance of USAID activities in democracy have generally met modest expectations. While the October 1998 Presidential election fell short of international standards for democratic elections, it still represented an improvement over previous elections.

Elections: The major political event during 1998 was the October 11, presidential election. Because Section 907 permits democracy-related assistance to the GOAz, USAID activities in Azerbaijan expanded in FY 1998 to support the electoral process. The international delegation of election observers noted "serious flaws" both during the election and pre-election periods, including ballot box stuffing, government control of election commissioners, and intimidation of observers. As a consequence, the electoral process "fell short of standards of democratic elections." However, the delegation also praised the GOAz for an improved election law, abolition of the state censorship body, and provision of

media access to presidential candidates. USAID grantees were instrumental in many of the positive aspects of the 1998 elections. Among the key amendments to the original flawed election law that was included as a result of USAID-funded expertise was the mandate to include opposition political party representatives as members of the Central Election Commission (CEC). Through various local organizations, NDI conducted seminars on the basic principles of democratic elections, Azerbaijani voters' rights, and the new presidential election law. IFES provided technical assistance to the (CEC) on voter education campaigns and trained most of the CEC's territorial chairmen. To ensure effective monitoring of the elections, IFES developed the *Presidential Election Guide for Poll Workers*, and NDI supported the Azerbaijan Civic Initiative Group's (ACI) efforts to monitor and report on the election process. ACI's *Final Report on the October 11 Presidential Elections* detailed the frequency, severity, and geographical distribution of election violations.

NGO Development: ISAR continued to provide small grants, technical assistance and training to environmental and social NGOs. As a result of this and other donor assistance, approximately 150 operating NGOs were working in different sectors in Azerbaijan by the end of 1998. Nevertheless, many problems continue for NGOs, particularly in registration. Members of NGOs and ISAR are providing advice on the elaboration of a new NGO law that is expected during the coming year.

Media: Internews provided training to television and radio reporters in such areas as news reporting, TV management, TV production, and equipment loans. With support from various USAID grantees, an indigenous press association has been actively working with the Azerbaijani Parliament in an effort to amend the Law on Media that is vague and limits print media activity.

Training: Through the Academy for Educational Development (AED), USAID has funded U.S.-based training for journalists, commercial lawyers, human rights activists and lawyers, and political party officials --- several of whom hold important positions in Azerbaijan's embryonic civil society. Anecdotal evidence strongly suggests that returnees frequently become actively engaged citizens.

Possible Adjustments to Plans: Despite the many difficulties of working in Azerbaijan, USAID believes it is essential to remain engaged in supporting the development of democracy. USAID will be submitting a new program strategy for assistance to Azerbaijan during the spring of 2000. With the Section 907 carve-out in democracy, if funding permits, USAID plans to broaden its activities into the judicial and local governance areas; and put more attention on promoting an improved legal and regulatory environment for NGOs and independent media.

Other Donor Programs: Complementary efforts to promote steps towards democratic progress are being closely coordinated with the World Bank, the Soros Foundation, the United Nations, Organization for Security and Cooperation in Europe, and the European Union.

Principal Contractors, Grantees, or Agencies: Internews works with independent television stations to strengthen basic reporting and editing skills and their technical capacity for specialized reporting, such as campaign or election coverage. NDI and IRI work with a variety of political and non-political organizations to promote citizens' participation in the electoral process, while IFES provides assistance and training to the Central Election Commission and other election officials; as well as voter education. The NGO strengthening program is being implemented by the (ISAR), which provides training and small grants to local environmental and social sector NGOs with an emphasis on capacity building. Eurasia Foundation awards grants in the areas of rule of law, association building, and media support. ABA/CEELI recently opened a liaison office in Azerbaijan, and is working to promote development and enactment of a Law on the Bar. Academy for Educational Development implements USAID participant training programs across all democratic areas, while the Public Diplomacy section of the U.S. Department of State (formerly the United States Information Agency) provides democracy-related training and exchange programs.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of issue-based advocacy groups	100(1997)	150	200	250	270
Amendments to the election law passed and implemented	No (1997)	Yes	Yes	Yes	Yes
Amendments to the Law on Media** (a) drafted; (b) passed	(a) No (b) No (1997)	(a) Yes (b) No	--- (b) Yes	--- ---	--- ---

Percentage of the 20 largest cities with daily local news broadcast by non-government TV or radio stations	30% (1997)	35%	38%	40%	45%

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*Performance measures for activities related to legal reform are being developed.

**Once "yes" achieved, this indicator will be discontinued for reporting purposes.

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Reduced Human Suffering in Conflict-Affected Areas, 112-031
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $7,500,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $11,737,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This strategic objective, Reduced Human Suffering in Conflict-Affected Areas, contributes to Azerbaijan's transition to a market-oriented, democratic society by promoting actions that address urgent humanitarian needs, develop community self-reliance, and maintain the capacity to respond to and manage future crises. Over 700,000 refugees and internally displaced persons (IDPs) remain in Azerbaijan under difficult conditions, as a result of the continued dispute over Nagorno-Karabakh (NK). With regard to the population's general welfare, as elsewhere in the former Soviet Union, the decline of the centrally planned system and transition toward a free-market economy have been accompanied by widespread hardship. The majority of citizens have experienced a steep slide in living standards. Fewer and fewer people have access to decent, affordable medical care, while an array of long-standing environmental problems has contributed to a decline in overall public health. Priority beneficiaries of humanitarian assistance continue to be IDPs residing in the Yevlakh, Geranboy, Barda, Ter-Ter, Agdam, Fizuli, Agjabedi, Beylagan, and Imishli regions of Azerbaijan, the Nakhchivan Autonomous Republic, and the areas in and around Baku, where significant numbers of IDPs are concentrated. Other vulnerable groups whose livelihoods and access to basic needs were disrupted by conflict will also be helped by this objective. Increasingly, assistance is oriented to helping the vulnerable populations acquire the means to lessen their dependence on foreign aid, through such activities as small-scale income generation projects. This objective contributes to the U.S. Embassy Mission Performance Plan by helping to stabilize the domestic environment and enable targeted communities become more self-sufficient.

Key Results: USAID, in partnership with other donors have responded to the humanitarian needs of 700,000 refugees and IDPs and reduced their suffering through the provision of emergency food, health, and shelter. With the crisis now stabilized, assistance is being reoriented to help the vulnerable groups targeted by this objective improve their economic and social conditions. As a result of USAID's strategic planning process, two major results are now being sought under this objective: (1) vulnerable communities better able to meet their own needs; and (2) donor capacity to respond to crises is maintained. New indicators have also been introduced to track performance. USAID will consider this revised objective to have been met when improvements in the health, nutritional, and poverty status of vulnerable groups in conflict-affected areas are being achieved.

Performance and Prospects: USAID has played a leading role in providing humanitarian and transitional assistance to vulnerable civilians affected by the Nagorno-Karabakh conflict, primarily IDPs. USAID support of the multilateral feeding activities of the World Food Programme (WFP) has provided that crucial margin of supplemental calories necessary to prevent widespread malnutrition. Efforts to refine beneficiary lists, striving to ensure that recipients only are on one list and not several, also have contributed to information gathering on the needs of IDPs and helped ensure close cooperation among organizations distributing food. The WFP currently provides food to approximately 180,000 beneficiaries.

An extensive network of mobile and fixed health clinics has provided basic primary health care to approximately 400,000 people, with nearly 30,000 patients seen each month. The private Azeri doctors and nurses who provide most of these services have benefited from training and exposure to modern health care practices. Recently, more of this work has been shifted to government facilities, with the added benefit of providing training to government physicians to

enable them to provide this humanitarian assistance. Through coordination with UNICEF (which also receives significant USAID funding), these health programs have increased the rate of immunization within their program service areas. Although the health of many IDPs remains precarious, serious outbreaks of disease have been prevented.

Housed initially in run-down public buildings and tent camps, significant numbers of IDPs now have access to minimally adequate housing and sanitation facilities due to USAID-funded programs. Most of the public buildings housing IDPs in Baku and Sumgait have received emergency safety, health, and sanitation-related renovations, improving the lives of the nearly 115,000 residents of those 700 buildings. In rural areas, activities have provided 6,510 mud-brick shelters, latrines, and potable water to approximately 30,000 people. These beneficiaries were concentrated in two large tent camps and in numerous small roadside impromptu settlements.

Shelter programs have included a significant community development component. Recipients have done much of the work themselves and have established community organizations to address their problems.

Progress in the economic opportunity sector of this SO has been more limited. The deterioration of economic conditions in Azerbaijan over the past 18 months, especially in rural areas, has made it more difficult for small-businesses to survive. Still, over 2,980 loans have been made through USAID activities, enabling entrepreneurs to establish small businesses, provide for their families, and to hire employees. More importantly, the areas where these activities have been carried out, have received experience in small business lending, helping to lay the groundwork for future development activities. In addition, USAID has assisted vulnerable populations in urban areas through micro-credit programs that provide income and opportunity through urban-based activities.

Possible Adjustments to Plans: The humanitarian situation is stabilized and the Government of Azerbaijan is showing increased interest in programming to support the resettlement and integration of IDPs. To take advantage of this window of opportunity, USAID will increasingly turn its efforts towards supporting self-sufficiency among IDPs through economic opportunity and community mobilization activities. This focus will be detailed in a new USAID program strategy that will be submitted in spring 2000. In the event of significant movement in the peace process leads to improved prospects for resettlement, USAID would adjust ongoing activities to provide necessary, multi-sectoral support.

Other Donor Programs: Several other foreign donors have funded humanitarian relief programs that have made a critical difference in the lives of IDPs. Major donors include the Netherlands, Germany, Britain, Iran, Turkey, Norway, Sweden, the European Community Humanitarian Organization (ECHO), Pakistan, and a number of United Nations' agencies. These donors have channeled their aid through bilateral arrangements directly to non-governmental organizations and to UN agencies such as the World Food Program, UN High Commission for Refugees, and UN Children's Fund (UNICEF). For example, with a grant from USAID, UNICEF distributed spare parts for cold chain equipment, implemented immunization activities with the collaboration of private voluntary organizations, raised awareness of the Expanded Program of Immunizations by distributing printed posters, and developed modules for Integrated Management of Childhood Illnesses. ECHO has been a significant donor to Azerbaijan relief efforts but recently announced its intention to phase-out future support.

Principal Contractors, Grantees, or Agencies: The primary U.S. NGOs operating in Azerbaijan are Mercy Corps International, Save the Children, the United Methodist Committee on Relief, CARE, Adventist Development and Relief Agency, World Vision, International Rescue Committee, Relief International, and Children's Aid Direct.

Selected Performance Measures*:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Infant Mortality Rate (in conflict affected areas)	19.8%(1997)	19.6%	18%	16%	14%
Percentage of Population In Poverty(in conflict affected areas)	*	*	68%	65%	60%
Number of Community Action Projects	(0(1998)	*	40	100	300

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*These indicators are being introduced this year, and replace those identified earlier, because they are considered more direct measures of program impact. "Percentage of population in poverty" and "number of community action projects" better capture the community self-reliance aspect of this objective.

The United States Agency for International Development

Azerbaijan

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	35,160	35,181	30,760	54,560
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	4,236	1,980	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**35,160**	**39,417**	**32,740**	**54,560**
Operating Expenses	299	533	500	1,000
Trust Funds	0	0	0	0
Total Operating Costs	**299**	**533**	**500**	**1,000**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	0	2	2	2
Other U.S. Citizen	0	0	0	0
FSN/TCN DH	2	2	3	3
Subtotal	**2**	**4**	**5**	**5**

Program Funded*				
U.S. Citizen	0	0	0	0
FSN/TCN	2	1	3	3
Subtotal	**2**	**1**	**3**	**3**
Total Direct Hire Work Force	**4**	**5**	**8**	**8**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**4**	**5**	**8**	**8**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
112-013 Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	13,013	0	0	0	0	0	13,013
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
112-021 Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	10,250	0	0	10,250
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
112-031 Human Suffering and Negative Consequences of Crisis are Reduced							
- DA	0	0	0	0	0	0	0

- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	11,737	11,737
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
112-041 Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	10,560	5,000	0	0	0	0	15,560
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
112-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	1,000	0	0	1,000	1,000	1,000	4,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	24,573	5,000	0	11,250	1,000	12,737	54,560
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Michael Farbman

The United States Agency for International Development

BELARUS

Development Challenge

Other Donors

FY2001 Program / Activity & Budget Information

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- Work Force Data
- Program/Sector Summary

Introduction

Located at the crossroads between Russia and Europe, and between the Baltics and the Black Sea, Belarus' status has an influence in the region. Belarus embodies the broader challenges of solidifying the gains to the world community that followed the collapse of the Union of Soviet Socialist Republics. The United States has an interest in promoting the development of a democratic, market-oriented, independent Belarus. While Belarus itself does not directly threaten U.S. national security, the potential impact of its behavior on its neighbors and the region, and its potential future relations with rogue states, could undermine U.S. security. A recalcitrant Belarus could recreate dividing lines in Europe and damage European integration. USAID works at the grassroots in Belarus to build awareness of and demand for democracy and free market operations as means to improve prosperity, well being and stability. USAID's program in Belarus supports the USAID, Agency objective, "Development of politically active civil society promoted." It also contributes to the Agency's economic growth, health, and other democracy and governance objectives.

The Development Challenge

Belarus continues to have an authoritarian government and a centrally controlled economy although President Lukashenko was elected democratically in 1994. This regime continues to impede Belarus' transition to a free market economy and transparent, participatory democracy. Power is heavily concentrated in the president's hands, as it has been since the illegal constitutional referendum in November 1996. The referendum also extended President Lukashenko's term in office and resulted in dissolution of the legitimate parliament. Rule by presidential decree has extended to all aspects of society, tightly controlling property, without checks from legislative and judicial power. The role of political opposition groups is severely circumscribed. Security services continue to use force and administrative sanctions to intimidate and threaten supporters of the opposition. Disappearances of prominent opposition leaders have been inadequately investigated. Independent media are subjected to intimidation and onerous restrictions. The regime has threatened the legal status of many non-governmental organizations (NGOs), and sought to thwart independent activity by citizens at the community level. Nevertheless, opposition political leaders are determined and courageous in challenging the government and its policies.

The Belarusian Government remains hostile to the adoption of any significant economic reforms, notably by continuing multiple exchange rates. Although massive credits to the debt-ridden state sector allowed government officials to claim economic growth, living standards have declined for many segments of society as wages are eroded by high inflation. Significant and sustained depreciation in the value of the Belarusian ruble has resulted in a critical shortage of foreign currency. Basic necessities produced and needed in Belarus are exported, particularly to Russia, to help pay for imported fuel. Health conditions, particularly among children, are severe – due in part to the legacy of many years of abuse to the natural environment and radiation from the Chernobyl fallout. According to polls conducted by the Ministry of Economy, most Belarusian households foresee their economic status continuing to worsen. Belarusian families continue

to be concerned for their welfare as economic conditions worsen. Early in 1999, polls revealed for the first time in several years a small, but significant shift among the electorate away from loyal support of the president and towards democratic reform.

The USAID program in Belarus has supported direct participation of citizens in democratic society and a free market economy, to help Belarusians understand through their own experience the importance of reform. Because the health and welfare of families and the community are strong motivators for self-reliant action, civic participation is most likely to emerge at the community level. Involving people in community-level efforts to solve problems of importance to them, and helping them to own and operate small enterprises, gives citizens the experience and confidence to support democratic and economic reforms. Special programs are being developed for the oblasts of Brest and Gomel, to determine the most effective approaches to community development and civic participation in Belarus.

Participation by private entrepreneurs in the economy generates understanding of, and support for economic reform. USAID funding for community-based economic activities promoting citizens' participation in decision making has resulted in the privatization of municipally owned businesses. Over 2,000, small-scale enterprises have been transferred to private ownership – 49% of the eligible enterprises in the 23 cities where the project is operating. The transfer of apartment buildings to resident owners as condominiums has been proceeding rapidly. For existing small entrepreneurs the program provides advisors and educational courses to improve financial management, market research, legal rights protection and new business start-up. USAID is increasingly targeting assistance toward the informal sector (i.e., market vendors), who are predominantly women, the most rapidly developing entrepreneurial group in Belarus.

The USAID-supported, American Bar Association's Central and East Europe Law Institute (ABA/CEELI) program in Belarus has fostered the development of the rule of law by working with local legal community leaders, legal associations, and law schools. ABA/CEELI's activities are to enable Belarusians to value the rule of law and understand appropriate limits on the actions of government. USAID's grant to International Research and Exchange Board/ProMedia) is offering moral, technical, and legal support to the independent media and media associations. This program provides access to foreign news services via the Internet. USAID supports local NGOs that address the critical needs of the social sector, especially local citizen groups providing social services and advocacy for Belarus' most vulnerable groups -- the elderly, disabled, children/youth-at-risk. USAID awards grants to NGOs to work in such areas as drug and alcohol rehabilitation, health services, and environmental protection. Funding also supports activities to raise public awareness of how NGOs can solve problems affecting families and the community.

In an effort to address critical health care needs in communities, USAID has supported a hospital partnership program implemented by the American International Health Alliance (AIHA), with U.S. medical and nursing schools and hospitals partnered with Belarusian institutions.

Other Donors

The United States is the largest donor to Belarus, providing funds to civil society organizations. Other bilateral donors – including the Germans, British, and Italians -- fund small programs, as does the UN Development Program. The European Union's technical assistance program for the Commonwealth of Independent States has limited its programs to regional, cross-border activities. A number of Belarusian organizations have grants from private foundations such as Soros, MacArthur and Pew. Soros Foundation, formerly an important donor in Belarus, was forced by the Government to discontinue its presence. The Germans are the major source of support for private-sector restructuring programs in Belarus. The World Bank is not making new loans to Belarus, and the IMF has discontinued operations there.

The United States Agency for International Development

Belarus

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID will continue support for developing small-scale private enterprises, and privatization of municipally owned enterprises. The categories of businesses assisted will include agribusiness, small industry, construction and housing services. The need to support female entrepreneurs and increase agribusiness opportunities will receive special attention as a means to reach populations whose support can further reform.

USAID will support legal advocacy and defense of citizen rights, and continue to support professional, objective journalism and independent press and broadcast media wherever possible in Belarus. Support to the International Research and Exchanges Board will continue to provide legal assistance to journalists to assert or defend their rights to freely publish and disseminate information. Additionally, within the ProMedia project, Internews will support independent television in Belarus. Support for developing the capabilities of non-governmental organizations will continue.

USAID will continue to support the Eurasia Foundation's program of grants that address needs across a number of areas, including economics education, democracy building initiatives, civic education, and independent media. The Eurasia Foundation provides ongoing support to non-governmental organizations in multiple sectors including business development, education, and management training; economic education and research; electronic communications; independent media; rule of law; and civic education.

A model, community health services project is being developed in Gomel City. It is intended to demonstrate how to promote primary and preventive care as a basis for more efficient, cost-effective health practices and health care services to improve health status of the Belarus population.

ACTIVITY DATA SHEET

PROGRAM: BELARUS
TITLE: Increased, Better-informed Citizen's Participation in Political and Economic Decision-Making at theLocal Level, 113-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $3,300,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $3,500,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY2005

Summary: The citizens of Belarus are not equipped to support reforms needed to establish a democratic society and a free market economy. Despite national policies, which discourage private initiative, USAID-supported projects continue to find individuals and groups eager for contact with the West, courageous about espousing reform, and determined to work toward a Western-oriented future for their country. The leadership for effective change is coming from small business owners and entrepreneurs, non-governmental organization(NGO) organizers, legal professionals, independent journalists and media, environmental activists and community health providers, often working with local officials. The substantial NGO network in Belarus is receiving USAID support for civic action in communities, through national

programs, which are being extended to the regions. Small private enterprises and groups of individual entrepreneurs are being supported to enlarge their role in the economy. Growth in the role of NGOs supported by communities and in the role of private entrepreneurs will develop a consensus for reform.

Key Results: USAID's aim is to build consensus at the community level for democratic reform and free markets, through the experience of citizens working together in the private sector to solve priority community problems and to expand their roles in the private economy. Achievement of greater civic participation will be evident in growth among NGOs working at the community level, and in growth in the role and numbers of small enterprises and entrepreneurs in the private economy.

Performance and Prospects: Building democracy is an uphill struggle in Belarus, where the government is extremely hostile to anything that resembles independent political activity. The legacy of Soviet authoritarian political control and centralized management of the society constrains the will and ability of the citizenry to participate in an open democratic society. Authoritarian control extends to economic as well as political and civic activity. The three are linked since centralized economic decision-making encourages the continuing dependence of individuals on the state and reinforces authoritarian control over political and civic life. Because civil society development is at such an early stage, with limited understanding of its role, the first priority is to demonstrate the effectiveness of civil society in achieving common goals.

Concerned citizens have formed an increasingly broad range of private organizations with past support from the Soros Foundation, U.S. Information Service, the National Endowment for Democracy, USAID, and other donors. These indigenous groups have addressed many of the needs of people living in this politically repressed, socially under-served and economically deteriorating country. The purposes of these NGOs include: community action for human rights, public education, humanitarian assistance, environmental protection, social services and Belarusian culture; development of youth, women or religious communities; national organization through political parties, trade unions, think tanks for policy analysis; support for independent media and legal reform; and support to the network of NGOs through regional Resource Centers, umbrella organizations and access to Internet. NGOs are in all regions of the country and are diverse in their approaches to serving their constituencies, but they share the objective of improving peoples' lives, understanding that the people themselves must take responsibility for doing so.

Centralized – and often unpredictable – economic decision-making undermines opportunities for growth of the economy, especially for the private sector. Nevertheless, a hardy, resilient private sector has emerged from small businesses and the efforts of individual entrepreneurs, who are the focus of USAID's economic assistance. Small business involves many people – as owners, employees and customers -- in the commercial private economy throughout Belarus. The many individual actors involved in trade are independent decision-makers who understand clearly the problems created by the Belarusian government's policies and actions that thwart a free market economy. New small businesses and entrepreneurs have less of a vested interest in products and trade relationships of the past; they are developing trading patterns with free market economies in Europe. Private entrepreneurs have a strong interest in a regime that regulates business in a consistent and transparent manner, with a commitment to a free market economy for the future. Through development of small businesses, USAID supports development of the middle class of Belarusians that will promote a free market economy and democratic government to further their own economic interests.

USAID has revised the program strategy for more effective citizens' participation in Belarus to involve, increasing community level focus, and involving people who have not yet developed a strong stake in open democratic process and a free market economy. These people are mainly outside Minsk, in the regions/oblasts in urban and rural settings. USAID is coordinating programs in the oblasts and directing attention to communities for more effective civic participation, orienting programs to groups motivated to solve community problems that are important in their daily lives. USAID will promote (1) democracy through citizen participation in community action, and (2) the potential of private enterprise as an alternative to centralized economic authoritythrough support for small business and individual entrepreneurs. The strength of USAID's community-based approach lies in direct citizen experience in problem solving with tangible evidence that community concerns are being addressed more effectively through citizen participation. New programs designed to develop models for work at the community level, for community development and health services, are beginning in Gomel oblast.

The Eurasia Foundation plays a broad and important role in developing private institutions and leadership crucial for democracy, in economics education, democracy building initiatives, civic education, and independent media. USAID funding is supplemented by the Eurasia Foundation from other sources. The Eurasia Foundation provides continuing support to increase NGO capabilities, for example, financing electronic communications. Grants are provided in several sectors including business development, education, and management training; economics education and research;

independent media; rule of law; and civic education.

Public support for legal reform is fundamental. Since 1995, the American Bar Association/CEELI program has fostered the development of the rule of law by working with the legal profession and community leaders. Its activities aim to enable Belarusians to value the rule of law and understand appropriate limits on government actions. ABA/CEELI will continue supporting professionalism through: seminars on new laws and procedures (such as the new Civil Code), support to legal associations (such as the Association of Women Lawyers), and special programs that address social problems like domestic violence. More support will be given to legal advocacy and defense of citizen rights. ABU/CELIA programs link Belarusian legal reform experts with colleagues in Poland, Lithuania, Finland, and Russia.

Informing citizens through fact-based journalism from independent media is essential for citizen participation. USAID's grant to the International Research and Exchanges Board/ProMedia is offering moral, technical, and legal support to the independent media, especially in the regions, and media associations. Training in journalism is given high priority. Work with journalists continues to be closely associated with defense of journalists' rights, and therefore with monitoring the government's restrictions on the free press. The International Research and Exchanges Board broadens the scope of news available in Belarus through access to foreign news services, a photo service and text archive via the Internet. Ideas and encouragement come from links with professionals in Poland, Czech Republic, Slovakia, Russia and Ukraine. Through the ProMedia project, Internews is developing the news reporting capability of more than twenty local independent television broadcasters in Belarus.

Many of the new NGOs formed after Belarus independence address the critical needs of families, disadvantaged people, orphans and the elderly. These highly motivated grassroots private initiatives best illustrate the self-reliant action so important for democracy. Counterpart Alliance for Partnership (CAP) in Belarus provides grants to community organizations to improve social services, along with training in management and project design, technical assistance, and conducting workshops for exchanging experience among NGOs. Since March 1997 CAP has awarded over 40 grants, trained over 600 people in different aspects of NGO management and technical skills, and consulted individually over 400 different organizations. Legal expertise is provided to ensure registration of NGOs in compliance with new government regulations. The purposes for grants to community NGOs are being expanded to include the environment and community health services. The ISAR Seeds of Democracy program is being re-initiated to provide small grants for fledgling environmental NGOs.

To promote participation of citizens in the private economy, USAID funds the International Finance Corporation (IFC) small-scale privatization program (SSP) which transfers municipally owned businesses to private owners. The privatization of over 2,000 small trade and services businesses in 23 towns throughout Belarus has helped to demonstrate the benefits of a market-driven economy. Activity is being extended to agribusiness, small industry, construction and housing services. IFC supports the development of condominiums, a rapidly spreading reversal of Soviet housing practices, transferring ownership and management of housing to tenants. Public opinion polls show that the majority of residents of SSP cities support privatization and favors private stores with their diverse assortments of goods, better service, and affordable prices. IFC trains business consultants in financial management, market research, human resources management, legal rights protection and new business start-up. Support from the small enterprise program is being extended to organizations representing the more than 100,000 individual entrepreneurs in the informal sector. These well-organized market vendors, mostly women, are the most rapidly developing entrepreneurial group in Belarus. Business associations, which promote ties within the small business sector, will receive support for presenting to the government the need for policies and regulations more favorable to business. The need to support women entrepreneurs and increase agri-business opportunities will receive special attention, as a means to reach population groups whose support is needed for reform.

Possible Adjustments to Plans: The further development of regional strategies and experience working at the community level may require some re-design. A change in government policy, to support democratic reform and free markets, should be followed by review, and possible revision of the USAID strategy and funding levels, in consultation with other donors.

Other Donors Programs: The United States is the major source of support for civil society organizations in Belarus, with small programs also funded by the Germans, British, Italians and UNDP. The European Union/TACIS has limited its programs to regional, cross-border activities. A number of organizations have grants from private foundations such as Soros, MacArthur and Pew. The Germans are the major source of support for the commercial programs in Belarus.

Principal Contractors, Grantees or Agencies: Counterpart Alliance for Partnership, International Finance Corporation, The Eurasia Foundation, The American Bar Association/CEELI, International Research and Exchanges

Board, Citizens Network for Foreign Affairs, Winrock International.

Selected Performance Measures:

	Baseline 1998	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of national, oblast and local civil society organizations	2000	2000	2000	2000	2200
Number of privately owned enterprises In **formal** sector	4500	4500	4500	4500	4950
Number of privately owned enterprises In **informal** sector	120,000	120,000	120,000	120,000	132,000

Note: USAID's Country Strategic Plan for Belarus was approved in FY 1999. Before its approval, performance data were incomplete. Baseline values are the same as 1999 actual measures.

The United States Agency for International Development

Belarus

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	7,260	12,392	7,300	8,000
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**7,260**	**12,392**	**7,300**	**8,000**
Operating Expenses	45	25	43	13
Trust Funds	0	0	0	0
Total Operating Costs	**45**	**25**	**43**	**13**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	0	0	0	0
Other U.S. Citizen	0	0	0	0
FSN/TCN DH	0	0	0	0

Subtotal	**0**	**0**	**0**	**0**
Program Funded*				
U.S. Citizen	0	0	2	2
FSN/TCN	0	1	4	4
Subtotal	**0**	**1**	**6**	**6**
Total Direct Hire Work Force	**0**	**1**	**6**	**6**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**0**	**1**	**6**	**6**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
113-021 Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	3,500	0	0	3,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
113-041 Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	4,500	0	0	0	0	0	4,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Totals

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	4,500	0	0	3,500	0	0	8,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Chris Crowley

The United States Agency for International Development

BOSNIA AND HERZEGOVINA

Development Challenge

Humanitarian Assistance

Other Donors

FY2001 Program / Activity & Budget Information

Summary Tables
- Program Summary
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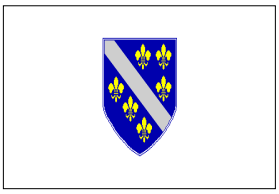
Introduction



Maintaining the peace in Bosnia and Herzegovina (Bosnia) is of direct importance to U.S. strategic and economic interests in Europe. Southeast Europe remains fragile in the aftermath of the Kosovo Conflict and North Atlantic Treaty Organization (NATO) campaign. The region's economy suffered during the conflict and the disruption of traditional trade relationships creates further strain. Bosnia is experiencing its fifth year of peace, but Milosevic's continued support of hard line Republika Srpska (RS) politicians, and the recent revelations of spying and interference by Croatia's former government in certain Federation cantons, makes it very clear that Bosnia's neighbors have not fully accepted that peace. With the election a new, pro-Western, reform-oriented government in Croatia in January 2000, greater cooperation with the international community on Dayton Accords implementation is expected. Bosnia needs the strong partnership of the United States to continue its economic recovery and enjoy long-term peace.

The Development Challenge

Bosnia is faced with a dual challenge: simultaneously move from a socialist to a market economy and recover from the war. For the recovery to be sustainable, it must be based on a more democratic society. The most immediate task continues to be economic revitalization to create jobs and incomes. The country also must continue to build the legal and institutional framework for a private sector, market-led economy.

Significant inflows of foreign assistance continue to fuel economic growth. Estimates vary, but most analysts accept World Bank figures for GDP growth: 62% in the Federation and 25% in the RS in 1996, 35% in the Federation in 1997, (RS flat), 22.5% in the Federation and 9.7% in the Republika Srpska (RS) in 1998. GDP was negatively affected in 1999 when the Kosovo conflict interfered with trade, and disrupted or destroyed supply arrangements.

The establishment and strengthening of critical economic institutions and the implementation of economic reforms are central to promoting a secure and prosperous future for Bosnia. Movement, however, towards achieving these goals has been slow. Many of the constraints to achieving macro economic goals continue to be political or ethnic. However, some progress has been made. The Central Bank made the Konvertibilina Marka (KM) acceptable officially and popularly. Bosnia has been accepted for World Trade Organization (WTO) observer status and the first steps have been taken to dissolve the central payment bureaus.

Minority refugee returns have grown steadily since 1996. UN High Commission for Refugees (UNHCR) conservatively estimates that 56,000 will have returned in 1999. A larger number are expected to return in 2000. The provision of basic services such as water and electricity and the resumption of economic activity will enable returning refugees to be reintegrated into their communities with gainful employment and acquire a stake in a lasting recovery.

Challenges in moving toward a democratic Bosnia remain formidable given the Government of Bosnia's reluctance to embrace the changes needed to establish a participatory democracy, and the low level of civic and political activism

among citizens. Holdovers from communist times such as authoritarian governments, with rubber-stamp parliaments and weak judiciaries, hinder progress. There are few checks and balances between branches of government. Fifty years of communism and a bitter war have inhibited Bosnian civil society. Citizens remain generally disengaged and apathetic towards government and civic involvement. Government corruption and lack of accountability promote apathy rather than protest.

Bosnian election officials have developed the capacity to carry out their responsibilities with limited international assistance, and will be fully responsible for the first time since the Dayton Peace Accords for conducting the national elections to be held in Fall 2000. Each post Dayton election has contributed to emerging political pluralism by eroding single party hegemony, but non-nationalistic parties continue to require assistance in developing practical campaign agendas, constituencies and democratic internal structures.

The media, both broadcast and print are in transition, but continue to operate in a murky legal environment. The Independent Media Commission (IMC) has begun to impose minimum international standards of broadcasting and discipline, including respect for intellectual property rights and punishment for media that churn out hate messages. Many broadcast stations will not survive due to unsound business practices, the excessive number of stations artificially supported by outside donors and an economy that is beginning to feel the impact of reduced donor levels. Other weaknesses include passive neophyte journalists reluctant to challenge authority, as well as occasional incidents of terrorism against journalists.

Although progress toward establishing rule of law and the protection of human rights was made in 1999, Bosnia's judicial system remains far from independent, effective and professional. Human rights abuses still occur. Political parties continue to dominate judicial selection and political pressure ensures that courts rarely reach decisions on controversial cases. Due to these fundamental problems, few Bosnians consider the judicial system a guarantor of essential human or civil rights.

Against this background, U.S. assistance remains a critical element for creating both the economic and democratic institutions necessary to sustain peace in Bosnia over the long term. While other donors play significant financial and policy direction roles, the U.S. program serves as a model and catalyst.

Humanitarian Assistance

An estimated $14.748 million in PL 480 Title II commodities and transportation were provided in FY 1998 for emergency feeding requirements in Bosnia. Another $12 million was budgeted for FY 1999.

Other Donors

U.S. assistance is part of a broad-based, priority reconstruction program that is spearheaded by the World Bank and the European Union, and involves close to 50 donors who have committed a total of $5.4 billion since 1996 for reconstruction in Bosnia. Final figures on donor commitments as of December 1999 will not be available until April 2000. However, preliminary figures indicate that the European Commission (EC) remains the largest donor to Bosnia. As of May 1999, the EC had pledged approximately $1.4 billion. The EC pledge does not include bilateral pledges made by European countries, totaling $1.35 billion. Including FY 2000 SEED funds, the United States has pledged approximately $1.114 billion. As of December 1998, the World Bank had pledged $590 million (source World Bank). This figure will rise with the inclusion of 1999 pledges. Multilateral and bilateral donors, international financial organizations, international organizations such the United Nations and the Organization for Security and Cooperation in Europe, and NATO work closely on implementing the Dayton Peace Accords at a variety of levels. Regular meetings of Peace Implementation Council members help prioritize broader program policies and set concrete implementation objectives. On-the-ground coordination, through sectoral task forces covering issues such as economic reform, institutional reform in the utility sectors and refugee returns, strengthens donor effectiveness and maximizes U.S. assistance program resources by leveraging other donor funding, avoiding project duplication, and ensuring that constraints to implementation are addressed as common donor concerns.

The United States Agency for International Development

Bosnia and Herzegovina

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

U.S. priorities in 2000 and 2001 focus on maintaining Bosnia's movement towards a market economy, continued support for democratic reform, and support for minority refugee returns. Recent political changes in the Republic of Croatia may have a positive impact on the continuing reform process in Bosnia-Herzegovina; i.e., make it easier to work in predominantly Croat cantons with greater success. However, the political situation in Croatia is not likely to have a significant effect on USAID's programming for Bosnia. USAID will adjust its Bosnia program in keeping with anticipated reductions in funding levels.

Substantial funds have been invested in building the framework for a market driven economy, often in the face of opposition or outright hostility from Bosnia's current political leaders, who will benefit least from the success of these activities. Staying the course is critical. Bosnia will not survive without a functioning economy. Democracy is another area where it is important to stay the course. Many of the efforts of the international community to move the peace process forward are circumvented by local officials who seek to protect their own privileged sources of income and their ethnic communities at the expense of others. Ordinary Bosnians are becoming more and more frustrated by the increasingly evident, poor leadership of the nationalistic parties and their inability to provide political and social direction. Minority refugee and IDP numbers are increasing dramatically. Support for these people who are returning to areas where they are not the majority ethnic group is also critical in order to realize the dream of a return to a peaceful, multi-ethnic Bosnia. In all cases, Bosnians will be active managers and participants.

FY 2000 will be the last year for the Municipal Infrastructure and Services (MIS) program. While the program was highly successful in promoting economic reactivation and forging a return to normalcy, it is time to bring work in large-scale infrastructure to an end. The follow-on, Community Reintegration and Stabilization Program will come on line in FY 2001. The program will focus primarily on facilitating minority returns. However, it will also support some of the remaining infrastructure needs of Brcko to achieve an integrated district managed by a multi-ethnic staff. Community Infrastructure Repair Projects (CIRPs) will continue under this program as well, but focused exclusively on minority returns. Finally support for reform of the water and electricity sector will continue under this program.

The Business Development Program (BDP) will continue producing results in economic revitalization and refugee return. In FY 2001, the BDP program will continue to provide liquidity to the economy through the provision of loans to commercially viable private enterprises. Strong growth in loan demand is anticipated in FY 2001 as newly privatized companies with new management and business plans seek credit. In FY 2001, USAID will continue supporting the development of a sustainable market economy to ensure that Bosnia rejoins the European and global economy and attracts foreign investment. Technical assistance will focus on the final steps needed for the reform of the payments systems; strengthening of the banking sector (including direct assistance to selected commercial banks); the establishment of market institutions in a context of good corporate governance, a business confederation; and continued work on making Bosnia's public accounting and taxation systems more transparent and compliant with global standards. Success in these areas should help Bosnia move away from international donor finance and become reliant on private foreign and domestic investment to sustain economic growth. This portfolio is critical to market reform and making Bosnia self-sufficient

Democracy assistance in FY 2001 will continue to focus on strengthening independent media. The program will focus on those media outlets that have the greatest chance of becoming commercially viable and self-sufficient. Civil society activities will continue institution-building support for advocacy-oriented Bosnian NGOs that represent citizen views,

initiatives, and projects. Governance activities will focus on legislative strengthening, and making parliament more accessible to citizens. Support for creation of a functioning and efficient Brcko district administration will finish at the end of FY 2001. Rule of law programs will continue to support courts, particularly through the provision of much needed training on civil and criminal legislation. Support for lawyers' and judges' associations will focus on capacity building with an eye to eventual self-sufficiency. Support for Bosnian management of the electoral process is slated to end in mid-2001.

All of the activities in the portfolio promote access, transparency and accountability. This "across the board" approach sends a strong message that corruption must be combated every day and will not be tolerated.

ACTIVITY DATA SHEET

PROGRAM: Bosnia and Herzegovina
TITLE: Recovery from Crisis, 168-031
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $100,000,000 SEED
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $90,000,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1996 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This U.S. assistance program is striving for a stable, post-war Bosnia with a functioning and dynamic free-market economy, and a democratic society. Because of the broad nature of this objective, the beneficiaries include all residents of Bosnia and Herzegovina. More specifically, the Business Development Program benefits enterprise loan recipients and employees, the commercial banking sector. The Municipal Infrastructure and Services program has benefited over 1,500,000 Bosnians through repaired basic utility and other community services. Economic technical assistance programs directly benefit Ministries of Finance in the Federation and Republika Srpska (RS), the Central Bank, the Federation and RS banking agencies, business associations, local business consulting firms, private entrepreneurs and firms. Democracy assistance directly benefits political parties, voters, civic groups, Parliament, independent television, radio and newspapers, and media audiences.

Key Results: USAID activities are focused on four major results: (1) Restoring private sector productive capacity to restart production quickly and create immediate, self-sustaining employment; (2) Providing essential basic services to minority populations returning to their homes; (3) Establishing a policy and institutional framework conducive to the emergence of a market economy, by supporting rapid privatization, critical macroeconomic reforms, sound fiscal policies, and a viable banking system; and (4) Strengthening democratic institutions that promote a multi-ethnic society and political pluralism, by fostering an independent media, free and fair elections, a responsive and transparent government, citizen advocacy, and a professional, independent judiciary.

Performance and Prospects:

Economic Recovery: USAID's Business Development Program (BDP) provides quick-disbursing loans (average loan size $316,000) to private Bosnian businesses, enabling them to restart and expand production quickly and create immediate employment. Bosnian banks serve as agents, identifying viable enterprises, transferring funds to the borrower, monitoring loan implementation, and ensuring loan collections. An expert on-site team of U.S. bankers performs the final credit analysis and makes recommendations to USAID for decision. The program also offers business consulting services to improve financial management, marketing, strategic planning and manufacturing skills.

The BDP has made a major contribution to private sector reactivation in the form of 425 loans worth over $133 million, as of November 1999, primarily in the U.S. stabilization forces' (U.S.-SFOR's) sector, Sarajevo, Central Bosnia, and Western Repbulika Srpska. The majority of financing has been provided in the manufacturing, construction, wood products, processed food and agribusiness sectors. These loans provide employment to close to 18,000 Bosnians, including women, returning refugees and demobilized soldiers of all ethnic groups, contributing to the rapid improvement in employment rates in the Federation and increasingly in the Republika Srpska. Thousands more have found work in related business ventures (suppliers, vendors). A related bank-training program has introduced American bank lending and management concepts to more than 2,600 bankers, over 50% of whom are women. The present emphasis is on in-bank training in specific credit-related areas and is being provided to the 16 BDP agent banks.

The USAID Business Consulting program, working in partnership with the Business Finance loan operations has conducted over nearly 600 diagnostic reviews of potential borrowers. All loan recipients are regularly monitored and receive technical assistance focused on performance improvement in areas of strategic planning, financial management, marketing and manufacturing process improvement. As with any lending operation, BDP does experience delinquency and default when some borrowers reach the larger principal repayment stage. When a borrower falls behind, the program institutes an intensive "recovery" effort to help the company adjust its business plan to changing markets and to get back on track with loan payments. If the recovery intervention fails, or if the borrower is not willing to repay the loan, USAID institutes foreclosure and related court proceedings against the company in default. As of November 30, 1999 proceedings had been initiated against 60 companies.

According to data collected on 329 companies participating in the BDP, it is estimated that productivity of these enterprises increased about 30% between 1998 and 1999. In most of these firms, sales doubled in the first year of the loan with smaller but substantial (over 60%) increases occurring in the second and third years.

Minority Returns Support: USAID's Municipal Infrastructure and Services (MIS) program is meeting essential basic service needs in support of minority refugee returns and economic recovery, primarily in the U.S.-SFOR's sector, Central Bosnia, Herzegovina Canton and Western Republika Srpska. Through this program, Bosnian contractors are repairing municipal electricity distribution systems, resurfacing roads, repairing bridges and municipal water systems, and rebuilding local schools and health facilities. Funds are also being used for a related Community Infrastructure Repair Program (CIRP), being implemented in partnership with local officials and SFOR troops in both the Federation and Republika Srpska. CIRP projects are designed to provide short-term employment while implementing high-impact community activities.

Over 212 projects worth $173 million are underway or completed in the energy, water, transportation, health, and education sectors. Construction activities have created more than 9,500 short-term jobs and some 17,000 people will be permanently employed working in reconstructed facilities or through the use of refurbished infrastructure. Over 500 CIRPs worth $32 million have been completed or are underway. In addition, over 18,500 children are attending schools repaired under MIS and approximately 25% of Bosnia's population are benefiting from USAID-repaired power systems.

The MIS program is extremely flexible and is able to support both refugee returns sponsored by the international community, as well as to respond to spontaneous returns. Well over 46,000 minority returnees were assisted through the MIS project in 1999.

USAID developed institutional strengthening activities for the water and electricity sectors. These are the sectors that have received the largest investment under the MIS program. The activities focus on making public utilities self-sustainable and able to operate within European Union (EU) standards. Technical assistance was provided in the fields of cost recovery, management, accounting and preparation of laws governing public utilities operations. All USAID institutional strengthening activities complement reforms being undertaken by the World Bank, EU and OHR at the entity and state level with corresponding institutional reform and organizational development goals, as well as privatization of public utilities at the municipal level.

Continuing its support for the Brcko arbitral decision, USAID reconstructed power lines, roads, water systems and schools in the Brcko Independent District. In addition, USAID reconstructed several high visibility projects that benefit all three ethnic groups in the District. These include a downtown market place and a public bus station. Since 1996, MIS has invested approximately $13.5 million in infrastructure and technical assistance in Brcko. Under its institutional strengthening activity, USAID is assisting in the establishment of a unified district water authority from three formerly ethnically divided water companies. The institutional strengthening assistance complements another USAID activity in Brcko, the provision of technical assistance to help in the formation of the new district government.

MIS projects in the Federation and the RS demonstrate the tangible benefits for municipalities that support the Dayton Accords. Before undertaking MIS projects, each municipality must sign a Memorandum of Understanding which publicly confirms the municipality's commitment to Dayton, such as freedom of movement for refugees and the surrender of publicly indicted war criminals. Municipalities that refuse to sign do not receive assistance. Any subsequent violations of terms prevent further USAID-funded assistance.

Economic Reform: Since 1996, the United States has implemented a comprehensive economic policy reform agenda to accelerate Bosnia's transition to a market economy in the context of post-war reconstruction. USAID continues to be the leader in supporting key financial and economic institutions implementing macroeconomic policy at the state level as well as in both entities. Technical assistance is provided in a range of critical areas for Bosnia's economic transformation

and for the fight against corruption, such as abolition of the communist-era payments bureaus, public sector accounting reform, privatization, commercial law, banking reform, capital markets and corporate governance. The objective is to provide sound guidance to decision-makers at all levels of government to undertake defined responsibilities, smoothly transfer economic functions to the private sector, and regulate the new market economy fairly and transparently.

USAID advisors continued to help the Federation Banking Agency (FBA) and its counterpart in the RS, the Republika Srpska Banking Agency (RSBA). New professional FBA and RSBA staff have been trained in key areas such as bank supervision, audit, and asset/liability management, supervisory policies and procedures, as well as in anti-corruption (e.g., white collar crime, money laundering, and ethics). USAID training and technical assistance has enabled the agencies to examine all of the Federation banks and RS banks. Bank inspections are leading to the closure of problem banks as the sector is reformed. The FBA has used several types of reinforcement actions including monetary penalties. Functioning and effective banking supervision agencies have increased public confidence in the banking system. In another important achievement, the FBA has been self-financed since October 1998, operating on revenues generated through bank examination fees. The RSBA is expected to become self-financing in the next two-years.

USAID took the lead in the international community's technical assistance and intervention in the abolition of the payment bureaus (PBs), a Yugoslav hold over which controls most economic transactions. Ethnic interest groups at the regional and entity levels largely control the PBs. Breaking their monopoly will lead to independent, objective and transparent financial transactions. The provision of financial services formerly provided by the PBs is a critical step in the development of a market oriented banking system. Since February 1999, USAID has been the chair of the International Advisory Group responsible for this effort. As a result of this undertaking, new corporate governance boards overseeing the dismantling of the PBs have been established in the two entities and relevant legislation has been introduced to remove the PB monopoly over payment services. For the first time, commercial banks are free to provide such services.

USAID technical assistance is helping Bosnian authorities implement a comprehensive privatization program and re-orient current commercial and non-banking financial laws towards a market economy. Key laws and amendments passed in the Federation in FY 1999 include the Law on Commercial Enterprises and amendments to the Law on Opening Balance Sheet of Enterprises and Banks, Law on Securities Commission and Law on Securities. USAID advisors prepared detailed regulations and instructions on methodology for preparing balance sheets, tender process for large companies, acceleration of land titling and public offering of shares. All were approved. In the Republika Srpska (RS), USAID advisors worked with the Directorate for Privatization. Privatization related laws that passed in the RS include the Law on Methodology of Opening Balance Sheet Preparation in Course of Privatization of State Capital in Banks, the Methodology of Valuation of Capital in Enterprises, and the Rules for Auction and Dutch Auction. As a result of USAID assistance, the first legal, small-scale privatization transactions took place with small enterprises, municipal business premises, company assets and apartments being sold via auctions, tenders, and direct sales. As of December 6, 1999 total privatization sales value stood at KM 39,698,793 (approximately $21.5 million) in privatization claims and cash combined. In the RS, USAID assistance allowed privatization to start with a small pilot cash auction of small enterprises. In both entities, public education efforts focused on advising difficult-to-reach displaced persons and refugees where and how to participate. Preparations for large sale privatization are moving forward well in the RS. Unfortunately, in the Federation, two major problems seemed resistant to improvement in moving along the large-scale privatization process: the formation of a Mostar canton agency and enterprise preparation. With no signs of improvements or change in political will to support large-scale privatization, in December 1999 USAID suspended privatization assistance to the Federation. If the Federation makes substantial progress in fulfilling past privatization obligations, consideration will be given to restarting the assistance.

During the reporting period, USAID technical assistance helped both entities adopt international accounting standards. The adoption and implementation of these standards helps Bosnia to be more competitive internationally and will also help to attract foreign investment. A comprehensive training program is underway in the Federation. Training will take place in the RS next year. A Share registry and a Securities Commission were established in the Federation, including procedures and regulations for overseeing investment funds and joint stock companies. Two conferences on privatization investment funds attracted domestic and foreign investor interest and advanced understanding of capital market operations for a much larger audience.

USAID-funded Treasury advisors have provided significant technical assistance and policy advice in the areas of budget, fiscal reform, tax policy and administration, external debt, and bank privatization/restructuring. The integrated USAID-U.S. Treasury activities in the PBs reform area included assistance in the creation of new treasuries at both state and entity levels and the initiation of a new project on public sector accounting reform at the end of fiscal year 1999. USAID has worked with other donors on the development of a tax administration modernization initiative (currently

under discussion).

Democratic Reform: The United States is working to build strong enduring democratic institutions in a just and multi-ethnic society. The USAID-funded democratic reform agenda gives top priority to achieving the following results: (1) viable and independent media offering consistent, objective, and balanced information to all citizens; (2) free and fair elections with a pluralistic party structure and high voter participation; (3) a pro-democratic political leadership governing in response to a vibrant civil society; and (4) a professional and independent judiciary operating in an environment governed by the rule of law.

Continued manipulation of information flow by nationalist political leaders and the lack of an effective regulatory environment remain major impediments to enabling independent media in Bosnia to thrive. Throughout 1999, USAID continued its two-pronged approach to developing the local media through assistance to broadcast media and assistance to print outlets.

A comprehensive package of assistance focused on building the skills of seven independent television and five radio stations. In June 1999, USAID, through Internews, provided technical assistance to 86 TV and radio stations from both the Federation and the RS on the chartering of the Association of Electronic Media. In one of the few open ballots held anywhere in Bosnia, the entire membership voted for a board of directors resulting in fair representation of Bosniak, Serb and Croat broadcasters, along with equitable representation of radio and television organizations. All Support for East European Democracy (SEED)-supported production companies were profitable at the conclusion of their production season with breathing room to start next season's production. Seven local independent TV stations were supported in producing in-depth reports based on professional investigative journalism. Nine reports were produced which are scheduled to be broadcast in FY 2000. The aim of the reports was to inform the public and allow them to become more involved in the political process by demanding accountability from elected officials. In order to satisfy increasing needs for training in the area of news production, Internews produced illustrative videotape materials in the local language. The Open Broadcast network's (OBN) news and information programming continues to be praised for its impartiality. USAID advisors are working with OBN management on a business plan to help improve the network's commercial potential.

In the print media area, assistance was focused on improving the quality of ONASA, the independent news wire service. Hardware improvements and the installation of sophisticated software have made ONASA an agency as advanced and competitive as any of its size elsewhere in Europe. In order to establish ONASA as a countrywide news Agency, USAID helped it to expand to Banja Luka and to increase the production of stories in the RS. An in-house training program for journalists also increased the quality of the news service, resulting in noticeably higher-quality reporting on business, economic, cultural and social issues.

One of the greatest challenges to developing independent and viable media is the evident lack of management skills and financial capital of the local media outlets. This, in turn, creates a destructive "donor dependency". To address this problem, USAID provided in-house training and seminars and participant training for print media managers with an aim to creating newspapers as viable business concerns. Through this training, ONASA and Dani, a weekly magazine, adopted viable business plans. Republika Srpska (RS) newspaper, Nezavisne Novine, increased its advertising revenue to more than $50,000 in just eight months. The Federation weekly magazine, Start, and the RS weekly magazine, Panorama, created a joint promotional campaign which gave them more credibility across entities and increased their classified advertising.

Municipal elections originally scheduled for September 1999 were postponed to April 2000 making 1999 the first year since the signing of the peace accords that there was no election. The absence of elections provided the citizens and political leaders with a needed respite from seemingly nonstop electoral competition. This allowed political parties, with USAID assistance, to focus on important party building activities.

USAID, through National Democratic Institute (NDI), assisted the most democratically oriented political parties to begin to position themselves strategically in order to consolidate their electoral gains and have a greater impact. USAID provided them with training in message development, media relations voter contact, strategic planning and volunteer recruitment. These parties are beginning to see their futures in terms of the entire territory of Bosnia rather than the more narrowly defined two entities. Activities continued to focus on the moderate Sloga coalition and the Democratic Party of Bijeljina in the RS, and the Social Democratic Party and the New Croat Initiative in the Federation. Approximately 350 individuals from 200 separate municipal party branches in the Federation alone benefited from each of the training cycles. Party branches in nearly all areas of the RS were covered, but particular attention was paid to developing political skills in the Eastern RS branches of Sloga. USAID also supported the training of elected

representatives in the Federation and RS legislatures on their roles and responsibilities in a multiparty democracy. USAID assistance in this area serves to promote accountability of the elected members of Parliament to their respective political parties and constituents, and to develop their capacity to legislate.

In 1999, USAID began a new technical support program with the Organization for Security and Cooperation in Europe. (OSCE), focusing on the important transition in the administration of elections to Bosnian professionals and institutions. USAID, through IFES, provided expert advice on the drafting of the permanent election law and provided various electoral models to help the drafting process. The new draft election law was made public by the OSCE and was forwarded to the Parliament on October 1999. SEED assistance was also instrumental in the OSCE's public education effort on the new election law, including developing a strategy for parliamentary acceptance of the law.

In 1999 USAID, through ABA CEELI, continued support to cantonal courts in order to establish unified internal court rules for all ten Federation cantonal courts. In summer 1999, USAID, in cooperation with the OSCE, organized a study tour to Sweden where representatives of the Ministries of Justice and judges from both entities improved their knowledge of internal court rules and effective trial management. The judges have formed an inter-entity committee and offered an impressive list of recommendations and comments in the field of judicial reform.

Civic education plays a vital role in encouraging increased citizen participation in the political process. Through an extensive rural education network approximately 40,000 citizens in rural areas were provided with basic information on privatization, thereby increasing transparency, inclusiveness, and understanding of a complex and sensitive topic. USAID also supported work at the community level by assisting communities to identify, prioritize, and meet their needs through local government. Community groups were assisted to dialogue with elected local officials and over 200 separate community initiatives were undertaken, more than a quarter of which resulted in successful completion and positive response from local officials. USAID also supported more than 30 training events in cities on both sides of the inter-entity boundary line which were conducted successfully for nearly 550 human rights advocates, judges, prosecutors, labor inspectors and NGO and union representatives from all three ethnic groups.

Cross-Cutting Activities: Since 1995, USAID's participant training program has sent well over 500 (35% women) mid and senior level officials, business leaders, and citizen activists from both entities to the United States and third countries for intensive short-term training. Training topics have ranged from privatization to external debt to media development. Each training program is designed to directly complement USAID activities in support of economic growth and reform, infrastructure rehabilitation, and democracy building in Bosnia. Participants are recruited and selected competitively from the professional and functional levels identified as critical to effecting change in institutions with which USAID is working.

Today, there are at least 280 national NGOs operating in Bosnia, many of which are now providing the trauma counseling and humanitarian assistance once handled by the international NGO community. The skill and experience of NGOs in promoting community development while meeting priority construction needs is a valuable asset.

Since 1996, CARE has received $4.0 million from USAID for its EDUCATE project. In 1999, CARE reconstructed a transformer station and installed new power lines in Vrtoce, an area that is seeing minority returns. CARE also built a new 200-student kindergarten in the city of Bihac.

Save the Children implements a program in Bosnia to establish community based pre-schools and provide training for local teachers. Since 1995, 440 sites have been opened and over 21,400 children enrolled. Approximately 60% of these sites are now self-sustainable. In 1999, Save the Children facilitated the formation of 92 playgroups at 47 sites in 22 municipalities.

Other Donors Programs: The Municipal Infrastructure and Services program is closely coordinated with the infrastructure rehabilitation efforts of the World Bank, the European Union (EU), and other multi or bilateral organizations. The MIS program also works very closely with the EU, Office of the High Representative, and World Bank in promoting institutional sector reform in the water and energy sectors. In both sectors, donor unity plays a major role in encouraging reforms to make the sectors eligible for much-needed loans and eventual utility privatization. USAID's Business Development Program complements other donor commercial lending programs. USAID's economic advisors actively coordinate with the International Monetary Fund, the European Bank for Reconstruction and Development, and World Bank to ensure a common donor approach on promoting critical reforms. USAID's leadership of the Private Sector Development Task Force (formerly the Industry Sector Task Force) has helped maintain the necessary momentum to get privatization underway in Bosnia. The Task Force is currently formalizing a new initiative to establish an employer confederation and produced a comprehensive list of impediments to private sector development

with the aim of reducing or eliminating them. USAID's leads the international community's efforts to transform the payment bureaus, and has been able to leverage other donor funds and resources for this major undertaking. In the democracy arena, USAID works closely with other donors, primarily the OSCE, the Office of the High Representative, the EU, Council of Europe, other bilateral, and private organizations, in efforts to support independent media, political party development, judicial reform, and civil society building.

Principal Contractors, Grantees, or Agencies: USAID implements activities under this objective through private, U.S. and local companies such as: the Ralph M. Parsons Company and local construction firms; U.S. consulting firms such as the Price-Waterhouse-Coopers, East/West Management Institute, Overseas Strategic Consulting, Deloitte-Touche-Tohmatsu and the Barents Group; U.S.-based and local NGOs, such as the International Foundation for Election Systems, NDI, the American Bar Association, Internews, International Research and Exchanges Board, American ORT (the Democracy Network program implementer), CARE, and Save the Children. Other U.S. agencies implement complementary programs under Support for East European Democracy (SEED) Act auspices; e.g., the Treasury Department, State Department, U.S. Trade and Development Agency, U.S. Department of Justice, and the Bureau of Public Diplomacy

Selected Performance Measures: Due to the special nature of this program, USAID does not apply the Agency's usual, measurement methodology for tracking program performance and progress. For instance, annual targets are not established although information on selected indicators is collected as a means to provide periodic reports throughout the year on U.S. assistance to Bosnia. In previous Congressional Presentations, the following were identified as among those selected indicators.

Real GDP growth.

Unemployment rate.

Number of jobs created through USAID programs.

Number of BDP Agent banks taking on own lending.

Number of residents provided with repaired infrastructure and restored services.

Number of residents returning to their communities.

Financial system providing financing to private entrepreneurs.

Private sector investment in industry.

Number and effectiveness of local NGOs promoting citizen concerns.

Public confidence in the courts.

Self-generated revenue of cantons and municipalities.

Political party platforms are communicated to citizens and reflect citizen input.

Key USAID contributions are demonstrated in two indicators from this list: "number of jobs created through USAID programs," and "number and effectiveness of local NGOs."

Indicator	**1996**	**1997**	**1998**	**1999**
Number of jobs created through USAID programs:				
Municipal Infrastructure	1,982	4,565	3,707	3,770
Short-term jobs*				
Direct beneficiaries	310,000	290,000	388,000	300,000
Minority beneficiaries**	--	--	70,000	57,000
Effectiveness of local NGOs promoting citizen concerns (NGO Sustainability Index rating)***	--	--	5.6	5.3

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*In a difficult, data collection environment such as Bosnia's, figures are constantly being updated and revised. For this reason, there may be some small variation between the figures reported here and those reported in earlier years. The figures reported here are calendar year figures. For purposes of this report, a short-term job is assumed to be three months of employment.

**Data on the number of ethnic minority returnees benefiting from the Municipal Infrastructure and Services Program were not maintained until 1998.

***USAID uses the NGO Sustainability Index as a proxy for improved NGO effectiveness. On a scale of one to seven, one is the best rating, and seven is the worst. The 1998 and 1999 ratings are not strictly comparable as the 1999 rating contains more variables than the 1998 rating.

The United States Agency for International Development

Bosnia and Herzegovina

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	215,000	180,000	100,000	90,000
SEED Act Supplemental Funds Request	0	0	0	0
Economic Support funds	5,000	12,000	0	0
P.L. 480 Title II	14,748	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**234,748**	**192,000**	**100,000**	**90,000**
Operating Expenses	3,272	3,500	3,500	3,300
Trust Funds	0	0	0	0
Total Operating Costs	**3,272**	**3,500**	**3,500**	**3,300**

Work Force Data

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	9	10	9	9

Other U.S. Citizen	2	1	1	1
FSN/TCN DH	50	56	65	65
Subtotal	**61**	**67**	**75**	**75**
Program Funded*				
U.S. Citizen	6	8	13	13
FSN/TCN	37	37	37	37
Subtotal	**43**	**45**	**50**	**50**
Total Direct Hire Work Force	**104**	**112**	**125**	**125**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**104**	**112**	**125**	**125**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
168-031 - Human Suffering and Negative Consequences of Crisis are Reduced							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	90,000	90,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	90,000	90,000

- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Edward Kadunc

The United States Agency for International Development

BULGARIA

Development Challenge

FY 1999 Kosovo Supplemental Funds

Other Donors

FY2001 Program / Activity & Budget Information

Summary Tables
- Program Summary
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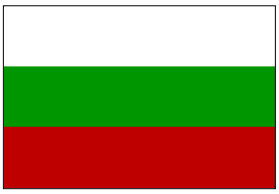
Introduction



Regional stability is the overwhelming U.S. national interest served by continuing, U.S. transition assistance to Bulgaria. A peaceful, democratic, and economically prosperous Bulgaria will help to promote stability in the Balkan Region. The recent Kosovo crisis challenged Bulgaria to become a leader in preserving stability and in advancing democratic principles in a region torn by ethnic conflict, and underlined Bulgaria's importance as an anchor state in the region. Bulgaria is well positioned to assist with regional efforts to combat terrorism, arms proliferation, and narcotics trafficking. The Bulgarian government, against significant opposition, supported the North Atlantic Treaty Organization (NATO) operations in Kosovo, and opened its air space to NATO over-flights. The Kosovo crisis caused economic losses in Bulgaria and in the region – Bulgaria's losses due to the indirect effects associated with disrupted trade links. Consequently, the U.S. priorities in Bulgaria are to intensify support for economic reform and prosperity in the country; and support Bulgaria's completion of its democratic transition and eventual European Union (EU) accession. USAID's program contributes directly to two of the goals of the Embassy's Mission Performance Plan in this regard – broad-based economic development, and democracy. With the Stability Pact and other regional integration initiatives in place, USAID is considering uses of Support for East European Democracy (SEED) assistance to pursue U.S. interest in promoting regional cooperation between Bulgaria and its neighbors.

The Development Challenge

The major challenge faced by Bulgaria for the past decade has been economic and political transition to a market-oriented democracy. The Kosovo crisis added new challenges to the Bulgarian transition; e.g., disruption of trade and transit links with major trading partners; lost economic opportunities; and increased unemployment in certain regions of the country. USAID has been working very closely with Bulgaria's reform-minded government since it came to power in early 1997 to support this transition. A key dimension of the assistance program has been accelerating Bulgaria's transition, and thus its readiness for EU accession.

In spite of the Kosovo conflict and other unfavorable external factors, the government has continued to push forward with its ambitious reform program and has achieved tangible results. Economic activity recovered in 1998, with real GDP growth estimated at 3.4%, after a contraction of a cumulative 17% in 1996-1997. Substantial progress has been achieved in privatization and enterprise restructuring -- as of end of August 1999, 64% of all assets earmarked for privatization was fully privatized. As a result, the private sector has raised its share in GDP to over 60%.

USAID has provided assistance to, and actively participated in Bulgaria's implementation of legislative and regulatory reform essential to restructuring the economy, and conducive to harmonization with EU legislation. USAID advisors have played a critical and increasing role in preparing, tendering, and negotiating privatization of four state-owned

banks. Assistance to the Bulgarian National Bank helped improve the Central Bank's oversight and regulation of licensed banks. USAID's Capital Market Project has delivered valuable training and advice to increase the efficiency, transparency, and liquidity of the capital market. The number of small- and medium-sized enterprises in Bulgaria has increased rapidly with significant assistance from USAID, and account for well over 90% of all registered economic entities. USAID's enterprise growth program has delivered business services and technical assistance to more than 650 Bulgarian firms, raised venture capital, and led to 72 business linkages worth about $30 million.

Nevertheless, the country is not yet in a position to cope with competitive pressure and market forces within the EU. Though macroeconomic stability has been maintained, intensified effort is needed to implement an ambitious reform agenda, including accelerated privatization and restructuring of strategic and banking sectors. Additional financial discipline is needed, particularly in state-owned enterprises. Liquidation and bankruptcy procedures need to be more effective. A more stable and transparent legal framework for business is needed.

Bulgaria's political institutions are now sufficiently structured and stable to meet the Copenhagen political criteria for application for EU membership, and Bulgaria has been invited to launch negotiations in early 2000 on its accession to the EU. However, Bulgaria needs to strengthen rule of law; and do more to protect human and minority rights, particularly of the Roma population. Anti-corruption efforts need to be intensified, and functioning of the judicial system improved. Bulgaria is still confronted with widespread poverty (a recent World Bank study found that poverty was increasing, with more than a quarter of Bulgarians living on less than a dollar a day). Life expectancy and other health indicators are worsening and health sector reform requires urgent attention.

Withdrawal of SEED assistance in 2002 as planned in the current USAID strategy would be premature in light of these challenges and others. The negative impacts of the Russian and Asian economic crises, slower than expected progress on privatization and restructuring, and the Kosovo Conflict have impeded progress toward the results, prompting reconsideration of strategy parameters. More time and resources will be needed to help Bulgaria consolidate economic, and democracy and governance improvements, and address social sector constraints in the wake of these crises.

FY 1999 Kosovo Supplemental Funds.

In an effort to alleviate unfavorable repercussions of the Kosovo crisis, USAID added two components to its portfolio in FY 1999. The Economic Support Program provided $25 million in FY 1999 Economic Support Funds (ESF) for emergency balance-of-payments support to help cushion the negative effects of the Kosovo crisis on Bulgaria's economy. The Bulgaria Crisis Recovery Program (BCRP) was funded with $5.0 million in FY 1999 SEED Supplemental resources to help affected, Danube River communities recover from crisis impact: to restore local government capacity, strengthen civil society capacity, generate employment, and improve commercial life in those municipalities. The BCRP is providing immediate, technical and financial assistance to entrepreneurs in these communities; and developing new mechanisms for communication between local governments and civil society organizations, and among ethnic groups. Also in the BCRP are $1 million for the American University in Bulgaria for education and vocational training for Kosovo refugees.

Other Donors

International donor support to Bulgaria is substantial, with total donor assistance projected at over $1 billion in 1999 – the IMF, EU and World Bank providing the lion's share of the funding. Among bilateral donors, the U.S. manages the largest technical assistance program, which is closely coordinated with multilateral and other bilateral programs. USAID has inspired the development of working groups for donor coordination at the expert level in key areas, and has taken the lead in donor coordination in critical areas, such as improving the SME policy environment. The World Bank and IMF often prepare the policy and legislative environment for USAID programs to be effective, and USAID reciprocally provides targeted technical support assisting Bulgaria to meet multilateral conditionalities.

The World Bank leads assistance efforts in energy, pension reform and economic restructuring with USAID providing technical assistance in these areas. USAID coordinates activities with the United Nations Development Program (UNDP) in areas including small- and medium-enterprise (SME) development, poverty alleviation, integration of marginal populations into society, employment promotion, and government decentralization. Post-Kosovo rehabilitation and regional integration initiatives are expected to increase USAID collaboration with the World Bank and UNDP in the social arena, particularly with respect to the Regional Initiatives Fund. U.S. coordination with the EU is strong, most notably in the area of judicial reform. Collaboration is expected to intensify as USAID works with the Government of

Bulgaria and the EU to facilitate the accession process. The EU supports Bulgaria's accession preparations, and has provided assistance totaling $100 million in both 1998 and 1999. This level is expected to be $200 million a year in 2000, and thereafter.

The United States Agency for International Development

Bulgaria

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID will continue to work with the Government of Bulgaria, expanding involvement in strategically important areas. With the onset of Bulgaria's negotiations for EU accession, demand for USAID technical assistance is likely to increase. USAID is likely to expand assistance for pension, banking and judicial reform; new credit arrangements for businesses; capital market development; and anti-corruption efforts. Two broad goals will continue as the basis for the program – fostering the emergence of a competitive, market-oriented economy; and supporting transition to transparent and accountable governance and an empowered citizenry through democratic political processes. USAID will intensify use of two major, complementary approaches in program implementation – a broad-based, bottom-up intervention at the municipal and regional levels; and strategic interventions for reform at the national level. While USAID priorities for the country are likely to be refined in the anticipated strategy update, USAID expects to continue its carefully targeted activities to accelerate economic and democratic transition through 2001 and beyond. The launching of cross-border, Balkans initiatives in support of the Stability Pact also will be a priority.

With the sharp increase in interest on behalf of Government of Bulgaria and donors in the social sector reform – including pension reform, employment generation, and health insurance – USAID envisions further involvement in these areas. Emphasis will be placed accelerating decentralization of fiscal authority to the municipal level, and strengthening support organizations that are essential to the development of a vital civil society sector. USAID will continue support for the Municipal Energy Efficiency Project in an effort to alleviate pressures on Bulgarian municipalities that face severe budget constraints by introducing new energy-saving technologies. Partnerships among private businesses, municipal governments, and NGOs will be promoted to catalyze economic development at the local and regional levels within Bulgaria. USAID will maximize linkages and synergy across all strategic areas – promoting private sector development and growth, and competitiveness of the private financial sector, effecting responsive and accountable local government, increasing active participation of citizens in decision making, and improving the legal system to support democratic processes and market reforms.

Special and Cross Cutting Initiatives:Given the dynamic environment in the country, USAID will continue to identify important niches where its cooperation is sought, and where there are opportunities for unusual impact. The Presidential Initiative on Internet will enhance USAID's implementation of its long-term strategy to develop Bulgarian support organizations, improve national and local government responsiveness to its citizens, and facilitate Bulgaria's integration into the global marketplace. In FY 2001, modest funding will support crosscutting activities including support to labor organizations and free-trade unions, and to valuable U.S.-based and regional training.

ACTIVITY DATA SHEET

PROGRAM: Bulgaria
TITLE: Accelerated Development and Growth of Private Enterprises, 183-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $7,150,000 SEED
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $8,000,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1992 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: This strategic objective promotes the sustainable development of private firms in a competitive environment in preparation for EU accession and integration within global market structures. USAID's strategy seeks to improve the legal and policy frameworks as the foundation for continued economic growth and private sector competitiveness. Activities are driven by EU accession focusing on sales and export growth, and job creation. The competitiveness of the Bulgarian economy will be a critical element in EU accession, and is therefore critical to the long-term prospects for economic growth.

A cornerstone of USAID's strategy under this objective is to strengthen prominent business associations and organizations, consulting firms, think tanks and other business support institutions that will broaden the base of support for sustainable private enterprise growth. In response to the Government's structural reforms, the Firm Level Assistance Group (FLAG), the principal instrument through which USAID enterprise-level assistance is delivered, has focused training and advisory services on sectors with relatively high competitiveness, such as tourism, agribusiness and light manufacturing.

The lack of financial services remains a particular constraint to enterprise growth at all levels of the economy, and USAID will continue to support efforts that increase private sector access to financing. Ongoing programs include: the Bulgarian American Enterprise Fund (BAEF) which continues to invest the $55 million obligated since 1992; the Small Enterprise Assistance Fund (SEAF) which has leveraged $6 million of EBRD funds to match the $6 million obligated from USAID to take minority shares in businesses of up to $250,000; and two guarantee programs which will mobilize $12 million in credit for the energy efficiency and small enterprise sectors. In addition, USAID is expanding on the success of the Warehouse Receipts program, which provides short-term credit to farmers based upon grain held as collateral.

The direct and primary beneficiaries are small and medium-sized private firms as well as numerous business associations and support organizations. All Bulgarians are, in effect, secondary beneficiaries, as a result of economic stability, growth, job creation, an improved quality, quantity and availability of consumer goods and services, and in the reasonably near future, the collateral benefits of EU accession. This objective supports the U. S. Embassy's Performance Plan goals in the area of democracy and economic growth.

Key Results: The key results for this strategic objective include: (1) establishment of conducive legal, policy and regulatory frameworks for competition and private sector growth; (2) strengthened private sector business support associations and institutions; and (3) improved private business performance of target firms.

Performance and Prospects: USAID made significant gains in strengthening business associations and in providing ongoing assistance to enterprises in 1998-1999. Associations increased their advocacy for improved legal and policy frameworks, and USAID continued as the major actor in promoting public participation in small-scale enterprise (SME), policy reform, chairing the donor working group in this area. Associations in Bulgaria were able to increase revenues from dues and services by almost 17% in 1998 due to USAID assistance.

Through various Firm-level Assistance Group (FLAG) initiatives, USAID provides enhanced business services and technical assistance to Bulgarian entrepreneurs and private SMEs. As a result of FLAG interventions since 1996, 72 business linkages, including joint ventures, have been established worth about $30 million. Results indicators include increased exports, sales and employment. In 1999, exports in targeted firms had a 13% annual increase. In assisted firms, sales increased 10%, and sales per employee increased 3.5% quarterly. These gains were realized in a period of regional and worldwide economic slowdown, and in spite of the negative impacts of the Kosovo crisis.

A highlight of 1999 was the nationwide launch of a Warehouse Receipts Program, under which credit is mobilized against grain held as collateral in licensed bounded warehouses in Bulgaria. Under this USAID program, grain producers, bankers, warehousemen, insurance companies, government agencies and others were trained to originate loans; four warehouses with nearly 100,000 MT of grain were licensed; and banks booked more than a hundred thousand dollars of related loans. The number of licensed warehouses is expected to double by early 2000.

USAID continues to identify and develop supplementary means to improve the level of financial intermediation and increase the availability of credit in Bulgaria. USAID has recently launched three micro finance initiatives that will foster enterprise development and investment. These initiatives will not only serve to increase the availability of credit to small enterprises, but will also serve as a safety net for those most likely to be affected by the current process of economic restructuring. Financing of SME and energy efficiency projects will benefit from recently established guarantee facilities that will secure 50% of the risk of loans issued by commercial banks. A private Bulgarian bank will originate loans subject to commercial credit criteria. This will bolster USAID efforts to strengthen enterprises and the banking sector.

Perhaps most important, these loans will be issued for terms of two to five years, a breakthrough considering that no bank in Bulgaria issues any significant loans for a term greater than one year.

USAID will continue strengthening business associations to increase their financial sustainability and capacity to deliver services to businesses. In light of recent successes, USAID will maintain efforts to increase credit availability – when such efforts can be achieved with market mechanisms, and in ways that increase the level of competition in the financial markets.

USAID will intensify its current policy reform efforts. The consensus of many different analyses in Bulgaria is that the sluggish response of the economy is due to a still mediocre policy and regulatory framework. Despite improvements over the past two years, the pace of foreign and local investment remains slow, and must accelerate to achieve an acceptable rate of economic growth. (Per Capita GDP remains at about 65% of the pre-transition period). The enhanced work on policy reform will fit well with a new initiative supporting regional trade in Southeast Europe. The success of this initiative will depend upon the successful identification of barriers to regional trade and implementation of appropriate measures to ameliorate those barriers. Policy reform is also a critical requirement for EU accession given that it will permit the development of a competitive Bulgarian economy.

Possible Adjustments to Plans: To be considered during the strategic update in FY 2000.

Other Donors' Programs: Multilateral donors and the EU assist associations and private firms in ways that complement USAID's efforts. Among bilateral donors, USAID has the most significant private enterprise assistance program. EU (PHARE) assistance and support for the Bulgarian SME Agency is targeted at institutional strengthening. The British Know-How Fund, and the German and Austrian aid agencies have programs targeted at policy reform, as does the World Bank. The EBRD is working to establish new initiatives for SME financing, as are the British Know-How-Fund, and the Dutch and the Swiss aid agencies. USAID is leading donor coordination in the area of assistance to small and medium sized enterprises. In addition, USAID is seen as a leader in the sector, and as such has been able to play a critical role in assuring that donors approach this sector in a synergistic fashion. For example, in the area of policy reform, several donors, including USAID, are taking a coordinated approach to developing a reform agenda with the Government of Bulgaria.

Principal Contractors, Grantees or Agencies: USAID implements activities with numerous Government of Bulgaria ministries and agencies through: the International Executive Services Corps (IESC), University of Delaware, World Learning, Agriculture Cooperative Development International/Volunteers Oversees Cooperative Assistance (ACDI/VOCA), Catholic Relief Services, Opportunity International, the Bulgarian American Enterprise Fund, the Small Enterprise Assistance Fund (CARESBAC), the United Nations Development Program, Management Systems International (MSI), ABA/CEELI, WOCCU, and others.

Selected Performance Measures:

	Baseline (1997)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Percentage of GDP provided by the private sector:	55%	62%	66%	75%	80%
Increase in exports of targeted (assisted)firms*	10%	13%	13%	12.5%	15%
Increase in revenue from dues and services of assisted business associations	10%	15%	16.5%	25%	25%
Percentage increase in non-energy* Exports	-0.6%	-0.7%	2%	4%	4-6%

* These indicators are being used interchangeably to measure the ability of the country to compete internationally. We will continue to monitor performance on the indicator for non-energy exports, but will not report on it in next year's Congressional Presentation given lag time involved in getting statistical data for the indicator. Statistical data for the indicator, "increase in exports of targeted (assisted) firms," is more reliable and accessible. Therefore, we will use this indicator next year as proxy measure of the international competitiveness of Bulgaria's economy.

ACTIVITY DATA SHEET

PROGRAM: Bulgaria
TITLE: A More Competitive and Market-Responsive Private Financial Reform, 183-014

PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $6,500,000 SEED
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $7,300,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1997 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: The purpose of this strategic objective is to develop a more competitive and market responsive private financial sector. Whereas the Bulgarian financial system will benefit directly from this assistance, the Bulgarian population at large will benefit from a stable financial system, in which they have confidence, and which provides financial intermediation services not yet available in Bulgaria. The deepening of financial markets in Bulgaria is necessary for achieving economic growth and a critical element for the Government of Bulgaria negotiations for EU accession. The support provided to the Bulgarian financial markets was initiated at the request of the Government of Bulgaria for urgent U. S. assistance following the severe financial crisis of early 1997. Senior staff of the U.S. Federal Deposit Insurance Corporation arrived in mid-1997; launched the privatization of six remaining state-owned banks; and helped strengthen the Central bank's supervision capacity. Following the stabilization of the banking system, assistance efforts were initiated in other financial reform areas, notably capital markets and pension reform. This objective supports the U. S. Embassy's Performance Plan goal in the area of democracy. This objective contributes to the U.S. Embassy's Mission Performance Plan's economic growth goal.

Key Results: The three primary results sought in support of this objective are: (1) establishment of a stable, regulated and efficient banking system; (2) development of a regulated, transparent and liquid securities market; and (3) the development of private pension funds industry. USAID's banking sector strategy has three elements: stabilization, including the privatization of state-owned banks; strengthening banking supervision, deposit insurance and the supporting legal/regulatory framework; and improving commercial banks' operations through training. These elements address significant weaknesses in the sector, and develop the regulatory institutions and community of professional bankers necessary for future stability. All are key to restoring public confidence in the banking system and accelerating the development of a sound functioning banking sector.

Performance and Prospects: USAID assistance has been crucial to Bulgaria's bank privatization process, which has resulted thus far in the sale of four banks to strategic investors in less than two years, and preparation of two remaining banks for sale in early 2000. As a result of U. S. assistance to the Bank Supervision Department of the Bulgarian National Bank (BNB/BSD), progress has been outstanding in improving the Central Bank's ability to oversee and regulate all licensed banks, using a risk-based analysis. With guidance from USAID-supported advisors, a risk-based Manual of On-site Examination Policies and Procedures has been prepared and distributed within the banking industry. Former U. S. examiners have worked side-by-side with Bulgarian counterparts, ensuring that the new procedures are fully implemented.

Effective bank supervision and deposit insurance are essential to building trust and confidence in the banking system. Since early 1999, USAID has worked with the newly established Deposit Insurance Fund (DIF) to develop its institutional capacity. In addition, USAID launched a commercial banker training activity focused on strengthening the institutional capacity of the Association of Commercial Banks and its training arm – the International Banking Institute. USAID has just initiated a new off-site supervision program for Bulgarian Banks at the request of the Government of Bulgaria.

USAID responded to a Government of Bulgaria request for assistance in 1998 by launching two new initiatives supporting capital market development. One provides assistance to the Bulgarian Securities and Stock Exchanges Commission (BSSEC), and seeks to increase local capacity to regulate capital markets. The second assists non-regulatory institutions including the Bulgarian Stock Exchange (BSE), the Central Depository and the Bulgarian Association of Licensed Investment Intermediaries (BALII); and seeks to increase liquidity and trading volumes on the BSE, and assure that transactions occur transparently and efficiently. U. S. assistance has also been crucial in the development of the new securities law, ratified in late 1999. Progress in the area of capital markets development has been slow due to the negative impacts of the Russian and Kosovo crises. Nonetheless, the number of companies listed officially on the Bulgarian Stock Exchange increased to 32 and the first Bulgarian corporate bond was issued in 1999. U. S. assistance also supported drafting the new securities law, and increasing public knowledge and understanding of capital markets mechanisms and shareholders rights.

During the 1990's, Bulgaria's public pension system grew increasingly unable to support a growing number of retirees. Continued funding of the system threatened to dwarf the Government's capacity, and destabilize the Government budgetary process. USAID joined other donors in responding to the Government of Bulgaria's request for help, launching its Pension Reform Program in mid-1998. U. S. assistance was crucial to finalizing the pension reform strategy

and the ratification of related legislation. An important element of this activity is promoting the investment of the Bulgarian pension assets in a variety of international financial markets to ensure the security of pension fund assets. If successful, this program will improve the living standards of Bulgarian pensioners and contribute to economic growth through mobilizing retirement savings (similar to successes in such programs in Chile and elsewhere).

Key legislation in the area of pension reform was developed and ratified in 1999 with USAID assistance -- the Law on Supplementary Voluntary Pension Insurance which regulates the activity of voluntary private pension funds, and establishes an independent regulator to oversee and license private pension and health funds in Bulgaria. Developed with U. S. assistance, the comprehensive Social Code revises existing public pension, disability and maternity benefits, and provides for creation of a mandatory private pension system in Bulgaria. The private pension industry will start accumulating significant financial resources in 2000, resources that can be invested inn Bulgaria's economic growth.

USAID plays a special role in the development of Bulgaria's financial markets. By supporting the development of self-regulating organizations like the Bulgarian Association of Licensed Investment Intermediaries, the Association of Commercial Banks, the Association of Private Pension Funds, we hope to make them effective advocates for further reform and improvement in the regulatory and policy framework. USAID is supporting regional integration among different financial market institutions, and promoting increased coordination and cooperation among regulatory organizations such as the Bulgarian Securities and Stock Exchange Commission, and private institutions such as the Bulgarian Stock Exchange.

USAID expects to intensify financial sector assistance, notably in the area of regulatory coordination and harmonization of Bulgarian legislation, both internally and with EU directives; in the areas of banking, capital markets, pension and health insurance; and in the area of unified tax and social benefits collections.

Possible Adjustments to Plans: To be considered during the strategic update in FY 2000.

Other Donors Programs: USAID has clearly played the leading role in providing technical assistance in the area of financial markets. This assistance contributed to addressing policy priorities of international financial institutions, including the IMF and the World Bank. A good example of the existing close cooperation is the World Bank's Financial and Enterprise Sector Adjustment Loan II (FESAL II) which reinforces, through conditionality, USAID's efforts to improve the banking/credit legal and regulatory framework, bank supervision, bank privatization, and pension and health sector reform regulatory roles.

Principal Contractors, Grantees or Agencies: Barents Group, CARANA Corporation, and the U. S. Securities and Exchange Commission.

Selected Performance Measures:

	Baseline (1997)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Private bank assets as % of total bank assets	32.7	44	50	85	85
Market capitalization as % of GDP	0	7	7	10	15

ACTIVITY DATA SHEET

PROGRAM: Bulgaria
TITLE: Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making, 183-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $4,350,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $4,450,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1992 **ESTIMATED COMPLETION DATE**: 2005

Summary: The existence of a strong, flourishing and well-informed civil society is integral to USAID's ultimate goal of helping Bulgaria to establish a free-market economy and democratic institutions. This strategic objective will be accomplished by building the capacity of non-governmental organizations (NGOs) to play a key role in facilitating broad public participation in policy and decision making. Strong NGOs can play an active role in the development of the

country, and providing services to the population. The objective will be achieved when a critical mass of NGOs are fully developed to ensure citizens' participation, and the broad public access to public affairs news from independent media. Indigenous grass roots organizations and the Bulgarian populace will benefit from these activities at the community level. This objective supports the U. S. Embassy's Performance Plan goal in the area of democracy. This objective contributes to the U.S. Embassy's Mission Performance Plan's democracy goal.

Key Results: This objective will be achieved through two key results. First, USAID is strengthening the capacity of NGOs by working on the legal and regulatory enabling environment for civil society, and increasing advocacy coalitions for participation. USAID aims to strengthen these indigenous organizations by improving NGO operation and financial viability; and by establishing effective and sustainable Intermediary Support Organizations (ISOs) that provide support such as grant-making, training, and networking to the NGO community. USAID is also working to expand public awareness of the impact of corruption; enhance institutional capacity of the Parliament, including increased public dialogue on policy issues; and extend media training to members of Parliament. The second key result aims to strengthen independent broadcast media by increasing the effectiveness of media associations; and improving the electronic media regulatory framework, the professionalism of journalists, and business management of broadcast media.

Performance and Prospects: Through the Democracy Network and Democracy Commission small grants, more than 111 NGOs received assistance to strengthen their organizational skills and program activities from 1995 to 1998. All the organizations attended NGO training courses and had in-house training scheduled upon request. Additional outreach was made to more than 40 NGOs to participate in the training program, even though they did not qualify for financial assistance. A total of 94 group-training modules were delivered to 900 representatives from 133 organizations.

In 1999, the Democracy Network Program began its second phase – the development of ISOs as instruments to help institutionalize and sustain local capacity to provide civil society with political access, technical assistance, training, networking services, and financial resources. A core initiative is selection of national and regional organizations that will be providing grants and other services to grassroots organizations. In December 1999, a selection committee comprised of 15 Bulgarians chose 12 organizations from around the country to become ISOs that provide a range of services to a wider NGO community. The financial sustainability of these organizations is still fragile – due in part to the impact of economic conditions. USAID will work closely with these selected organizations to help them achieve financial sustainability over the next several years.

In 1998, significant effort was made to improve the NGO legal and regulatory environment, particularly the arcane law regulating the activities of NGOs. Three draft NGO laws were introduced into parliament. Two of these drafts originated from a draft prepared through USAID assistance via the International Center for Non-for-Profit Law. In 1999, USAID assisted the legislative process by sending the working group on NGO law, including members of Parliament and experts, to the United States. This study tour helped the working group to expand their knowledge on NGO and relevant legislation, and to work on a unified NGO law draft. The unified draft is being finalized now, and USAID hopes that the legislation will pass on the first reading. After NGO law is adopted, USAID assistance will be needed on implementation procedures, and on other relevant laws; e.g., tax legislation. Such a comprehensive approach will require work well beyond 2002.

The ProMedia program seeks to train NGOs and professional and trade associations, helping them to protect free speech; advocate on behalf of journalists and the media; and serve as future providers of in-service training to journalists and managers. ProMedia has worked with the Association of Bulgarian Broadcasters since early 1997, helping it to provide training and other member-services. As a result, the Association has more than tripled its membership from 21 to 94. As a result of the improvements in the media regulatory framework, particularly in broadcast licensing, rapid growth of private television is expected. This will require a sustained training and support effort. USAID has addressed this need by establishing the ProMedia Television Training Center in 1999. The Center is the only facility in the country equipped to provide professional hands-on training to practicing journalists, broadcast media managers and students.

The USAID-funded Coalition 2000 continued its ambitious program of raising public awareness of corruption. After developing a National Action Plan in 1998, phase two of the Coalition 2000 focused on a comprehensive, anti-corruption, public awareness campaign and introduction a state of the art Corruption Monitoring System. A major new element in 1999 was the small grants program, providing 20 indigenous NGOs from around the country with funding for local anti-corruption efforts. Coalition 2000 has formed a task force of leading legal and human rights experts to draft a law on the Ombudsman institution in Bulgaria. As a result, the Draft Law on the People's Defender is now under review. In June 1999, Coalition 2000 organized an International Conference on anti-corruption, attended by approximately 100 representatives of 19 countries, as well as representatives of bilateral aid agencies and international organizations. At the conference, emerging civil society anti-corruption coalitions were provided with a 'how-to' guide

for establishing public-private partnerships to reduce public sector corruption.

USAID launched a parliamentary support program, in response to the needs expressed by the Bulgarian Parliament for legislative technical support, and facilitating greater involvement of civil society in the legislative process. This Program is aimed at recruiting, training and assigning substantive legislative research projects to Bulgarian University students. These students will serve Parliament as volunteer legislative assistants to provide first-quality legislative research services to the National Assembly. In addition, USAID has financed a program for improving the skills of MPs to work with the media.

Possible Adjustments to Plans: Experience indicates that much more work remains to develop the nascent Civil Society organizations in Bulgaria, and to ensure their long-term financial sustainability. Concrete adjustments will be considered during the strategic update in FY2000.

Other Donors Programs: Many donors work in the NGO sector. A few work through networks of intermediaries (e.g., Soros Open Society Fund and Open Society Clubs). Others provide funding and assistance to individual NGOs; e.g., the EU channels substantial support to local NGOs through the Civil Society Development Foundation. In light of the variety of players in the country and diversified nature of the NGO sector, donors have agreed that they need to coordinate more closely and increase information sharing. In 1999, USAID conducted a thorough assessment of civil society in Bulgaria to ensure the continued responsiveness of DemNet and other donors' programs to the unique Bulgarian environment; and used this study as a means to engage donors in discussing coordination of assistance to meet requirements. In the area of anti-corruption activities, other donors are complementing USAID's small grants program; e.g., the Dutch Embassy in Bulgaria has committed to financing five additional projects under the auspices of Coalition 2000 network. USAID plans to continue to play a leading role in improvement of in-country donor coordination in the not-for-profit sector.

Principal Contractors, Grantees, or Agencies: USAID implements activities through U.S NGOs including the Institute for Sustainable Communities, Freedom House, the International Center for Not-For-Profit Law, International Research and Exchanges Board, International Development Law Institute, the Bulgarian Parliament, and the Bulgarian local government.

Selected Performance Measures:

	Baseline (1997)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
NGO Sustainability Index[1)]	4	3.8	4.2	4.0	3.8
NGO legal framework	No	No	introduced	Yes	Yes
Percent of public who receive significant portion of public affairs news from independent media [2)]:	n/a	14%	35%	45%	50%
TV:					
Radio:	n/a	45%	55%	60%	65%
Code of ethics adopted by all Broadcast media (% of media adopting code)	Code drafted	30%	35%	*	*

*This measure will not be reported in subsequent Congressional Presentations.

Notes:

1. The NGO index is calculated on a scale from 7 to 1, 1 indicating the highest civil society development. The index is multi-dimensional, looking at legal framework, financial sustainability, service provision, etc. Due to a change in index categories with the aim of better measure the real situation, as well as some economic effects of the Kosovo crisis, the index dropped from 3.8 to 4.2. We are expected the upward trend to get back on track, indicating that more time will be required to achieve the target levels of high civil society development).
2. Data for TV and Radio is separated, as they are at different stages of development.

ACTIVITY DATA SHEET

PROGRAM: Bulgaria
TITLE: Legal Systems that Better Support Democratic Processes and Market Reforms, 183-022
STATUS: Continuing
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,300,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,300,000 SEED
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: This objective is critical to the entire USAID program for Bulgaria. An improved judicial system is crucial to advancing the government's declared strategy for economic reform and democratic governance. Effective and impartial application of the rule of law, a key element of EU accession criteria, can only be achieved with a professional judiciary. A professional and independent judiciary is vital to advancing the government's campaign against corruption, and ensuring a legal environment in which the private sector can develop. Since 1992, many newly appointed, younger judges have entered the system. Yet, there is no organized training for young judges before they join the bench; and many of these young people do not look upon judiciary as a career, but rather a necessary step to a lucrative private practice. In addition, the courts lack qualified support staff and do not have adequate office equipment. The USAID program aims to train young judges in these new laws to build up their professional esteem as part of a strong independent judiciary and to strengthen court administration. The direct beneficiaries of these activities are a significant percentage of the Bulgarian judiciary, including primarily judges, and also prosecutors, investigators and law students, and indirectly every member of the public who comes in contact with the legal system. This objective contributes to two of the goals in the U.S. Embassy's Mission Performance Plan, broad-based economic development, and democracy.

Key Results: Together with the Association of Judges in Bulgaria and the Ministry of Justice, USAID works to establish the curriculum and training activities of a Judicial Training Institute to provide continuing education for judges. Major results being sought include (1) improved professionalism of the judiciary; (2) judicial training institute established; and (3) improved court administration. Continuing education will serve both to elevate professional standards and provide an incentive for judges to work for extended periods in the system and pursue their own self-improvement.

Performance and Prospects: Since the current, reform-minded government came into office in 1997, Bulgaria has placed judicial reform on a very fast track -- driven by the desire to harmonize Bulgaria's legal system with European Union criteria for accession. Seventeen hundred Bulgarian laws are being reviewed for compatibility with European principles. In March 1999, three entities – the Ministry of Justice and European Legal Integration, the Association of Judges in Bulgaria, and the Alliance for Legal Interaction – came together to form the Magistrate Training Center (MTC). The Training Center will address Bulgarian judiciary's training needs to increase ability to adjudicate on new and complex issues arising in a market economy. USAID was the first donor to support this institution with a direct grant; fully equipped the Center; and provided technical assistance in establishing its financial, personnel, and administrative systems.

Since September 1999, USAID has been working with the Ministry of Justice and the Association of Judges to successfully launch an extensive program to support reform of the judiciary. The program will be implemented for an initial period of three years with a budget of approximately $7 million. A comprehensive, sustainable program will be put into place with two primary components: judicial training and court administration. The ultimate goal of judicial training is a change in attitudes, knowledge, skills and behavior of judges and court personnel. This will be achieved by combination of both initial judicial training for novice judges and continuing judicial training for sitting judges at the MTC. USAID will also work with the MTC and the Ministry of Justice and European Integration to implement a pilot program to improve court administration. The court administration program will establish several Model Pilot Courts and provide technical assistance in identifying and promoting legislative and administrative reforms necessary to improve administrative procedures, case and docket handling, and case information management.

The U.S. Department of Justice complements USAID's work in the area of judicial reform. Joint efforts have contributed to the drafting of anti-crime legislation, and are providing technical assistance, training, and equipment for law enforcement activities conducted by the Interior Ministry, the Customs Administration, and the Prosecutor's Office and National Investigative Service. The American Bar Association's Central and East European Law Institute is also a valuable partner in judicial reform initiatives.

Possible Adjustments to Plans: USAID's Judicial Reform Program was just launched in 1999. This objective is significant in terms of preparing Bulgaria to meet key EU accession requirements for judicial reform, and is crucial to achieving USAID Mission goals. The program will require USAID's involvement over an extended period of four to five

years.

Other Donors Programs: Donors' interests in the judiciary is high. The EU has listed judicial reform as a high priority within its public administration reform agenda and has developed a program of assistance that includes support to the Ministry of Justice and training of magistrates. The World Bank has also announced its intention to expand its efforts in judicial reform. With its new technical assistance team USAID expects to play a leadership role among donors in this sector. The Government of Bulgaria is actively pursuing accession to the EU, which requires demonstrated commitment to reducing and eliminating public sector corruption. Bulgaria is also a participant in the Council of Europe's regional Octopus program, which is developing strategies to combat crime and corruption. Council of Europe experts have helped Bulgaria develop guidelines for legislative initiatives which have led to amendments in the penal code.

Principal Contractors, Grantees, or Agencies: USAID implements the activities under this objective through a Cooperative Agreement with the East-West Management Institute, and a grant to the Bulgarian Magistrate Training Center.

Selected Performance Measures*:

	Baseline (1997)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Percentage of cases brought to trial and completed	10	10	TBD	TBD	TBD
Average experience of judges	3 years in court	3 years in court	TBD	TBD	TBD

* This strategic objective was presented as new in last years Presentation, and targets are still being formulated.

ACTIVITY DATA SHEET

PROGRAM: Bulgaria
TITLE: More Effective, Responsive, and Accountable Local Government, 183-023
STATUS: Continuing
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $4,600,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $4,600,000 SEED
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** FY 2005

Summary: This objective envisions Bulgarian local governments that make choices responding to citizen expectations; act on those choices effectively, and are accountable for their choices and actions. Local governments that exercise well-informed choice in partnership with citizens and community-based organizations can solve problems, identify and maximize opportunities, narrow the gap between resources and responsibilities, and successfully engage the central government on policies and laws to encourage local initiative. This local government initiative (LGI) will directly benefit the people and local officials of the majority of municipalities. Replication of successful models developed in target municipalities and the public policy work and dissemination efforts of national and local associations will strengthen democracy at the local level. This objective contributes to two of the goals in the U.S. Embassy's Mission Performance Plan, broad-based economic development, and democracy.

Key Results: Bulgaria is still highly centralized and local governments lack both the authority and experience to adequately serve their constituents. Since 1995 USAID has sought to: (1) increase capacity of local governments to govern effectively and promote necessary democratic reforms; (2) promote decentralization and improve intergovernmental relations; and (3) assist in reinforcing the principles of local self governing.

Performance and Prospects: In 1999, USAID continued to strengthen local government associations and local government staff. USAID's strategy combines technical capacity building within local governments, public policy reform, and creation of non-governmental organizations supporting decentralization and democratization. The program is on track, with concrete results such as implementation at the municipal level of new approaches in budgeting and computerized systems for decentralized functions. The municipal elections in October 1999 added an impetus and a new challenge to USAID's current activities in the country. The elections resulted in a large turnover of mayors, but the newcomers seem dedicated to move forward with reforms at the municipal level.

A priority for USAID in implementing the second phase of its Local Government Initiative is building local support capabilities and progressively shifting the lead role of upgrading local government to indigenous institutions. The results achieved are very encouraging. The national and regional municipal associations have been institutionally strengthened to better respond to the training, technical assistance and information needs of their member municipalities. The number of municipalities joining the associations is constantly growing. For example, the National Association of Municipalities now has 243 members, out of 262 Bulgarian municipalities. While development to date of these associations is encouraging, USAID plans to focus on lobbying and advocacy skills, with changes anticipated in staff and program activities. Cross border initiatives have also received USAID support: municipal associations along the Greek border and the Romanian border have begun economic development projects. In 1999, USAID launched a new competitive grants program for providing direct support to non-governmental organizations (NGOs) working on local government issues. The program will broaden the pool of beneficiaries beyond the municipal associations supported in the past, to include some very creative projects in the areas of economic development, cross-border cooperation, and the environment.

The Local Government Initiative (LGI), the centerpiece of our work at municipal level, has established excellent relationships with Mayors throughout Bulgaria and has provided high quality training and technical assistance. LGI training programs in municipal property management, citizen participation, and other key areas have attracted nearly 1,000 local government staff. Representatives from ten municipalities have been trained in service based budgeting; LGI continues to provide technical support to the implementing municipalities, as budgeting techniques appropriate to decentralized government are essential for the transition. The LGI program includes public policy reform, capacity building at the municipal level, organizational development for NGOs and training for Bulgarian technicians. LGI works closely with 30 partner organizations in joint sponsorship of special programs; for example, a parliamentary conference on local government held in 1999.

Decentralization of fiscal matters and policy decisions is a very challenging but important priority in the public policy area. The Foundation for Local Government Reform (FLGR) seminar on fiscal decentralization (1998) organized a working group in 1999 of 38, high-level government and NGO leaders to advance a strategy for reform. The Fiscal Decentralization Policy Reform Working Group has provided input to the government on implementing the new Health Insurance Act and reviewed a finance policy evaluation model developed by LGI consultants. The model will be useful for the Ministry of Finance calculations of intergovernmental transfers and will provide fiscal information to FLGR, other NGOs and the public, in support of transparent government. In the area of policy reform, LGI is developing a new strategy for NGOs and local governments to lobby on behalf of decentralized functions. USAID will be shifting the focus from Parliament to the Ministries, capitalizing on key contacts within the ruling party, and bringing to bear greater expertise in lobbying and advocacy, both through NGOs and U. S. consultants. USAID anticipates becoming more directly engaged, initiating collaboration with our multilateral partners.

In addition, USAID is implementing programs that further support municipalities and greatly contribute to the sustainability of the achievements and building partnerships at local level. Through the Technical Twinning Program, seven Bulgarian cities have initiated new activities to transfer the experience, know-how and successful practices from U.S. cities in different areas of self-government. Highlights include the adoption from Portage, Michigan, of a model for public-private partnership in Gabrovo, which resulted in an improved tender procedure for sale of municipal lots, yielding revenue of $44,000 and the creation of 46 new jobs. With advice from Durham, North Carloina, Stara Zagora traded municipal land for construction and renovation of public buildings in a new concession agreement with the private sector. This program will be expanded to include up to ten new cities.

Through an agreement between USAID and the Department of Labor, 10 municipalities have formed multi-sector working groups to develop local economic plans through a year-long community-based planning process taught and coordinated by PLEDGE, Partners in Local Economic Development and Government Effectiveness. Small grants are enabling each community to try out their plan, with continuing assistance from 14 local PLEDGE trainers, as well as oversight from US experts in labor and economic transition strategies. The training program aims at local and regional economic growth, job creation, and worker retraining; and will begin a new round in 17 municipalities in the depressed Danube River region where a high percentage of Roma have been among the thousands laid off from closed or privatized state enterprises.

The impact of the Kosovo conflict on the Danube River municipalities has been critical. Direct and indirect trade losses for Bulgaria total over $162 million, according to the Ministry of Industry. The Danube communities are particularly hard hit because 70% of their exports go to Western Europe via the river. Many, USAID-partner municipalities have suffered economic downturn as well as increased pressure on social services. In recognition of this hardship, USAID has organized a separate, complementary program, the "Danube River Initiative." USAID has also directed some of the regular LGI programs to this region; for instance, a training model for municipal governments on how to price

concession agreements is being carried out in five pilot municipalities there.

Working at the municipal level will continue to be a cornerstone of USAID's program, with greater emphasis on linkages with other sectors and partnerships to achieve sustainable results.

Possible Adjustments to Plans: USAID will need additional time to adequately prepare the newly elected officials for democratic, effective governance – including sound economic development plans. The Stability Pact affects our program given that Bulgaria is one of the target countries for assistance. Now that Bulgaria has been designated for EU accession, local governments will need assistance in project development and presentation in order to apply for pre-accession funds. USAID will provide such assistance through training programs and through small-grants programs. USAID anticipates the need for substantial training and technical assistance beyond the end of the current LGI program in March 2001. Specific adjustments in this and other program areas will be required as the strategy is updated.

Other Donors Programs: Currently USAID is the only donor organization carrying out a comprehensive program of local government improvement. However, several bilateral donors and the EU provide assistance to associations and municipalities in ways that complement USAID's efforts. The Dutch government will provide capacity building to the National Association of Municipalities in the area of EU accession, and the Danish government will promote partnership between Central Government and local authorities on the legislative agenda. The French government supported a National Association project on land restitution. The Swiss government helped establish a regional municipal association in central Bulgaria. The British Know How Fund provides technical assistance to three Bulgarian municipalities, and plans to help regional governments in strategic planning. The EU's Local Democracy Program supports citizens' participation in community partnerships and sustainable regional development. The Mott Foundation has made a grant to the Foundation for Local Government Reform to support the sub grants program initiated with USAID funds. USAID will coordinate closely with these development partners.

Principal Contractors, Grantees or Agencies: USAID implements activities through U.S. and local organizations, including the International City Managers' Association, Management Systems International, U.S. Department of Labor and other private firms and NGOs.

Selected Performance Measures:

	Baseline	**Actual (1998)**	**Target (1999)**	**Target (2000)**	**Target (2001)**
Of all the policy proposals presented by local government groups, the percentage accepted by the central government:	*	*	55%	60%	65%
Number of policy positions local government groups advocate before central government	**	**	**	**	**
Achievement of business plan targets identified by municipal organizations	***	***	***	***	***
Growth of own-source revenues generated	30% (1997)	15%	**	**	**
The percentage of increased local government authority over annual Municipal budget:	NA	8%	2%	1%	1%

*These are new indicators for which the program has not yet established baseline years and/or values.

**These indicators from last year's Congressional Presentation will not be reported in next year's Congressional Presentation. Moreover, there has been a change in the unit of measure for policiy positions advocated, making comparison with baseline values difficult. For instance, policy positions are not being measured in terms of numbers before government as indicated in last year's Congressional Presentation; but in terms of percent of positions advocated effectively. In this instance, the percent effectively advocated in 1998 is 51%. For growth in municipal revenues, percent growth

***Indicator deemed invalid and therefore dropped.

The United States Agency for International Development

Bulgaria

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	33,675	30,150	32,000	32,000
SEED Act Supplemental Funds Request	0	0	0	0
Economic Support funds	0	25,000	0	0
P.L. 480 Title II	5,685	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**39,360**	**55,150**	**32,000**	**32,000**
Operating Expenses	771	1,020	1,200	1,500
Trust Funds	0	0	0	0
Total Operating Costs	**771**	**1,020**	**1,200**	**1,500**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	4	4	3	3
Other U.S. Citizen	0	0	0	1
FSN/TCN DH	11	11	14	16

Subtotal	**15**	**15**	**17**	**20**
Program Funded*				
U.S. Citizen	2	2	1	1
FSN/TCN	8	8	9	9
Subtotal	**10**	**10**	**10**	**10**
Total Direct Hire Work Force	**25**	**25**	**27**	**30**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**25**	**25**	**27**	**30**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
183-013 - Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	8,000	0	0	0	0	0	8,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
183-014 - A More Competitive and Mkt.-Responsive Priv. Fin. Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	7,300	0	0	0	0	0	7,300
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
183-021 - Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0

- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	4,450	0	0	4,450
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
183-022 - Legal Systems that Better Support Dem. Processes and Mkt. Reform							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	2,300	0	0	2,300
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
183-023 - More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	4,600	0	0	4,600
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
183-041 - Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	2,550	0	0	0	0	0	2,550
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
183-042 - Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	2,800	0	0	0	0	0	2,800

- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	20,650	0	0	11,350	0	0	32,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
William Foerderer,
Acting

The United States Agency for International Development

CROATIA

Development Challenge

Humanitarian Assistance

FY 1999 Kosovo Supplemental Funds

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Introduction

Croatia is a key partner in the effort to achieve long-term peace and stability among Balkan nations. Recent, historic changes in the political environment indicate the likelihood of a breakthrough in the government's approach to broad-ranging reform and to compliance with the key civilian aspects of the Dayton Peace Agreement (Dayton Accord or the Accord). To support the newly elected, pro-Western government coalition formed in January 2000, USAID intends to provide a significant increase in overall funding and to reactivate assistance for economic restructuring.

Resolution of the displaced persons and refugees situation in Croatia and throughout the former Yugoslavia remains a high-priority, U.S. foreign policy objective. Without Croatia's cooperation, this regional problem cannot be resolved equitably, and unassimilated populations will remain a source of instability and potential violence for the foreseeable future. Croatia's integration with other Southeast European nations and into Euro-Atlantic institutions is yet another U.S. objective. USAID's program supports three objectives highlighted in the U.S. Embassy's Mission Performance Plan for Croatia: to successful Dayton implementation, accelerated return and reconciliation of displaced persons and refugees, and democratization. USAID's efforts to reintegrate war-affected populations have targeted the most significant, unresolved impediment to implementation of the Accord, namely the need to repatriate such populations to their communities of origin under conditions of security. USAID's democracy program encourages Croatia's transition to an open democratic society in which the rule of law, including respect for human rights, orders political, economic and social affairs.

The Development Challenge

Bilateral relations between the United States and Croatia have focused on fulfillment of Dayton and Erdut Agreement commitments – support for ethnic reconciliation, facilitation of return of all displaced persons and refugees to communities of origin regardless of ethnicity, and implementation of broader democratization reforms. The United States, the European Union (EU), and other representatives of the international community have indicated that improved performance in each of these areas is necessary to sustain Croatia's eligibility for bilateral and multilateral financial support; and to advance Croatia's prospects for further integration into Euro-Atlantic institutions. Over the past several years, Croatia's uneven performance in each of these three areas has inhibited relations with the United States and Europe, and impeded its progress towards fuller integration with the community of western democracies.

In FY 1999, Croatia made minimal progress towards fulfilling its Dayton and Erdut Agreement commitments. Cooperation between the Government of Croatia and the international community in 1999 was mostly non-existent. Croatia's progress in facilitating returns and promoting ethnic reconciliation remained slow, requiring the intensive

engagement of the United States and international community in negotiations. However, USAID contributed to limited progress made in 1999 in establishing a non-discriminatory framework to allow all displaced persons and refugees to return to Croatia, regain access to their personal property, and receive reconstruction assistance or compensation without regard to ethnicity. Despite agreements on return and reconstruction procedures, tangible results have been limited, and the number of actual returns to date remains relatively small. Achieving a comprehensive solution of the displaced persons and refugees situation in Croatia and the region, and resolving other post-conflict issues are key challenges facing Croatia for the next several years.

Croatia's performance in implementing broader democratization reforms was unsatisfactory in 1999. The then-ruling, Croatia Democratic Union (HDZ) party's open hostility toward independent media, civil society organizations, and other advocates of reform continued to raise questions about the commitment of the Government of Croatia under President Tudjman to basic democratic principals and norms. The HDZ has controlled public television and radio (although in 1999 a new, U.S.-funded, TV network began producing independent news). The government has intimidated independent media. The judiciary is not independent Human and civil rights have not been adequately protected. Despite strong and persistent pressure from the international community to improve performance, Croatia has failed to move resolutely to resolve these issues.

Two bright spots occurred on the democracy horizon in 1999. First, a new U.S.-funded, fiber optic, independent TV network reached approximately 50% of the Croatian population, and is expected to reach approximately 75% of the population in 2000. The network began independent newscasts in late 1999 prior to the parliamentary elections. The second milestone was the passage of a new election law. Implementation of this law in the next round of parliamentary and presidential elections will be a necessary test of its effectiveness given that it is seen by some as an effort to improve and by others as merely a facade.

Assistance from USAID and other donors has been vital to fostering independence of the media, the NGO sector, alternative political parties, and trade unions, providing badly needed technical assistance, training, and financial support to maintain operations and achieve long-term viability. Over the medium term, additional support will be needed to address the greatest development challenge in Croatia -- fostering the development of diverse civil society institutions in order to facilitate and sustain the changes expected with a new generation of democratic leaders in place in Croatia.

Until recently, Croatia's economic performance was better than many countries in transition. The country has been seen as one of the richest in Eastern Europe; and the most advanced among Southeastern European countries in implementing economic policy reforms largely through agreements with international financial institutions such as the International Monetary Fund (IMF), World Bank and European Bank for Reconstruction and Development (EBRD). Small-scale privatization has been complete for the most part. Substantial progress has been made in price liberalization. Comprehensive legislation exists in most areas of commercial law. All quantitative and administrative trade restrictions have been removed, and the country is in the final stage of the process of acceding to the World Trade Organization. Croatia has adhered to a tight monetary and fiscal policy regime in order to limit exchange rate depreciation. In terms of fiscal reform, improvements have been achieved in taxation. In the last two years, however, budget expenditures have exceeded revenue, contributing to growing fiscal deficits.

Crony capitalism and the heavy role of the state have undermined real structural reform. Meaningful competition policy and financial market reforms, and restructuring of strategic state-owned enterprises has not occurred. Private sector development has been slow. Structural problems in Croatia's fragile financial sector – such as weak banking supervision, overstated asset quality, and under-provisioned banks – were exposed by recent bank failures. The Russian financial crisis and weaknesses in the economy caused a recession in Croatia in 1998. Croatia's economy contracted in 1999 – a downturn attributed in large part to weakening domestic demand; poor performance by most export industries; a deteriorating fiscal position driven largely by a rise in public sector wages; and loss of tax revenues, custom duties, and privatization revenues as a result of the Kosovo conflict. The Croatian government entered negotiations with the IMF in April 1999 for a $200 million stand-by agreement, possibly reflecting loss of confidence in the country's ability to borrow on international markets. External debt stock has risen dramatically over the past few years – from $3.3 in 1994 to $8.0 billion in 1998 (equal to 176% of exports) – though debt service remains manageable (11% of exports in 1998). To produce an internationally competitive economy, Croatia needs to complete implementation of difficult policy, legal and regulatory reforms, and build the institutions of an open-market economy.

USAID assistance in the area of economic reform has been minimal given the unfavorable political environment that existed for many years under the Tudjman regime. With a newly elected, reform-oriented administration in office, increased U.S. assistance in this area is envisioned. Given the amount of effort needed to help overcome obstacles to

Croatia's transition to a fully democratic nation with an internationally competitive economy -- and the potentially more favorable environment for reform -- considering graduation of the country from USAID assistance is at this time premature.

Humanitarian Assistance

About $1.0 million in FY 1999 Support for East European Democracy (SEED) funds were directed to USAID's Office of Transition Initiatives (OTI) for: quick assistance to the media sector; municipal grants; and cross-border, Croatia-Montenegro commercial assistance. Media funding was to provide assistance to local non-governmental organizations (NGOs) for "Get out the Vote" activities such as printing flyers and making buttons. Two municipal grants were given to the cities of Split and Dubrovnik for assistance to areas damaged during the Kosovo conflict. Split's grant was to repair libraries, hospitals, and the cultural center. In Dubrovnik, the funds went to kindergartens, the amphitheater, and non-governmental organizations' kitchens and hospitals. The Barents Group was engaged on the cross-border commercial assistance effort. Other U.S. humanitarian assistance provided in Croatia include $810,000 from OTI in FY 1998 and $536,000 in FY 1999.

FY 1999 Kosovo Supplemental Funds

In late 1999, USAID received $2.0 million in FY 1999 SEED supplemental funds for Croatia. Funds were used for short-term assistance, addressing the negative impacts of the Kosovo conflict. The following activities received funding. America's Development Foundation gave legal assistance to victims of the Kosovo conflict. The Firm Level Assistance Group (FLAG)/University of Delaware provided help to strengthen agricultural cooperatives in the war-affected areas. OTI was provided with funds for inter-ethnic reconciliation efforts. Opportunity International was given funds to expand their micro loan program to Dubrovnik/Neretva County.

Other Donors

International financial institutions such as the IMF, World Bank and EBRD contribute by far the largest share of financial assistance to Croatia. In the area of economic development, the IMF has supported structural adjustment, and the World Bank and the EBRD are providing resources to support economic development and increased private investment. The World Bank and EBRD plan to increase support in this area substantially given the election of a new, reform-minded government in January 2000. Germany has provided Croatia with the highest level of official development assistance since 1994, mostly through the European Commission and European Union (EU). The United States is the largest provider of direct, bilateral assistance to Croatia. In the reintegration of war-affected areas and democratic transition, the United States plays an important leadership and coordination role. Cooperating with the United States in reconstruction and reintegration efforts are multilateral organizations such as the EU, Organization for Security and Cooperation in Europe (OSCE), and the UN High Commission for Refugees (UNHCR); bilateral donors such as Germany, Great Britain, Norway, and Italy; and international, non-governmental organizations (NGOs) such as Open Society Institute, Mott Foundation, and Freedom House. The UNHCR and the OSCE are major partners on issues related to return of populations and broader democratization. The Open Society Institute, the EU and the governments of Norway, Britain, and the Netherlands have also provided significant support for independent media and civil society development.

FY 2000 Supplemental Request

A supplemental appropriation request for Croatia by the Administration of $35.725 million is pending before Congress. The recent election of a more open, democratic and reform-minded government in Croatia provides a long-awaited opportunity to make headway on Dayton Accord implementation and in the development of a democratic market system. The recently elected leadership has pledged to pursue democratic reforms and to promote long-overdue legal, commercial and economic reforms. Reinforcing Croatians' decision to end their stagnation and isolation is a new, unanticipated priority. The FY 2000 supplemental request would permit a vigorous economic reform program to begin. Assessments are underway in the areas of banking and payment systems, fiscal reform, commercial law and bankruptcy, agriculture, and foreign investment, and a comprehensive economic reform program can be put in place quickly. Supplemental funds would also permit political party development, support to independent media, and strengthening an independent judiciary as well as local governments' capabilities. Support for reintegration of war-affected populations as required under the Dayton Accords will continue.

The United States Agency for International Development

Croatia

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

On December 10, 1999 the President Tudjman died. In January 2000, presidential elections were held, and a pro-Western, pro-reformist president, Stip Mesic, was elected, and a more reform-minded coalition government formed.

In this environment, there is potential for historic and fundamental change. USAID is preparing to move, as opportunities for reform occur; e.g., to reactivate support for broader economic restructuring to assist new leaders to deal effectively with a broad range of unresolved economic reform issues, particularly implementation of reforms needed to promote broader-based growth in Croatia. Support for fiscal reform and general economic restructuring will become the highest priority for USAID's program in Croatia. Total SEED funding for this sector is expected to be about one-third to one-half of total SEED assistance to Croatia.

USAID assistance for democratic reform in Croatia will continue to support a broad range of civil society organizations, including NGOs, trade unions, independent media practitioners and alternative political parties to support broader democratization, and encourage broader public participation in political processes. Assistance for the return of displaced persons and refugees will support improved municipal and local infrastructure in municipalities open to returnees; human and civil rights protection; and small- and medium-scale private enterprise, and agricultural development. Through the end of 2001, facilitating the return of displaced persons and refugees to communities of origin, economic reform, and encouraging broader democratization will be the primary objectives of the U.S. assistance program in Croatia.

In FY 2001, modest funding will support cross cutting program support and participant training requirements.

ACTIVITY DATA SHEET

PROGRAM: Croatia
TITLE: More Competitive, Market-responsive Private Financial Sector, 160-014
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $5,925,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $12,725,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** FY 2005

Summary: Since independence in 1991, Croatia has made some progress in implementing the economic reforms needed to create a foundation for the development of a market economy. However, crony capitalism and the heavy role of the state continue to undermine real structural reform. Fiscal progress has been achieved on the taxation side, but on the budgetary side, expenditures are not transparent and deficits are growing. Although Croatia had a few high profile privatizations over the past year, recent privatization receipts may mitigate against these deficits in the short run, but macroeconomic stability will not be achieved without a fundamental restructuring of the economy. Restructuring is needed in fiscal policy, banking sector reform, privatization (including land), enterprise restructuring, commercial legal reform (especially bankruptcy), competition policy and investment policy, and agricultural reform in order to sustain economic growth and enable Croatia to compete in the global economy. Given the economic conditions in neighboring

Serbia and Montenegro, and the comparatively small size of Slovenia's economy, Croatia could prove a significant engine for economic growth in the region if it implemented reforms essential to its transformation. From 1995 to early 1998, USAID assistance for economic restructuring in Croatia was limited to support for financial sector restructuring and development. Since April 1998, USAID assistance under in this area has been suspended due to Government of Croatia unwillingness to engage in any meaningful economic reform.

Key Results: Will be re-evaluated in the context of ongoing plans for a rapid-response, economic reform program that will focus on immediate assistance to the new government in developing an effective and enforceable policy, legal and regulatory framework to support transparent, market-oriented restructuring of the economy.

Performance and Prospects: No progress to report due to suspension of program activities since 1998.

Possible Adjustments to Plans: Parliamentary and presidential elections held in January 2000 put a new, reform-oriented government in place in Croatia. In light of this change, USAID is preparing to implement an aggressive, new program of assistance to the new government to establish an enforceable policy, legal and regulatory environment for market-oriented economic restructuring of the economy. Current plans include initial USAID-funded technical advisors and programs covering the areas of macroeconomic, fiscal and banking reform, privatization, agricultural policy, trade and investment, and small enterprise development. In addition, USAID proposes reintroduction of a commercial law program that will emphasize implementing bankruptcy laws; establish intellectual property rights protection; strengthen national anti-corruption laws; improve court administration and cooperation between the judicial branch and the police for enforcement of the court decisions. Providing assistance and micro-loans to the private sector will also be a focus. Activities are expected to begin in early 2000. USAID will closely coordinate with, and complement the World Bank and International Monetary Fund programs in Croatia to increase leverage and impact. USAID assistance in the economic sector complemented by the international financial institutions, and cannot be separated from the context of the regional situation and the efforts with respect to the Stability Pact fiscal measures with the idea that Croatia could play a leading role in regional initiatives.

Other Donor Programs: USAID will coordinate assistance with the World Bank, the International Monetary Fund (IMF), European Bank for Reconstruction and Development, the British Know How Fund, and other international donors. USAID has been comparatively inactive in this area for almost two years. However, with plans to move ahead in FY 2000 with an economic reform agenda, USAID expects to be a technical leader in this area.

Principal Contractors, Grantees, or Agencies: It is expected that once assistance in this sector begins again, the consortia for Sustainable Economic Growth for Institutional Reform (SEGIR), KPMG/Barents Group, Booz-Allen, Department of Treasury and World Learning will be USAID's initial partners.

Major Results indicators: Due to program suspension since early 1998, there has been no data on program performance.

ACTIVITY DATA SHEET

PROGRAM: Croatia
TITLE: Increased, better informed Citizens' Participation, 160-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $4,100,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $8,350,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1995 ESTIMATED COMPLETION DATE: FY 2004

Summary: In reviewing USAID support for democratization in Croatia, it is important to make the distinction between support to the government and support for democratic reformers. Outside of government circles, there exists in Croatia an impressive and well-respected cadre of democratic reform advocates who merit and need outside support to survive and gain influence in a markedly adverse political environment. For the independent media, non-governmental organizations (NGOs), alternative political parties, and trade unions, support from USAID and other donors has been a vital source of badly needed financing, training, and technical assistance to maintain operations and achieve long-term viability.

Key Results: Principal results under this objective include: (1) increased capacity of civil society organizations; (2)

more diverse and independent sources of public information; and (3) more representative composition of national and local governments.

Performance and Prospects: Since its independence from Yugoslavia, Croatia has made unsatisfactory progress towards full democratization. Croatia has failed to improve any of the basic democratic indices of political rights and civil liberties, and has actually regressed in the area of media freedom. The principal obstacle to systemic democratic reform in Croatia remains the ruling party's ambivalence and, at times, open hostility to basic democratic principals and civil liberties. The Government of Croatia's unsatisfactory performance in supporting and encouraging broader democratization has restricted the country's access to European and Trans-Atlantic institutions. Performance in this area will continue to be monitored closely and will be the basic litmus test for determining Croatia's further participation in the process of European integration as well as its eligibility for participation in Trans-Atlantic institutions.

With a new, reform-oriented government in place following elections in January 2000, prospects for a more progressive posture toward democratic reform are excellent. USAID progress toward achievements under this objective has been satisfactory, but with difficulty given the recalcitrance the government. In the area of independent media, USAID assistance under the Professional Media Project has supported the development of professional associations including the Croatian Journalists Association with 2,800 members, the nine-member Association of Independent Television Stations and a 14-member Association of Independent Radio Stations. These associations are playing an important role in efforts to break the government's monopolistic control of electronic media, and provide alternative sources of news and information for a broad segment of Croatian citizens. USAID has also provided key technical assistance, managerial training, and financial support to sustain independent media outlets currently operating in Croatia. USAID-funded political party development activities, implemented through the National Democratic Institute and the International Republican Institute, have enabled political parties to: expand political bases through public outreach to professionalize operations. These activities also strengthen platform development capacity; help parties advocate more effectively for changes to the electoral law; and assist potential leaders to compete more effectively in national elections. USAID is supporting a broad range of advocacy NGOs under its NGO Sector Development Program administered by the Academy for Educational Development (AED) to encourage increased participation of private citizens in public decision making.

Labor unions, whose memberships include almost two-thirds of the formal work force, are an important potential catalyst for democratization in Croatia. USAID through the American Center for International Labor Solidarity has developed activities to improve unions' capabilities in planning strategically for organizational growth. Activities included establishment and integration of multi-ethnic unions in Eastern Slavonia; and holding seminars on topics such as long-range planning, membership recruitment and collective bargaining. This assistance will improve unions' management and financial sustainability, and help them to improve efficiency, control spending and enhance recruitment.

Possible Adjustments to Plans: With a new government in place, significant political change in Croatia, and the advent of a new, more democratic era is anticipated. New parliamentary elections will be held in January 2000 as will the next presidential election. In FY 2001, USAID's democratization program will be adjusted to work with the new government to support independent media, political party strengthening, civil society development, rule of law, anti-corruption, local government, and women's programs. USAID will continue to monitor political developments and events closely to identify key opportunities to catalyze change.

In addition, the International Training Center for Journalists in Opatija is being used as a regional center providing international seminars, conferences, lectures and symposiums for participants who attend from countries throughout the region. Participants include professionals in various fields of journalism and are typically from countries in transition. The Center is positioning itself as a regional institution that considers the development of an independent and free press as integral to democratization. Its role will become increasingly important as press freedom places professional demands on the media and as freedom of expression becomes a part of democratization and economic reform. When the Center was established in 1998, it was anticipated that it would act as a regional training center for journalists not just from the countries of former Yugoslavia but from throughout the region. To achieve its goal, the Center has been actively providing training programs for journalists from Central and Eastern Europe and typically attracts distinguished journalism professionals to share their experiences. The Center is also regularly used by other U.S. agencies that participate in journalism activities such as the former United States Information Service which conducts its training programs in Opatija. USAID will continue to develop the Center's regional capacity and enable it to attract an ever-growing alumni of journalists from Croatia and neighboring countries and build on its reputation as a regional leader.

Other Donor Programs: The United States continues to play an important leadership and coordination role among the international community in promoting democratization in Croatia. USAID has been instrumental in developing an agenda of key policy reforms to support independent media, ensure protection of human rights, strengthen the rule of law and develop more open and equitable electoral processes. U.S. leadership has also been crucial for developing consensus agreement within the international community to apply pressure on the Government of Croatia to adopt reforms. USAID has been effective in using its assistance activities to leverage and coordinate support from other donors to support democratization. USAID coordinates its assistance under this SO with the OSCE, the European Union, Norway, other bilateral donors, and international NGOs, including the Open Society Institute, Mott Foundation, and Freedom House.

Principal Contractors, Grantees, or Agencies: The International Research and Exchange Board, the National Democratic Institute, the International Republican Institute, the International Center for Not-for-Profit Law, the American Center for International Labor Solidarity, the Academy for Educational Development, the American Bar Association Central and Eastern European Law Institute, and World Learning.

Selected Performance Measures:

	Baseline (1997)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Improvement in the Freedom House Combined Average rating for Croatia	4.0/Part Free	4.0	4.0	3.5	2.0/Free
Improvement in Freedom House Press Freedom Rating	61-75/Not-Free	61-75	61-75	31-60/Part-Free	Free
Improvement on NGO Index for Civil Liberties*)	6.0	6.0	5	4	3

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*Based on a scale of 7 equals harassment of the NGO sector to 1 as generally supportive

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ACTIVITY DATA SHEET

PROGRAM: Croatia
TITLE: Social Sector: Reintegration of War-Affected Populations, 160-031
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,300,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $5,600,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** FY 2004

Summary: Resolution of the displaced persons and refugees crisis remains a high priority U.S. foreign policy objective. The Government of Croatia has made limited progress in improving relations and cooperation with the international community on a broad range of issues affecting return of DPs and refugees to communities of origin. Agreements with the Government of Croatia on return procedures, a national return plan and national reconstruction and development plan were significant milestones towards improved performance in meeting Dayton and Erdut agreement commitments. At the core of these agreements is a commitment by the Government of Croatia to adopt more transparent and non-discriminatory policies to encourage return and implement reconstruction assistance. Whether the Government of Croatia will actually do what it has promised remains uncertain. USAID activities supporting returns in Croatia are important foreign policy tools both for catalyzing returns and for verifying Government of Croatia compliance with the terms of its agreements.

Key Results: Accomplishment of this objective will be determined by success in achieving three principal results: (1) growth of small- and medium-scale enterprises and agriculture, providing jobs and incomes to support returning and remaining populations; (2) improved human rights monitoring capacity and access to legal services for affected populations; and (3) development and implementation of plans by municipalities and local governments to enable all displaced persons and refugees to return to communities of origin.

Performance and Prospects: Despite progress made in Croatia in rebuilding war-damaged housing and infrastructure and restoring economic growth, there remain three to four hundred thousand ethnic Croats, Serbs and others from and in

Croatia who have been unable to exercise their right to return to their original communities. This group includes internally displaced persons, Croatian Serb refugees in Bosnia and Herzegovina (BiH) and the Federal Republic of Yugoslavia, and Croats displaced from BiH and elsewhere within Croatia.

Progress towards achievement of key results has been as slower than expected. In 1999, USAID's Return Assistance Program (RAP) supported municipalities that demonstrated a commitment to encourage and support returns. In 1999, seven additional municipalities entered into RAP partnership agreements (total for 1998 and 1999 was 15) with a total return target of approximately 60,000 people. Actual returns to RAP partner municipalities in 1999 were estimated at 18,000. In 2000, RAP will add additionalpartner municipalities and we expect an even greater number of returnees. It is projected that returns facilitated directly under RAP are expected to catalyze larger scale returns throughout Croatia. In the area of human rights monitoring and protection, USAID-funded assistance has directly supported the development of a legal services and assistance network consisting of 25 local NGO service providers. In 1998, the network provided services to over 25,000 displaced persons, refugees and returnees to resolve legal and administrative issues including citizenship, property rights, professional licensing, business registration and certification, and access to social benefits. USAID support for private enterprise and agricultural development in war-affected areas has benefited over 5,000 entrepreneurs and farmers throughout Croatia.

In 1999, USAID provided direct technical assistance and training to fifty-six client firms and twenty-two farmers' associations. USAID has expanded its support network to include all war-affected areas in Croatia. Firms receiving USAID support reported an average 4% increase in employment and 17% increase in salesrevenue. USAID also helped to establish over 325 new business linkages in Croatia and abroad for firms in eastern Slavonia -- a major war-affected area. Through the end of 1999, the USAID-funded, micro-loan activity had disbursed approximately 1000 loans valued at $5.3 million to small-scale entrepreneurs and farmers in the region. Micro-loan recipients have been able to sustain nearly 1550 jobs while creating over 970 new jobs for area residents.

Possible Adjustment to plans: The original time frame of December 1999 for achievement of this strategic objective needs to be extended through at least 2000 to allow adequate time to achieve a comprehensive solution to the DP and refugee situation in Croatia and the region. FY 2000 funding under this objective will be used to sustain USAID funded activities in the area of local governance and economic development. Given that progress in Croatia is closely linked to progress in Bosnia and Herzegovina (BiH) and the Federal Republic of Yugoslavia (FRY), greater emphasis in FY 2000 will be placed on facilitating cross-border returns between Croatia and BiH and the FRY. Emphasis will be placed also on identifying opportunities to support regional cooperation on trade and investment issues.

Within the Social Sector, we anticipate regional environmental and energy programs focussing on coastal areas for USAID countries that border the Adriatic and Black Seas. Included in the program would be support for policy and legislation assistance and funding for implementation of environmental management projects. This effort not only would serve the coastal populations with cleaner surroundings, but would also attract more tourists and consequently more businesses and jobs.

Other Donor Programs: The United States leads other donors in this area from a funding and technical standpoint. The Government of Croatia has committed itself to allocating $500 million annually through 2003 from the national budget to meet reintegration costs. U.S. assistance is closely coordinated with the Government of Croatia, the OSCE, the EU, the World Bank, UNHCR, the governments of Norway, Belgium and other bilateral donors and several international foundations. Strong donor coordination among the international community has been instrumental in pressuring the Government of Croatia to adopt more fair and transparent policies and procedures to support multi-ethnic returns.

Principal Contractors, Grantees, or Agencies: America's Development Foundation, the International Organization for Migration, Opportunity International, the Small Enterprise Assistance Fund, the University of Delaware-Firm Level Assistance Group, World Learning, the Urban Institute and Eco-Links.

Selected Performance Measures:

	Baseline (1997)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of Partner Municipalities	0	8	15	22	30

Number of returnees to Partner Municipalities	0	7000	18000	30000	35000
Human and civil rights monitored and protected	25000	30000	37000	25000*	30000

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*End of one activity and start-up of new activity.

The United States Agency for International Development

Croatia

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	500	500	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	23,215	17,300	15,100	30,000
SEED Act Supplemental Funds Requesta/	0	0	36,200	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**23,715**	**17,800**	**51,300**	**30,000**
Operating Expenses	1,025	1,117	1,100	1,700
Trust Funds	0	0	0	0
Total Operating Costs	**1,025**	**1,117**	**1,100**	**1,700**

[a] The Administration has a request for supplemental FY 2000 SEED funds for Croatia pending before Congress

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	2	2	3	3

Other U.S. Citizen	2	2	1	2
FSN/TCN DH	6	6	6	8
Subtotal	**10**	**10**	**10**	**13**
Program Funded*				
U.S. Citizen	4	2	3	1
FSN/TCN	5	5	6	6
Subtotal	**9**	**7**	**9**	**7**
Total Direct Hire Work Force	**19**	**17**	**19**	**20**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**19**	**17**	**19**	**20**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
160-014 - A More Competitive and Mkt.-Responsive Priv. Fin. Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	12,725	0	0	0	0	0	12,725
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
160-021 - Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	8,350	0	0	8,350

- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
160-031 - Human Suffering and Negative Consequences of Crisis are Reduced							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	5,600	5,600
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
160-042 - Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	3,325	0	0	0	0	0	3,325
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	16,050	0	0	8,350	0	5,600	30,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Charles Aanenson

The United States Agency for International Development

CYPRUS

Development Challenge

Other Donors

FY2001 Program /

Summary Tables
- Program Summary
- Work Force Data
- Program/Sector Summary

Introduction

Cyprus continues to feel the strain of inter-ethnic distrust and misunderstanding, with the potential of being a flash point for regional problems. The U.S. national interest in a settlement of the political division of Cyprus is consistent with the International Affairs Strategic plan. The approach seeks to promote growing, ongoing bi-communal cooperation on initiatives that would benefit the whole island, and lead to a broader political settlement, based on a bi-zonal, bi-communal, federal framework, as called for in UN Security Council resolutions. This foreign policy objective is consistent with the USAID Agency goal of strengthening democracy and good governance in recipient countries. In the context of the recently announced (December 1999) candidacy of Turkey for accession to the European Union, there is cautious optimism that new, UN-sponsored, "proximity talks" may help pave the way to a settlement of the deep socioeconomic and political division of Cyprus. The first round of these mediated talks -- completed in New York in December 1999 – was an important first step, but had no conclusive outcome. Additional rounds of proximity talks are planned for early CY 2000.

The Development Challenge

Both the Greek and Turkish communities on Cyprus confront varying economic problems: the GDP per capita on the Greek Cypriot side has risen to over $13,000; while on the Turkish Cypriot side it has stagnated at around $3,000. The U.S. Government has continued to provide funds which, over the years, have shifted in emphasis from relief to long-term reconstruction and development activities. While USAID assistance addresses some of these economic issues, the main democracy and governance-related challenge is to promote bi-communal participation in programs that benefit both island communities. This assistance is directed at underpinning our efforts to reduce inter-communal tension on the island. The United Nations Development Program (UNDP) and the Fulbright Commission act as the implementing agencies for the U.S. program through a series of program grants.

UNDP and the Fulbright Commission have the ability to work with both Greek and Turkish Cypriots, and are well positioned to promote bi-communal cooperation. The Nicosia Master Plan and the Nicosia Sanitary Sewerage System projects are two examples of programs that have been planned and implemented by both communities, and from which each community derives benefit. In December 1997, the leadership of the Turkish Cypriot community officially suspended Turkish-Cypriot participation in bi-communal meetings. Thus, while 38 bi-communal meetings were held in FY 1997 to implement these projects, very few in-country meetings were conducted in FY 1998, following the suspension of formal bi-communal contacts. Informally, however, progress on some priority bi-communal initiatives, such as the expansion of the Nicosia sewerage plant, continued. In FY 1999, there were over 25 bi-communal meetings on initiatives managed or funded by UNDP or its implementer, the UN Office of Project Services (UNOPS). In FY 2000, USAID assistance will support an important descriptive study on strengths, constraints and opportunities through potential integration of the two economies on Cyprus.

Other Donors

After 1974, emergency humanitarian assistance was provided to both Greek and Turkish Cypriots by the International Committee of the Red Cross and by the United Nations High Commissioner for Refugees (UNHCR) with contributions from the United States and other countries. In 1974, the top five Official Development Assistance donors to Cyprus provided $41 million in assistance with the United States share equal to 53%. Subsequently, most donor assistance levels have declined – U. S. assistance excepted. In 1997, the UNHCR ceased to act as an implementing agent for the United States. While a number of countries (including Germany, Italy, Slovakia, and the Czech Republic) currently have specific, bi-communally-oriented initiatives focusing on women, political parties, journalists, and labor unions, the United States is clearly the major donor supporting bi-communal activities in Cyprus; well ahead of the United Kingdom, and the European Union. Since early 1998, U.S., bi-communal program assistance has been provided through UNDP.

The United States Agency for International Development

Cyprus

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

Working through UNDP and the U.S. Department of State, USAID funding promotes activities which encourage participation and cooperation among representatives of both communities. A bi-communal, Harvard University-organized seminar series on a variety of key socioeconomic issues is an example of such initiatives. This bi-communal approach is designed to demonstrate the positive, substantive results of cooperation. Further, the linkages established between individuals and groups from a variety of sectors will contribute to: (1) increasing the pressure on each side's leadership to compromise on an equitable solution; or (2) providing opportunities for contacts and increasing the number of stakeholders in a solution. In mid FY 2000, it is expected that USAID will transfer a portion of earmarked funds to the Department of State to finance a Bi-communal Support Program, under the management and oversight of the U.S. Embassy in Nicosia which will continue into 2001.

The Bi-communal Development Project, implemented through the UNDP, UNOPS and the Cyprus Red Cross, will continue bi-communal activities in the fields of: public health (municipal sewerage system upgrading), pest control, environment, forestry, water resource management, education, historic preservation, development of non-governmental organizations, and urban renewal especially in areas near the dividing line.

The Scholarship Project, now implemented through the Department of State and the Cyprus Fulbright Commission, will continue to offer U.S. scholarships for undergraduate and graduate degrees, short-term professional training, and bi-communal training through conferences, workshops and seminars, on conflict resolution and business management.

The United States Agency for International Development

Cyprus

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	0	0	0	0
SEED Act Supplemental Funds Request	0	0	0	0
Economic Support funds	15,000	10,000	14,950	15,000
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**15,000**	**10,000**	**14,950**	**15,000**
Operating Expenses	0	0	0	0
Trust Funds	0	0	0	0
Total Operating Costs	**0**	**0**	**0**	**0**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	0	0	0	0
Other U.S. Citizen	0	0	0	0
FSN/TCN DH	0	0	0	0

Subtotal	**0**	**0**	**0**	**0**
Program Funded*				
U.S. Citizen	0	0	0	0
FSN/TCN	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Direct Hire Work Force	**0**	**0**	**0**	**0**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**0**	**0**	**0**	**0**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
233-041 - Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	0	0
- ESF	15,000	0	0	0	0	0	15,000
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	0	0
- ESF	15,000	0	0	0	0	0	15,000
- P.L. 480/II	0	0	0	0	0	0	0

Director, Office of European Country Affairs,
Paula Feeney

The United States Agency for International Development

GEORGIA

Development Challenge

External Debt and U.S. Debt Assistance

Other Donors

FY2001 Program / Activity & Budget Information

Summary Tables
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USAID Search: Georgia

Previous Years' Activities
2000, 1999, 1998, 1997

Tuesday, 12-Dec-2000 10:36:07 EST

Introduction

Strengthening democracy and open markets in Georgia serves long-term U.S. regional, economic and humanitarian interests. As the western portal to the Great Silk Road and the newest conduit of Caspian oil to world markets, Georgia has become a strategic gateway of energy and trade routes linking East and West. With a vibrant, free-market democracy, Georgia can become a stabilizing force in the region.

Two primary themes establish the underlying basis for U. S. foreign policy objectives in Georgia: (1) the requirement for a politically and economically stable Caucasus region at a geographic crossroads that borders states with potential volatility, such as Russia and Iran; and (2) the vital position of Georgia as a Caucasus transit country of oil and gas for the United States and the West.

Achieving stability goes to the core of Georgia's need to restore its territorial integrity, strengthen its sovereign status, and build a nation with socio-economic and political standa pian Basin oil and Transcaucasus gas transport to western markets, the importance of a stable Georgia cannot be overstated. Georgia maintains a policy of openness to the West, and actively seeks closer and stronger formal ties with the United States and Europe.

The Development Challenge

Since independence in 1991, Georgia has endured civil war, armed conflict with the breakaway region of Abkhazia, separatist movements in Adjara and South Ossetia, several assassination attempts on President Shevardnadze, and economic devastation following the Soviet Union breakup. Recent difficulties have included the conflict in bordering Chechnya, the Russian economic crisis, a severe drought, a low growth economy, and a budget crisis caused by falling revenues.

Despite these problems, Georgia continues to build the foundation for an open market and western-style democracy in partnership with international donors. The Government of Georgia has affirmed its western orientation by regular passage of legislation in economic, legal, and fiscal policy reform, and the strengthening of democratic institutions. With support from the United States and other donors, notable headway was made this past year. Major accomplishments include accession to the World Trade Organization, the Supsa pipeline opening, land privatization, relatively free and democratic parliamentary elections last October, and qualifying exams for the judiciary. Formidable challenges remain, however. The international community and the Georgians themselves see endemic corruption, a lack of fiscal discipline, and regional separatism as serious obstructions to building a more democratic and prosperous state.

During the past year, USAID reassessed the assistance environment in Georgia and developed a new four-year program strategy. Several important problems were identified during that exercise. Unemployment, under-employment and constraints on credit conspire to keep living standards low, while state social programs are inadequate to address the

population’s needs, especially in the regions outside the capital city. Civil service reform is needed to introduce more responsive and effective government professionalism. Health care and education do not receive sufficient human or monetary resources to address the basic needs of the population. Without improvements in tax and customs collection rates, many reforms passed into law will be rendered ineffectual. The pace of privatization and restructuring of state-owned enterprises must increase to encourage more foreign investors to enter the Georgian market. Pervasive corruption continues to seriously undermine Georgia’s development efforts and threatens its status as a sovereign, democratic nation. In order to establish a stronger market economy and a better standard of living for its citizenry, the Government of Georgia must address these and other urgent issues.

With backing from the International Monetary Fund (IMF) and the World Bank, and technical support from the United States and other donors, significant progress has been made in economic reform. The largest state-owned electrical distribution company in the country was privatized, the national currency was liberalized, and income-generating excise taxes have been introduced on cigarettes and alcohol products. Consequently, inflation has been stabilized, GDP has grown four years in a row, and the trade deficit has been reduced. USAID and other donors have also worked successfully with Georgian counterparts to effect democratic reforms, resulting in newly qualified judges appointed to the bench, the first local government elections held, and more active civic participation through political parties, independent media and the non-governmental organizations (NGOs).

USAID works closely with the Government of Georgia in the areas of legal and regulatory reform, anti-corruption, economic and energy sector restructuring, and tax and fiscal reform, and is the lead donor in democracy-related assistance. The Government of Georgia has cited USAID food and fuel programs as crucial assistance enabling the survival of Georgia as an independent country. Immunization levels have been restored to minimally acceptable levels, and the needs of internally displaced persons for shelter and other basics have been addressed. USAID programs strive for more government transparency and fairness by working with the Government of Georgia, and private and NGO sectors to establish a system of checks and balances, including open and fair local and national elections, independent regulatory bodies, and a transparent budgeting system.

External Debt and U.S. Debt Assistance

The IMF reports that Georgia’s public sector external debt has remained just below 30% of GDP since 1996, indicating that public sector debt is not a problem at this time. Approximately 40% of Georgia’s foreign debt is with the IMF, World Bank, and the European Bank for Reconstruction and Development. The remaining 60% of foreign debt is bilateral, mostly with Russia, Turkey, Turkmenistan, Germany, and Austria.

Other Donors

The four largest donors to Georgia are the World Bank, the United States, The European Bank for Reconstruction and Development (EBRD), and the European Union (EU). Since 1993, U.S. assistance to these programs has totaled approximately $441 million. The World Bank has provided approximately $509 million to Georgia. World Bank assistance includes structural adjustment credits, agricultural development loans, assistance to the health and power sectors, and technical assistance to strengthen the private sector. USAID works closely with the World Bank and supports its economic reform conditionalities. EBRD provides direct funding for the power and transport sectors and in support of private sector development. The EU's technical assistance program for the Commonwealth of Independent States has focused on the rehabilitation of transportation infrastructure, strengthening the private sector and food security. Since joining the IMF in 1992, Georgia has borrowed about $280 million through annual structural adjustment loans. USAID provides technical assistance to the Ministry of Finance and works closely with the IMF to address fiscal policy issues.

The United States Agency for International Development

Georgia

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

The new program strategy for Georgia integrates institutional and policy reform at the national level with local and grassroots capacity building. USAID activities are an integral part of the Mission Performance Plan (MPP), conforming closely to the objectives in the MPP.FY 2001 funding is requested to support economic and energy sector restructuring, strengthen the private sector, bolster civil society, develop democratic local governance, promote the rule of law and fight corruption. Funding also is sought to advance social reform at the community level, especially in the regions outside of the capital city.

In the economic area, activities will build on recent USAID progress in privatizing state-owned firms, creating a legal and regulatory framework to help stimulate the growth of small and medium enterprises, and fostering the development of a competitive capital market. USAID will support small and medium enterprise development at the regional and local levels while continuing to target policy reforms at the central level. FY 2001 funding will support strategic objectives in enterprise growth and development, fiscal reform, private financial sector development, and agribusiness. In the energy sector, USAID strives to increase five-fold the energy provided by private distribution companies, and likewise increase cutting and Special Initiatives, USAID's principal activity includes a training program (partly U.S.-based) focused on developing Georgia's human resource base. These programs advance USAID strategic goals across the entire portfolio.

In addition, the U.S. Congress has directed the Administration to provide FY 2000 FREEDOM Support Act (FSA) funds " for confidence-building measures and other activities in furtherance of the peaceful resolution of the regional conflicts, especially those in the vicinity of Abkhazia and Nagorno-Karabagh." USAID missions in the Caucasus countries are working with USAID/Washington and the U.S. Department of State FSA Coordinator to design and implement such activities.

About half of the FSA request for Georgia is for programs implemented by other U.S. Government agencies. In FY 2001, there will be continued emphasis on providing significant FSA support to Georgia through the Border Security and Law Enforcement Assistance Program to enhance the country’s export control, border security, law enforcement, and customs capabilities. Additionally, funds will be provided to programs designed to redirect former weapons of mass destruction scientists to peaceful, civilian activities. Other U.S. Government agencies participating in technical cooperation programs with Georgia through inter-agency transfers from USAID include the Departments of Justice (anti-corruption initiatives); Treasury (tax and budget reform); State (USIA exchanges, humanitarian assistance transport); and Agriculture. Complementary programs, such as the one supporting U.S. Treasury advisors, are coordinated closely with USAID-funded technical assistance activities to maximize the total impact of U.S. assistance.

ACTIVITY DATA SHEET

PROGRAM: Georgia
TITLE: Accelerated Development and Growth of Private Enterprises, 114-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $22,315,000 FSA
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $16,500,000 FSA

STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: FY 2003

Summary: Business development in Georgia is essential to create jobs, generate income, expand services, increase tax revenues, and produce other economic benefits. Georgia, with strong support from international donors, has made significant progress in solving some of the nation's most pressing economic problems by implementing a series of policies enabling economic stabilization and structural reform. These policies have cut inflation, liberalized prices, and established and stabilized a new currency. Georgia's positive economic growth in the last four years attests to the success of these macroeconomic policies as well as the depth to which its economy had sunk in the wake of the collapse of the Soviet Union. However, a number of impediments to enterprise development remain, which were identified during the spring 1999, strategic planning process, including limited access to credit, an incomplete commercial law system in support of private sector development, issues with private ownership of land, and pervasive corruption. These concerns pose a significant constraint to continued economic growth in Georgia.

To support accelerated development and growth of private enterprises in Georgia, USAID is undertaking a broad, multi-year economic reform program, which includes comprehensive accounting reform, commercial law, land reform, and assistance to the small and medium enterprise sector. While building on past efforts to improve the policy and legal environment for private enterprise, USAID also will promote initiatives that can rapidly and directly demonstrate the practical, people-level benefits of a market-oriented economic system. The direct beneficiaries of this objective are private enterprises, although Georgians in general stand to gain from an active, growing private sector. Activities under this objective directly support Mission Performance Plan goals of ensuring continued recovery of Georgia's economy and giving more opportunities to the average Georgian citizen.

Key Results: As a result of the USAID strategic planning process last spring, this objective has been redefined. Its focus is now on four major results: (1) increased access to credit for SMEs and micro-entrepreneurs; (2) reduced transactions costs for enterprises; (3) ffunctioning land and real estate market to support SME growth; and (4) selected agribusiness opportunities identified and facilitated.

Performance and Prospects: Since USAID initiated its market reform program in 1996, economic reforms have been implemented through legislation in the areas of tax and fiscal policy, accounting, enterprise agricultural land privatization and registration, and securities and entrepreneurship law. With support from USAID, Georgia acceded to the World Trade Organization in 1999. USAID partners, including the U. S. Treasury Department, have mobilized tax and budget specialists to provide technical support for the country's revenue raising effort. The Government of Georgia has passed a land law declaring that all land associated with private enterprises automatically is owned by those enterprises. The government also has approved implementing regulations that authorize the registration of ownership of such land. Titles for urban enterprise land have been issued, plots have already been resold, and a market has begun to operate. In support of agricultural land privatization, USAID has demonstrated that it is possible to survey, title and register small-holder plots at a cost of about one-dollar per parcel. About 300,000 parcels will be titled and registered by December 1999, with a target of 700,000 in 2000.

USAID provides assistance with the privatization of strategic government assets by developing fair and transparent tender procedures and other conditions necessary to attract potential international investors. In 1998, the sale of the Telasi Electric Distribution Company represented the first successful privatization of a strategic enterprise. USAID is providing assistance in the early stages of privatization of the telecommunications system, and has posted profiles of major enterprises on the Internet to attract foreign investors.

With USAID leadership, International Accounting Standards (IAS) and International Standards of Auditing (ISA) have been adopted. Intensive training has taken place to convert more than 300 Georgian enterprises to IAS from Soviet-era accounting methods. USAID has assisted the National Bank of Georgia (central bank) to incorporate information technology systems necessary to ensure its ability to interface with the commercial banking sector. An integrated accounting system and electronic interbank payments system is being established to provide technical capacity for real-time settlements and payments within Georgia.

With USAID assistance, the Government of Georgia passed a new securities law, creating the foundation for a modern capital markets system. USAID and the World Bank are cooperating to provide two foreign commissioners to serve on the National Security Commission. USAID has provided technical assistance for the professionalization of independent share registry management, and has carried out related extensive public education activities throughout Georgia.

USAID will pursue enterprise-level interventions in selected geographic regions of the country, while continuing

targeted support for reforms and restructuring at the central level. New activities will address needs in the general areas of credit and banking services, development of local capacity for business services and training, and creation of business-friendly environments at the local level by working with community-level associations and municipal governments. Special attention will be focused on the participation of women entrepreneurs, expanded outreach to the regions, and opportunities in the agricultural sector. To date, USAID partners have established models of successful lending to small, medium, and micro-enterprise. As a result, the number of micro-borrowers is expected to increase by at least 35% during the next year. These new approaches will help a broader spectrum of citizens enjoy the benefits of reform. If funding is cut prematurely, there is a high risk that apathy will set in among the general population and people will stop supporting the transition to open markets and democracy.

Possible Adjustments to Plans: The Government of Georgia is considering the creation of a Ministry of Revenue. If such a ministry is established, USAID may provide technical assistance to the new minister and his staff through the Barents tax/fiscal team. USAID conducted an assessment of the legal sector in Georgia. Recommendations for aid on commercial law and anti-corruption may be addressed in early FY 2000.

Other Donor Programs: The World Bank, EBRD, EU TACIS, and UNDP are supporting Small and Medium Enterprise development with various projects including access to financing, technical assistance, grants, and institutional development.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented by the Center for Institutional Reform in the Informal Sector, Shorebank/FINCA (business credit), and private voluntary organizations such as the International Executive Service Corps, ACDI/VOCA and the Eurasia Foundation (SME development, including agribusiness).

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Private sector share of employment	28% (1995)	72%	73	76	80
WTO accession	No (1997)	No	Yes		
Increase in number of microentrepreneur borrowers from USAID-assisted organizations	8,180 (1998)	**	9,751	13,366	18,943
Real value of loans by commercial banks	223 (1998)	**	292	468	679
Number of land parcels traded	25 (1998)	**	492	840	1300

. ** These are new indicators resulting from the spring 1999 strategic planning process.

ACTIVITY DATA SHEET

PROGRAM: Georgia
TITLE: A More Economically Sustainable and Environmentally Sound Energy Sector, 114-015
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $5,800,000 FSA
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $7,500,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1996 **ESTIMATED COMPLETION DATE**: FY 2003

Summary: The purpose of this objective is to support a more economically sustainable energy sector. USAID's emphasis is two-fold: (a) to create a climate that will attract private sector participation and ownership, with subsequent improvements in the management of resources and provision of services; and (b) to improve energy sector efficiency in economic terms, with subsequent increases in capital and operating resources. Beneficiaries of this assistance are the approximately 1.3 million residential household and commercial consumers of electricity and potentially an equal number of natural gas customers. Activities under this objective will promote the Mission Performance Plan by supporting privatization and reform in the energy sector which will lead to more efficient energy management and usage and will increase U.S. investment opportunities.

Key Results: USAID-funded activities focus on four results: (1) increased private sector participation in the energy

sector; (2) legal and regulatory environment more conducive to private investment in the energy sector, (3) environmentally sound laws adopted and implemented in the energy sector, and (4) increased efficiency in the energy sector.

Performance and Prospects: New laws have laid the groundwork for privatization of local electricity distribution companies, effective regulation of the energy sector, and fair and transparent exploration and production of oil and gas reserves. Following the successful privatization of the Telasi Electric Distribution Company last year, the Government of Georgia -- with USAID and World Bank assistance -- issued international tenders for the privatization of most of the remaining local electricity distribution companies and most of the state-owned generation facilities. This included 67 distribution companies and three groups of hydro and thermal generation plants. Many of the smaller packages were not of interest to investors because of their small size necessitating a future restructuring of the tender packages and investment profiles. Negotiations for this privatization effort are currently ongoing and the award of the major contracts is expected by year-end 1999. USAID also assisted in the international tender for the largest natural gas distribution company in the country, Tbilgazi, in the Tbilisi area. Negotiations are also still in progress. Generating international interest in the energy sector of Georgia is an extremely challenging prospect given the number of similar investment options worldwide at this time.

USAID continued to supply technical, legal and regulatory assistance to the Georgia National Energy Regulatory Commission (GENERC) as they expanded into the areas of gas supply, transmission and distribution. The Commission has been operating effectively for over one year, effectively raising the rates to reflect the cost of service. Continued support was also provided to the Wholesale Electric Market that became active in July of 1999. Through the Market, some local distribution companies paid (for the first time ever) for electricity delivered within their areas and subsequently, some of the small hydro-generator sites received their first payment in years for electricity produced and supplied. Technical assistance continues to develop operating rules for the Market to establish procedures for terminating delivery to those distribution companies and sites that do not pay for electricity consumed. USAID is currently working with the Government of Georgia and other donors to establish a management contract for the operations of the Market, electricity dispatch, and electricity transmission. Under such a contract, the Market would be able to move more quickly and decisively to increase revenue generation and payment transactions.

Another key success was the assistance provided in the drafting and passage by the Georgian Parliament of the new "Law on Oil and Gas" in April 1999. The new law provides for the establishment of a single agency to negotiate contracts and permits required for the exploration and production of oil and gas reserves. The agency formally started on October 15, 1999 with the appointment of a Director. Training has begun with two seminars sponsored respectively by the Minerals Management Services of the U.S. Department of the Interior and U.S. Energy Association.

A major activity begun in 1999 and continuing into 2000 will be the drafting and submission to the Georgian Parliament of a new energy efficiency law which will promote incentives to conserve and substitute more efficient fuel sources. The existing laws are weak and based on penalties, which promote abuse and corruption.

Moving more quickly than expected, the Government of Georgia passed legislation in July 1999 that prohibited entirely the sale of leaded gasoline by January 2000. While this is clearly a laudable step, implementation in such a short time frame will prove to be difficult. USAID is considering further options to help in the transition through the technical assistance team presently in place.

A more efficient energy sector based on private sector principles is part of the enabling environment needed to attract direct foreign investment. A premature cut in funding would have a negative impact on U.S. investment opportunities in Georgia.

Possible Adjustments to Plan: As more of the energy sector is privatized, USAID will emphasize the commercial aspects of the business with the local distribution companies and the consumers throughout Georgia. Particular emphasis will be placed on improving revenue generation with the local distribution companies.

Other Donor Programs: The European Union continues to work in tariff structure, accounting, billing, and metering practices, while the World Bank is conducting a loan appraisal of maintenance and rehabilitation work in electric generation, transmission, and distribution systems. The European Bank for Reconstruction and Development (EBRD) approved a loan to a local power company to rehabilitate the Rioni hydro station and improve operations and water treatment. The EBRD is also continuing to develop loan packages to repair the Inguri Hydroelectric Station, the largest hydropower station in the country. EBRD is also considering further loans to AES-Telasi and other local distribution companies for a re-metering program. Because of the shortage of revenues generated in the sector, many of the

International Financial Institutions have been unable to disburse against their respective credits.

Principal Contractors, Grantees, or Agencies: There are currently two institutional contractors: Hagler Bailly (restructuring, privatization and legal assistance) and the US Energy Association (training in all energy areas).

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of relevant energy sector laws and regulations adopted	1 (1997)	1	2	5	10
Percentage of total electric energy provided by private generation companies	0% (1996)	5%	7%	10%	25%
Actual use of electricity on a per capita GDP basis (kwH/GDP)	1.48 (1998)	**	1.16	1.1	1.04

** This is a new indicator resulting from the spring 1999 strategic planning process as a measure for improved energy efficiency.

ACTIVITY DATA SHEET

PROGRAM: Georgia
TITLE: Legal Systems that Better Support Implementation of Democratic Processes and Market Reforms, 114-022
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,950,000 FSA
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $2,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1996 **ESTIMATED COMPLETION DATE**: FY 2003

Summary: This objective facilitates the development of legal systems that better support the implementation of democratic processes and market reforms. While judges and attorneys are currently the immediate beneficiaries of activities under this objective, the Georgian public will benefit from a legal system administering the rule of law (ROL). In FYs 1999 and 2000, there has been excellent progress in establishing the legislation and systems required for improved administration of justice in Georgia. However, full and equitable access to justice does not yet exist. The lack of access to justice has had a negative impact on human rights and the lack of effective legal recourse in commercial disputes has hampered economic development. In order to ensure the honesty and integrity of the reformed judiciary, the Government of Georgia must follow through on its commitment to pay the newly qualified judges an increased salary. The new judges need to demonstrate that they can make fair and impartial decisions in accordance with the law.

In FY 2001, USAID continues to provide technical assistance for key pieces of legislation, including the Judicial Disciplinary Law, the Law on the Bar, as well as major amendments to the Law on the Courts, the Criminal Code, and the Criminal Procedure Code. Furthermore, USAID is planning to implement a follow-up to its successful anti-corruption initiatives under the high-profile Five-Point Program conducted jointly by the Governments of the United States and Georgia. By strengthening the judicial system and legal institutions, this objective supports Mission Performance Plan goals of establishing a more open and fair climate for business and of better safeguarding the rights of citizens through a transparent system of laws and courts.

Key Results: During the spring 1999, strategic planning exercise, USAID redefined the results needed to achieve this objective. Principal results are now: (1) improved access to the administration of justice; (2) more effective, transparent, and fair public and private sector legal institutions; and (3) enactment of policies, laws, and regulations promoting democratic processes and a market-based economy.

Performance and Prospects: Overall, this objective has exceeded expectations. Judicial reform has achieved highly significant accomplishments in the past year, with USAID in the forefront to help establish a groundbreaking merit selection process, based on judicial qualification exams and vetting procedures. By the end of 1998, 10% of the judges sitting on the bench were officially qualified. This percentage should increase to at least 45% and 65%, respectively, in the following two years. Incompetent and corrupt judges were replaced with 176 qualified judges newly appointed to the bench, who are now in the courtrooms deciding cases. In addition, one of Georgia's leading legal reformers was recently appointed as Chairman of the Supreme Court along with 12 other reformist justices. Two new appellate courts and a

new court administration system were established in May 1999.

USAID has fostered the emergence and strengthening of the Georgia Young Lawyers Association (GYLA), a progressive and independent private bar association. GYLA enhances legal professionalism and provides effective legal training. USAID-assisted local NGOs, such as Article 42 and the Center for the Protection of Constitutional Rights, support legal clinics that provide practical experience to law students and conduct public awareness campaigns to inform people of their rights and the means to access legal institutions.

The Parliament of Georgia has been one of the most active and effective in the NIS. Over 500 laws supporting human rights, democratic institutions and a market economy have been passed since1995. Under the Five-Point Program, USAID provided assistance to create a legal framework to fight corruption, including passage of the Administrative Code, the Licensing Law, the Law on Enforcement of Judgements and the Criminal Code**.** USAID is supporting implementation activities, such as specialized training and public education campaigns for these laws. Activities to strengthen judicial ethics and discipline represent another critical area for attention, including the passage of a Judicial Discipline Law, which is a requirement of the Five-Point Program and an essential element to complete the judicial reform package.

To date, reform of the judiciary has focused on reform-minded elements of the three branches of government at the national level. This approach will continue to meet existing need and to maintain influence and consolidate assistance investments. However, demand-side activities will increase as private sector capacity grows and individuals seek to resolve business disputes through the judicial system. These type of activities will focus on empowering citizens through public awareness of their legal rights and supporting legal access mechanisms to pursue these rights. To ensure that the average Georgian citizen directly benefits from reform laws, the new activity will also target regions outside of Tbilisi. Indicators to track progress in this new area will be developed over the coming year.

Possible Adjustments to Plans: USAID will be developing follow-on activities to the anti-corruption portion of the Five Point Program.

Other Donor Programs: Key donors working towards this strategic objective along with USAID include the World Bank, EU, Soros, GTZ, UNDP, and the Council of Europe (COE). The World Bank has taken the lead in providing assistance for court administration. The EU, Soros and the World Bank have extensive judicial training programs. Soros also plans to establish a masters of law program. UNDP provides assistance to the Ombudsman (an organization similar to a public defender), Parliament's anti-corruption committee and the Constitutional Court's public outreach program. The COE and Soros will provide assistance for the transfer of the penal system from the Ministry of Interior to the Ministry of Justice. The EU and UNDP have a variety of gender legal activities.

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities are implemented by the American Bar Association’s Central and East European Law Initiative (ABA/CEELI) and AMEX International, Inc. The latter organization will be replaced by a contractor under a new rule of law project in FY 2000. ABA/CEELI helps improve the professionalism of the Georgia Young Lawyers Association (GYLA), the largest and most progressive private bar association in Georgia. Article 42, a legal advocacy NGO, receives support through ABA/CEELI to operate a legal clinic that provides practical experience to law students. AMEX also works with GYLA on publicity campaigns for new laws and continuing legal education seminars. GYLA and Article 42 play a critical role in increasing citizen access to the administration of justice. On the supply side of USAID assistance, primary Georgian counterparts include Parliament, the Supreme Court, the Constitutional Court and selected lower courts, the Council of Justice, and the Ministry of Justice. USAID also plans to work with the Georgian Judges of Georgia (a private judges’ association), and the soon-to-be-established Conference of JudgesLaw enforcement constitutes an important component in any anti-corruption effort. Working with prosecutors and the police, however, goes beyond USAID’s manageable interest. The U. S. Department of Justice (DOJ) has begun activities in Georgia and may provide technical assistance to prosecutors. USAID plans to work with the DOJ on a variety of issues, including anti-corruption.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of major legal reform laws/Amendments *enacted*	26 (1995)	11	4	4	N/A
Cumulative % of qualified judgeson bench	0% (1997)	10%	45%	65%	75%
Number of targeted institutions with *adopted* Regulations pursuant to the Administrative Code	0 (1998)	**	0	0	2

Percentage of private attorneys qualified by exam*	0 (1998)	**	0	0	25%

* Contingent on passage of a Law on the Bar in 2000

** These indicators were introduced through the spring 1999 strategic planning process. Baseline begins in 1998 and performance targets begin in 1999.

ACTIVITY DATA SHEET

PROGRAM: Georgia
TITLE: More Efficient and Responsive Local Governance, 114-023
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $5,250,000 FSA
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $6,550,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1996 **ESTIMATED COMPLETION DATE**: FY 2003

Summary: In the wake of civil and ethnic wars in the early nineties, Georgia succeeded in curbing lawlessness and establishing political and economic stability. Significant advances have been made in the creation of a vibrant civil society and enhanced governance. However, the legal and institutional reforms achieved over the past five years have had little, if any impact on the majority of Georgia's population, who live in the regions. During this period, local officials appointed by the central government have functioned in isolation, with few resources allotted them by the central government other than near-total that capitalize on each region's unique resources. Indirectly, all citizens living outside the Capital will benefit from the improved community services that will result from this achievement of this objective. Mission Performance Plan goals will be supported under these activities by strengthening local governments and civil society in the regions throughout the country.

Key Results: To achieve this objective, USAID has structured its program to achieve three major results: (1) increased community participation in local government oversight and political processes; (2) increased local government capacity to plan and manage resources efficiently; (3 increased partnerships between local government, business and communities to provide services.

Performance and Prospects: USAID has been the most active donor in Georgia in the area of civil society strengthening. Progress toward achievement of this objective has exceeded expectations. With substantial USAID assistance, the number of NGOs active in public policy debate has grown from 4 in 1994 to over 100 today, and many of them have regional branch offices. Civil society is also being strengthened at the local level with the establishment of Citizen Advisory Committees (CACs) which bring together citizens in issue-based town meetings and advocate for more transparency in local government, beginning with open budget hearings. USAID also helped create independent media from scratch, growing to the current total of 34 independent TV stations nationwide, and a new 3-year activity has been launched to train print journalists.

The November 1998 elections of local councils and the passage of legislation to facilitate local governance represent significant milestones for decentralization in Georgia. USAID assistance in electoral reform provides legal analysis of election legislation, technical assistance to the Central Election Commission in election administration, including voter registration, training for election officials at every level, and voter motivation and education campaigns. USAID also supports political party strengthening, and training and deployment of domestic observers for elections. Political parties are beginning to understand the necessity of public outreach, and in 1999, four of the largest parties adopted a USAID-supported caucus system for the selection of majority candidates--the first public consultation of its kind in Georgia's history.

In the area of local government, since 1997, USAID has provided assistance with the development of legislation on self-government, municipal finance and local budgets, support for the local elections, the provision of training and handbooks for 688 newly elected officials to date and modest grant programs for local initiatives. As noted earlier, the November 1998 elections of the first local councils has been a milestone in strengthening governance at the local level.

Possible Adjustments to Plans: Building on Georgia's initial steps in decentralization, USAID is currently designing a major local governance reform activity which will expand civil society and media development at the local level, increase the capacity of local officials to plan and manage resources efficiently, and improve services through local

public-private partnerships.

Other Donor Programs: USAID plays a lead role in this area due to its broad and comprehensive approach to civil society and local governance strengthening. The World Bank focuses on municipal infrastructure development, which should improve economic conditions in selected municipalities over the strategy period. Other donors fill equally valuable niches, such as the UNDP's prominence in support of Georgian think-tank publications that enrich current political analysis, and Great Britain's support for tailored journalism skills training. The European Union, Soros and the British Know-How Fund are currently designing complementary municipal government programs.

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities are implemented by the International Foundation for Electoral Systems (IFES), the National Democratic Institute (NDI), the International Republican Institute (IRI), Internews, the International Center for Journalists, Eurasia Foundation, Initiative for Social Action and Renewal/Horizonti and the Academy for Educational Development (AED). During this past year, IFES, NDI, and IRI provided comprehensive technical assistance for local government elections. Eurasia awarded election-related grants. In close collaboration with these partners, Internews developed a special election program that included three call-in TV shows with political party candidates, a documentary on the elections, and a national press center on election day.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Increased availability of objective info (No. of indep. TV stations)	0(1994)	26	34	36	40
Legislation passed 1) facilitating local government 2) increasing authority of local government	No (1996)	Yes 1	Yes 1	No	Yes 2
Local government elections held	No (1996)	Yes	N/A	N/A	Yes
Local budget law passed	No (1998)	No	No	No	Yes

Note: Performance measures will be refined during initial stage of the new local governance reform activity.

ACTIVITY DATA SHEET

PROGRAM: Georgia
TITLE: Reduced Human Suffering in Targeted Communities, 114-031
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $11,285,000 FSA
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $11,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: FY 2003

Summary: Since achieving independence in 1991, Georgia has faced a series of conflicts on its territory that have led to approximately 300,000 internally displaced persons (IDPs). The weak central government provides a completely inadequate safety net for the vulnerable part of the population. Job creation and real income growth have not been realized. Extreme economic stress at the household level prevents access to minimum living standards (health, education, water/sanitation, housing, and heating). Nearly 50% of the population is living at or under the poverty line. Lack of government resources, combined with this poverty rate, has left many with inadequate social services, including access to health care.

This objective helps to meet basic human needs, while emphasizing local self-help and conflict resolution activities. Activities under this objective contribute to political and social stability and assist in the peace process. Since 1993, USAID has provided humanitarian assistance to the Government of Georgia and through U.S. Non-Governmental Organizations (NGOs) and international organizations. This assistance met vital human needs and was a key component in the political and social stabilization of Georgia, allowing the Government of Georgia to embark upon democratic and economic reforms. The beneficiaries are internally displaced persons (IDPs) and other socially vulnerable groups throughout the country. Although the immediate cris

rformance and Prospects: USAID has provided assistance to over 750,000 Georgians since 1993, in order to reduce human suffering. USAID assistance has financed the importation of fuel oil and natural gas to help in meeting Georgia’s

emergency winter fuel requirements. The stabilization program already has yielded positive results, allowing USAID to focus more on transitional and development programs. Within this objective, USAID continues to provide humanitarian assistance for the most urgent basic needs of vulnerable households, while simultaneously creating greater income-earning and employment opportunities. USAID has supported the creation of small businesses and sustainable employment for vulnerable households so that these groups can generate income to meet their own basic needs. Fifty-four community mobilization projects were successfully completed in 1998, six times the number completed in 1997.

USAID's future self-sufficiency approaches will build on the efforts of international NGO programs. The International Federation of the Red Cross' (IFRC) community development activities and the International Rescue Committee's (IRC) self-reliance for IDP activities are examples. The Counterpart Winter Heating Assistance Program improves the efficient targeting of assistance by creating a database for 250,000 identified vulnerable households.

USAID-sponsored health partnerships between Georgian and American health institutions include initiatives in infection control, training of blood bank personnel (part of a larger program to improve the security of the nation's blood supply), health management education, community-based public heath care, women's health, Emergency Medical Services (EMS), and nursing. Assistance provided to UNICEFsupports strengthening the program of immunization and control of vaccine for preventable diseases. Georgia's first nationwide survey of family planning and reproductive health is underway with a USAID sponsored Reproductive Health Survey and a major reproductive health communications campaign is under preparation with a launch date of Spring, 2000. It is hoped that these initiatives will assist in the reduction of Georgia's extremely high abortion rate.

USAID supports a range of direct humanitarian programs for vulnerable populations, such as a nutrition program for 4,000 pensioners, psychosocial rehabilitation for vulnerable youth, economic self-reliance programs for IDPs from Abkhazia, an integrated community development program for IDPs in collective centers, home care to the most vulnerable IDPs, food distribution, and Food-For-Work programs.

USAID's strategy to reduce human suffering is predicated on linking relief to development and addressing the root causes of conflict. The strategy focuses on assisting vulnerable communities in transitioning from relief to development by encouraging self-sufficiency. USAID will continue to maintain the capacity to respond to new challenges as they emerge. Conflict prevention is addressed by directly treating root causes of conflict, namely a lack of economic opportunity and a feeling of abandonment by the authorities. Health is an integral aspect of this program.

Through the recently launched Georgia Assistance Initiative and other planned activities, the strategy anticipates that the capacity of the Government of Georgia to respond to emergencies will be improved and strengthened. Communities will be better able to mobilize their own resources to meet their own needs, including the provision of better quality, primary health care. Over the long-term, USAID's priority is to focus on capacity building within targeted communities so that they will become more self-sufficient.

Possible Adjustments to Plans: A peace settlement for Abkhazia would necessitate a rapid deployment of resources to assist the resettlement of displaced persons. Conversely, accelerated tensions could cause an eruption of conflict analogous to the May 1998 events and thus would necessitate an immediate humanitarian assistance response.

Other Donor Programs: Humanitarian and transition assistance is provided in close coordination with the United Nations, the European Union (EU), and other bilateral donors (such as Germany, Great Britain, the Netherlands, and Italy). The EU is particularly active in supporting programs in Abkhazia, where it is more difficult for USAID to operate. The World Bank, IMF, and EBRD have been working on improving the macro environment for social restructuring, such as the policy and institutional needs for strengthening the social safety net, and health and education reform.

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities are implemented by the United Nations High Commissioner for Refugees, the United Nations Children's Fund, the World Food Program, the American International Health Alliance, the International Federation of the Red Cross, the International Rescue Committee, Save the Children Federation and Counterpart International. Within the U.S. Government, the Department of State provides commodity transport and support to international organizations. The U.S. Department of Defense contributes excess medical equipment and other humanitarian commodities. USDA provides food to International Orthodox Christian Charities for direct distribution, concessional wheat sales to the Government of Georgia, and agricultural commodities for monetization to some U.S. NGOs.

Selected Performance Measures:

	Baseline (1997)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of people living above the poverty line in targeted communities	50%	51%	53%	65%	67%
Decrease in infant mortality rate per 1000*	15.3	15.2	14.2	12.5	10.5
Number of community mobilization projects completed successfully (targeted communities)	9**	54***	85***	20****	50****
Number of vulnerable Individuals benefiting from shelter and infrastructure repair in targeted communities	20351	24334	4000	60985	108570

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*1997-1999 data is nationwide.

**USAID-funded pilot social investment fund. The successful USAID pilot project laid the foundation for the World Bank Georgian Social Investment Fund (GSIF) 1998-2002.

*** 1998 and 1999 figures represent the World Band-funded GSIF only.

****Commencing in 2000, a USAID planned activity will build upon the successes since 1997 in community mobilization and development.

The United States Agency for International Development

Georgia

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	92,293	84,577	108,400	85,760
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	415	864	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**92,293**	**84,992**	**109,264**	**85,760**
Operating Expenses	3,596	4,167	4,000	4,000
Trust Funds	0	0	0	0
Total Operating Costs	**3,596**	**4,167**	**4,000**	**4,000**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	8	10	12	12
Other U.S. Citizen	0	5	5	4
FSN/TCN DH	9	22	31	31

Subtotal	**17**	**37**	**48**	**47**
Program Funded*				
U.S. Citizen	0	8	9	9
FSN/TCN	10	16	16	16
Subtotal	**10**	**24**	**25**	**25**
Total Direct Hire Work Force	**27**	**61**	**73**	**72**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**27**	**61**	**73**	**72**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
114-013 Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	16,500	0	0	0	0	0	16,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
114-015 A More Econ. Sustainable and Environ. Sound Energy Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	7,500	0	0	0	7,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

114-022 Legal Systems that Better Support Dem. Processes and Mkt. Reform							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	2,000	0	0	2,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
114-023 More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	6,550	0	0	6,550
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
114-031 Human Suffering and Negative Consequences of Crisis are Reduced							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	11,000	11,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
114-041 Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	39,210	0	0	0	0	0	39,210
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
114-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0

- FSA	1,000	0	0	1,000	1,000	0	3,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	56,710	0	7,500	9,550	1,000	11,000	85,760
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Michael Farbman

The United States Agency for International Development

IRELAND

Development Challenge

Other Donors

FY2001 Program

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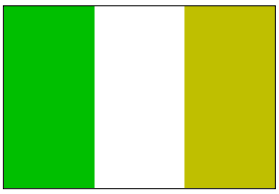
Introduction



Support for the reconciliation of feuding factions in Ireland has long been the predominant focus of U. S. assistance to Ireland. A breakthrough in negotiations between Protestant and Roman Catholic leaders occurred during 1999 with the Good Friday Peace Accord, raising hopes for sustained peace in Northern Ireland and surrounding Republic of Ireland counties. The United States is interested in sustaining that peace by helping to address economic disparities at the heart of disputes, and establishing a culture of conflict prevention and resolution.

The Development Challenge

Northern Ireland and the bordering Irish counties have seen over 25 years of armed struggle. Long-standing lack of equal opportunity is key to the conflict. All major social and economic indicators continue to show that Catholics in Northern Ireland, while making some gains, continue to be more disadvantaged than Protestants. Northern Ireland has the highest unemployment rate in the United Kingdom. Long-term unemployment remains high. Job growth is the chief determinant of civic stability. There have been improvements in the rate of re-employment for Catholics. However Catholic males remain unemployed disproportionately compared with Protestant males. Inability to travel freely throughout the security zones compounds the difficulties for both groups in seeking employment. Nationalists are reluctant to seek employment in the security zones.

Despite the fact that the Republic of Ireland's economy is among the fastest growing in Europe, the economy of Northern Ireland and its border counties of Donegal, Sligo, Leitrim, Cavan, Monaghan, and Louth is devastated. Investment remains inadequate in Northern Ireland. Unemployment and under-employment are high, and economic opportunity is beyond the reach of many. Through the International Fund for Ireland (the Fund), the United States provides economic assistance to address these concerns at the community level as the most effective means of directly reaching wards, sub-wards, and individuals in need.

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

As of September 1999, about 4,300, Fund-supported projects have created some 36,000 jobs. Over 600 organizations have been assisted to promote social and economic development, involving more than 8,000 community leaders. For every U.S. dollar invested by the Fund, two dollars are raised from private, and United Kingdom and Ireland sources.

The Disadvantaged Areas Initiative continues to be a primary focus encompassing some 75 percent of the Fund's program resources, targetting funding at the areas of greatest need. Projects under this Initiative focus on community economic regeneration, community improvement, and border towns and villages with special emphasis on employment and business creation. Another area of great importance is the Fund's Communities Initiative, which is concerned with providing people in the most disadvantaged areas with the skills, resources and self-confidence to undertake the social and economic regeneration of their communities. Special emphasis in the Communities Initiative is on leadership potential, reconciliation and conflict resolution. The Fund supports economic, political, and social initiatives for permanent reconciliation among Catholic and Protestant communities.

Last year, the process of reconciliation achieved breakthroughs. The Good Friday Peace Accord between Protestant and Roman Catholic leaders led to the May 22,1999 public referendum confirming these agreements; and establishment by December 1999 of the new Northern Ireland Assembly, and appointment of a cross-community Executive body for the Governing of Northern Ireland. More recently, however, the difficulty of finalizing negotiations on disarmament led the British Government to suspend the new power-sharing government in Northern Ireland. Strenuous efforts are underway to resolve this impasse.

Other Donors

The Fund's activities are financed through international contributions from the United States, the European Union, Canada, New Zealand, and Australia. Each of the donors sends a non-voting observer to all Board meetings. In 1999, the United States was the largest donor to the Fund, providing approximately 50% of total donor funding for the year.

Ireland

FY 2001 Program Description

FY 2001 Program

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

The Fund is multilateral and non-partisan. It disburses funds in accordance with the economic and social policies and priorities of both the Irish and United Kingdom governments. The Fund is evaluated periodically in terms of internal management and goals, including the priorities identified by the U.S. Government (e.g. equal employment opportunity, job creation, and leveraging additional resources). It is at the local community level that real change has to take place in order to achieve increased employment, social progress and promote reconciliation between people from different cultural backgrounds.

During FY 2001, the Fund will continue to support the active involvement of communities in shaping their own futures. The Fund will emphasize projects that support economic regeneration and community development, with a focus on disadvantaged areas and empowerment of its youth populations for future employability.

The United States Agency for International Development

Ireland

Summary Tables

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Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	0	0	0	0
SEED Act Supplemental Funds Request	0	0	0	0
Economic Support funds	19,600	19,600	23,525	24,600
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**19,600**	**19,600**	**23,525**	**24,600**
Operating Expenses	0	0	0	0
Trust Funds	0	0	0	0
Total Operating Costs	**0**	**0**	**0**	**0**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	0	0	0	0
Other U.S. Citizen	0	0	0	0

FSN/TCN DH	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Program Funded*				
U.S. Citizen	0	0	0	0
FSN/TCN	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Direct Hire Work Force	**0**	**0**	**0**	**0**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**0**	**0**	**0**	**0**

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
190-041 - Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	0	0
- ESF	24,600	0	0	0	0	0	24,600
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	0	0
- ESF	24,600	0	0	0	0	0	24,600
- P.L. 480/II	0	0	0	0	0	0	0

Director, Office of European Country Affairs,
Paula Feeney

The United States Agency for International Development

KYRGYZSTAN

Development Challenge

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Introduction

Although small, poor, and without the oil and gas resources of several of its neighbors, Kyrgyzstan is important to the United States. Its progressive leadership, and vocal commitment to democracy and a market-based economy make it an important example of reform that is working within the region. Kyrgyzstan's location at the headwaters of major river systems in Central Asia enables it to dramatically affect critical and sensitive issues such as agriculture, electricity generation, and the environment in the down-river countries of Kazakhstan, Uzbekistan, and Turkmenistan. Any negative action on the part of Kyrgyzstan would seriously affect regional stability, and pose a threat to American economic and political interests in Central Asia. USAID assistance to Kyrgyzstan supports broader U.S. goals of regional stability, economic prosperity, and democracy through programs aimed at: improved fiscal and financial sector soundness; growth of the private enterprise sector; more transparent, efficient and responsive public administration; increased involvement of citizens in decisions affecting them politically and economically; and improved, more sustainable health and social services.

The Development Challenge

Though it inherited one of the least efficient and least competitive industrial sectors in the former Soviet Union, Kyrgyzstan was the first Central Asian Republics (CAR) to undertake meaningful reform. Kyrgyzstan has become a "laboratory" for demonstrating that democracy can work in Central Asia.

Kyrgyzstan presented a mixed economic picture in 1999. GDP rose by 3.5% during the first nine months of 1999, and agriculture output rose by 9%. However, the value of the national currency again declined sharply, and the consumer price index rose proportionally. Kyrgyzstan, like its CAR neighbors, has had almost no experience in developing its own monetary policy. Four commercial banks have collapsed due to poor fiscal management. A number of USAID programs were affected by the complete change of leadership in the Ministry of Finance. External debt, one of the highest in the region, rose to more than $1.3 billion, of which $86.3 million will be due in 2000. Insurgents from Tajikistan took Japanese and local citizens hostage on the southern border, creating an unexpected drain on the national finances to restore order, and increasing instability in the south.

The challenge for U.S. assistance is to help the country continue economic and democratic reforms that will have a direct positive impact on the citizens of Kyrgyzstan. In the economic area there have been some gains. The privatization program is almost complete, with 97% of the businesses and more than half of all land in private hands. Medium and micro-credit enterprise loan programs have expanded to more than $3 million throughout the country with a better than 97% repayment rate. USAID advisors are helping develop the regulatory framework for the energy sector. A decree forcing all stock trades to pass through the Kyrgyz Stock Exchange (KSE), and the increase of companies being privatized on the KSE contributed to the significant rebound of the Exchange in 1999. USAID assisted in Kyrgyzstan's adoption of international accounting standards, helping to make businesses and banks become more transparent, and

enabling them to manage and plan their finances more effectively.

In 1999, with USAID support and significant NGO input, the government adopted an improved electoral code that generally meets international standards. USAID worked closely with the Parliament to open a legislative drafting center. USAID contributed to NGO, political party and charity laws passed by the Government of Kyrgyzstan in 1999. Successful USAID-assisted housing and local government programs have promoted greater citizens' participation and local government operational efficiency. Many NGOs, with USAID assistance, are preparing the citizens for the early 2000 parliamentary elections.

The country's standard of living has not changed since independence (compared with other countries in the region that have experienced substantial slippage). Nevertheless, the social costs of the transition have been high. Government-supplied social services, critical to maintaining public support for reform, are inadequate. USAID's very successful pilot project in health care financing and delivery provides visible proof that government reforms can improve citizens' lives. The program permits people to choose their primary health care provider and makes high quality, essential health care more accessible and affordable. It is being expanded nationally with $18.5 million in World Bank support. The health partnership program, reproductive health, and infectious disease control programs have all contributed to a healthier society.

Partnerships, training and exchanges remained an important component of USAID assistance. USAID trained over 320 reform-minded government leaders and professionals (45% were women), in areas directly related to democracy and a free-market economy. USAID supports a number of partnerships that seek to build long-lasting relationships between the United States and Kyrgyzstan. USAID used the country as a venue for a number of training courses for participants from other Central Asian Republics, using Kyrgyzstan as a model in areas where reform has been successful.

Other Donors

The International Monetary Fund and World Bank have extended significant monetary credits to address balance of payments issues and to encourage economic reform. Kyrgyzstan currently has an International Monetary Fund's three-year Extended Structural Adjustment Facility focussing on fiscal reform. The Asian Development Bank, the World Bank, and the European Bank for Reconstruction and Development are expanding their loan portfolios in Kyrgyzstan.

The United States Agency for International Development

Kyrgyzstan

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

Highest priority will be given to assistance which promotes economic growth, democratization and the prevention of conflict in the South. USAID will continue to expand its programs throughout the Fergana Valley as part of a long-term strategy to increase economic development and stability in the south.

USAID will initiate a land reform program to build on the recent passage of the land and registration laws. Efforts will include developing land registration systems, educating citizens about their legal rights, and amendments to the land laws. USAID will continue efforts to improve tax administration, the legal and commercial infrastructure, intergovernmental finance, bankruptcy laws, accounting practices, and the professional capabilities of judges and attorneys. Further progress will be made toward the creation of an independent regulatory agency for electricity; environmental resource and energy development initiatives will be covered in the Central Asia Regional program.

Ensuring that economic reform is accompanied by social and political reform is a continuing priority. Programs will continue to strengthen civil society, promote independent media, solidify the rule of law, furnish election assistance, and deepen respect for human rights. USAID will work toward the development of accountable local government by seeking to strengthen a legal authority, improve financial and administrative operations, deliver services efficiently, and strengthen the role of elected local councils. Increased attention will be paid to improving women's legal rights and their participation in the political process.

In the health sector the emphasis will be on infectious disease control and rolling out USAID’s very successful health care models. USAID will support cost-effective health reform through Family Group Practices. Infectious disease diagnosis and prevention and reproductive health care will be integrated into this primary health care unit.

A significant amount of FREEDOM Support Act (FSA) funding will be provided in FY 2000 and 2001 under the Administration’s Expanded Threat Reduction Initiative (ETRI) for programs designed to enhance border security and export control capabilities. ETRI will contribute to the nonproliferation of weaponsof mass destruction, and associated delivery systems, materials, technologies and expertise.

ACTIVITY DATA SHEET

PROGRAM: Kyrgyzstan
TITLE AND NUMBER: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 116-012
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,700,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $3,500,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: FY 2001

Summary: This objective is critical to combat the fiscal crisis in the country. As a result of the economic crisis in Russia, and the devaluation of the *tenge* in neighboring Kazakhstan, domestic and foreign investors in Kyrgyzstan are less confident. During 1999, the *som* fell in value by half and the interest rate on government securities stood at 50% at

year-end. As a result of the currency depreciation, inflation rose to 18.4%. Moreover, the government faced growing concerns regarding its ability to service its large external debt. Although official statistics indicate GDP grew slightly last year, unofficial estimates indicate a decline. In order to survive the current crisis, the government needs to increase tax compliance, formulate budgets that are consistent with revenue projections, improve its forecasting ability, and reduce its external debt. USAID activities in this area support the U.S. Embassy's Mission Performance Plan by supporting the transition to a free-market economy.

USAID is addressing the immediate and long-term needs by targeting three critical areas: 1) tax administration; 2) tax policy; and 3) budget reform. Tax administration addresses the government's need to reduce its borrowing by increasing tax revenues.

The direct beneficiaries of sound fiscal management will be the national and local government agencies that need tax revenues and sound budget policies; government employees; and, finally, all entities with which the government is in arrears. All Kyrgyz citizens would be indirect beneficiaries. Sound fiscal policies and management practices contribute to both short- and long-term economic stability and make a significant contribution toward the growth potential of the economy.

Key Results: Three key results are necessary to achieve this objective. (1) Taxes are more fairly and broadly applied and enforced. (2) Government borrowing is less inflationary. (3) The expenditure allocation process is rationalized.

Performance and Prospects: Kyrgyzstan's stabilization program has been tested by a combination of factors over the past year. The country conducts a large amount of trade with Russia and Kazakhstan; and, consequently, has been hit by the downturns in those countries. In addition, the sharp drop in the price of gold has reduced revenues from Kyrgyzstan's main export earner. Inflation has risen from an annual rate of less than 15% at the end of 1997 to 32% in the middle of 1999, while the general government deficit remains close to 10% of GDP. The government has recently implemented fiscal and monetary measures to combat these problems. Excise taxes have been doubled on a number of goods, while governmental non-essential expenditures have been cut. Interest rates have been raised. Nevertheless, the government has been unable to cut expenditures sufficiently to offset declining tax revenues. New revenue-enhancing measures are urgently needed.

Overall, USAID's performance in 1999 was satisfactory. The key indicator for this objective, the general deficit as a percentage of GDP, was estimated to be on target in 1999 at 3%. The government accomplished this by cutting expenditures on supplies by 8%. USAID also helped the Government of Kyrgyzstan to reorganize the State Tax Inspectorate along functional lines. The new structure will improve revenue collection, reduce opportunities for corruption, and institute an appeals process.

The tax compliance rate of 11% did not meet USAID's 1999 target (16%). However, given the very poor condition of the Kyrgyz economy, and thus, the dropping tax revenues, the result was considered a limited success.

In an effort to rationalize expenditures, USAID successfully increased the number of government agencies adopting program budgeting from seven in 1998 to 11 in 1999. Program budgeting links spending to programs, and therefore provides the government with the ability to evaluate the performance of programs, and to link performance to future funding. USAID is building on this success during 2000 by evaluating and re-training key staff members in program budgeting. A budget classification system still needs to be put in place.

Recent changes within the government bode well for accelerated fiscal reform in 2000 and 2001. For example, the Chairman of the Central Bank has replaced the Minister of Finance. USAID was successful in implementing successful reforms in bank accounting and supervision under his tenure. Therefore, USAID expects to continue to make substantial progress in fiscal reform. In addition, the government has placed the Customs Inspectorate under the Ministry of Finance in order to consolidate revenue collection efforts. Next year will be a critical year in the government's effort to increase tax collections, as it will be the first full year of operation under a reorganized administrative structure for the State Tax Inspectorate. Significant progress is expected.

Possible Adjustments to Plans: The government has requested assistance in public-sector accounting, which USAID plans to provide in 2000 and 2001. The conditions in Kyrgyzstan are favorable for the development of such a project. The Minister of Finance and his deputy were instrumental in the success of the bank accounting reform project, and have expressed the need for a project in public-sector accounting. Government accounting reform would complement work already being done under this objective, and enhance the management of government finance.

Other Donor Programs: During 1999, the International Monetary Fund (IMF) brought in an advisor to work on tax policy issues. The IMF and USAID have been instrumental in preventing legislation that would reduce tax revenues. The other donor in this area, the German Agency for Technical Cooperation, phased out its assistance in December 1999.

Principal Contractors, Grantees, and Implementing Agencies: USAID activities are implemented through KPMG/Barents, a U.S. contractor, and through the U.S. Department of the Treasury. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1995)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Government deficit as a percentage of GDP	12.5%	3%	3%	2.5%	2%
Tax revenues as a percentage of GDP	13.6%	10.7%	18%	19%	20%
Govt. of Kyrgyzstan maintains compliance with conditions of international financial institutions*	Yes	*	*	*	*

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*During FY 1998, USAID programs were being consolidated when the new strategy was developed. Decisions were made about the relevance of the indicators for the program. Data will not be collected for this indicator subsequently.

ACTIVITY DATA SHEET

PROGRAM: Kyrgyzstan
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 116-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $6,850,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUDNING SOURCE: $10,800,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: FY 2004

Summary: The private sector in Kyrgyzstan is in desperate need of continued assistance if it is to have any hope of contributing to an increase in the standard of living. In 1995, when USAID began this work, 40% of GDP was generated by private enterprise. This percentage has since increased steadily to 68% in 1999. Unfortunately, these efforts are confronted by the difficulty of attracting capital investment in an emerging market with a difficult economic climate. During 1999, growth continued to stagnate. Problems resulted from the low prices fetched for the country's commodity exports, especially gold and cotton. There was a major decline late in the year in the value of the *som*. It plummeted in value by 50% in 1998 after two years of relative stability, and then again in early 1999 in response to the devaluation of the *tenge* in Kazakhstan. Finally, the country continues to experience severe difficulties servicing both its internal and external debts in 1999.

There have been a number of positive developments. More than half of all land is in private hands with 99-year land use leases. Under a constitutional amendment adopted in October 1998, these land users will automatically become landowners. Agriculture accounts for about half of the GDP. More than 80% of agricultural output is produced on private farms. These should benefit from the liberating effects of land ownership. Moreover, the President has just created a powerful new land agency, led by a strong reformer, to oversee land reform.

The direct beneficiaries of these activities will be the nation's private sector, as well as government entities that affect the private sector through laws and regulations. The indirect beneficiaries will be all citizens, as well as Kyrgyzstan's major trading partners. USAID activities in this area support the U.S. Embassy's Mission Performance Plan to assist the Government of Kyrgyzstan in the transition to a free-market economy.

Key Results: Three key results are necessary to achieve this objective: (1) an improved operating environment for private sector growth; (2) improved human resources for a market economy; and (3) increased availability and accessibility of capital and technological resources for the private sector.

Performance and Prospects: USAID advisors assisted Kyrgyzstan in becoming the first Central Asian country to acquire full World Trade Organization (WTO) accession. USAID assisted in analyzing the investment climate and existing, commercial laws; then drafting additional laws and regulatory regimes. Post-WTO accession assistance continues, as efforts are focused on streamlining the structure of the WTO oversight body; thereby, ensuring that the government meets all reporting and notification requirements. Commercial laws passed with USAID assistance include the Foreign Investment Law, the Procurement Law, and the Bankruptcy Law; all of which helped strengthen the investment climate. The FINCA micro-credit program has been very successful and has achieved complete financial sustainability. Since program inception, nearly $12 million in loans have been disbursed to 78,000 clients.

In the area of legal and institutional reform, advisors have been working in key fields including trade and investment, bankruptcy, collateral law, and the Civil Code. An important product has been the publication of a *Practical Guide to the Civil Code, Part 1*. This three-volume work, the first of its kind in the former Soviet Union, explains the operation of the Civil Code in non-academic terms, through real-life transactions. General business law has also been a focus, targeting constraints to business, including inadequate implementation of laws in such areas as contracts and property rights. Many of these efforts are needed to maintain the momentum created by the privatization process and to expand opportunities for U.S. trade and investment in Kyrgyzstan.

In 2001, support for private enterprise reform will focus increasingly on institutional development, reforms, and reductions of constraints to business. This will help in developing a local business environment that is more open and transparent and therefore less susceptible to corrupt practices. USAID is encouraging development and utilization of a competitive and cost-efficient procurement system and is promoting the establishment of a monitoring agency to encourage greater transparency and competition. Finally, as part of the "Southern Strategy," USAID continues to assist small and medium enterprises in the Fergana Valley in sectors such as food processing, construction, banking and credit unions, and textiles.

USAID advisors are helping to address the issue of private land ownership. Private ownership of land was provided for in a constitutional referendum adopted on October 17, 1998. USAID advisors helped the government draft a package of implementing legislation, including a Land Code and Mortgage Law. Thus, USAID has been instrumental in assisting the government in making, in less than a year, more progress on modern land legislation than has been made anywhere else in Eurasia.

In orderto reduce constraints to business, USAID initiated a Regulatory Reform project in 2000. USAID is preparing to end accounting reform assistance to the private sector. USAID funding of the successful Foundation for International Community Assistance (FINCA) micro-credit program will end. The program will become a commercial enterprise. The International Finance Corporation has expressed interest in investing in such a venture. USAID anticipates new activities in economic and business education in 2000 and 2001.

Possible Adjustments to Plans: No strategic changes identified at this time.

Other Donor Programs: Efforts to improve the business environment have been developed in close coordination with other donors, especially the World Bank, European Bank for Reconstruction and Development, and the Asian Development Bank. USAID is actively cooperating with projects of Dutch, German and Swiss technical assistance, as well as the European Union/Technical Assistance for Commonwealth of Independent States.

Principal Contractors, Grantees, and Implementing Agencies: USAID activities are implemented through private U.S. firms such as Booz Allen & Hamilton, Associates in Rural Development/Checchi and Carana Corporation, along with private voluntary organizations such as International Executive Service Corps, FINCA, and Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance. The Central Asian-American Enterprise Fund makes capital available to the Kyrgyz private sector with a business loan program. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1995)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Share of GDP generated by private Enterprises	40%	*	*	*	*
Number of new firms transferred to new accounting standards (cumulative)	0	800	400	600	1000
Govt. of Kyrgyzstan maintains adherence to conditionality of international financial institutions*	Yes	*	*	*	*

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*During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program . Data for these indicators will not be collected subsequently.

ACTIVITY DATA SHEET

PROGRAM: Kyrgyzstan
TITLE AND NUMBER: A More Competitive and Market-Responsive Private Financial Sector, 116-014
STATUS: Continuing
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $450,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $700,000 FSA
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2001

Summary: In Kyrgyzstan, USAID seeks to create a more competitive and market-responsive private financial sector by reforming the banking sector and by developing a vibrant securities market. This program initially concentrated on strengthening the bank regulatory authority's ability to supervise commercial banks. USAID had made reasonable progress in providing technical assistance for bank supervision when the Finnish Government took on this area in 1997. USAID then was able to concentrate its efforts on assisting commercial banks in converting to international accounting standards. The Finnish banking supervision program proved limited and momentum in moving bank supervision forward was lost. Thus, USAID has responded recently to a Government of Kyrgyzstan request to restart assistance in developing a professional bank supervision capacity.

USAID has been involved in capital market development in Kyrgyzstan since mid-1994. This support has been comprehensive and includes creating an independent National Securities Commission (NSC), establishing the Kyrgyzstan Stock Exchange (KSE), restructuring investment funds, and providing training to broker-dealers. Direct beneficiaries of this work are the professionals involved in financial market development: private bankers, stock brokers, and registered private enterprises. Indirect beneficiaries include contributors to pension funds and the general public. They benefit by more secure banks in which to deposit their savings and from the higher standards of living that will eventually result, due to increased investment emanating from those savings and pension contributions.

Key Results: Two results are necessary to achieve this objective. (1) Government regulatory agencies supervise, administer, and enforce legislation. (2) More forms of financial intermediation are institutionalized and effectively supply the private sector on a competitive basis.

Performance and Prospects: Kyrgyzstan's banking system is fragile and under-capitalized, with 18 banks combining a total share capital of less than $14 million. Five banks, including the largest, were placed under conservatorship or liquidation in the first half of 1999, and two more banks have since been placed under conservatorship. Several had financial links to the state gas company, Kyrgyzgazmunaizat, which was affected by a large-scale fraud in early 1999. The weak supervision capabilities of the central bank were revealed by the failure to recognize and respond to this problem. USAID has recently started to address these problems as part of an effort to tighten financial regulatory guidelines and enhance monitoring capacity in the banking sector. In response to a request from the Chairman of the Central Bank, USAID recently placed a supervision specialist on site.

With USAID's technical assistance, all of Kyrgyzstan's 18 commercial banks are now operating using international accounting standards. The virtually complete adoption of such standards by the banks is a critical component of

transparency and represents a significant step forward in reform.

In 1999, significant progress was achieved in improving the prospects for sustainability of the stock market. Off-exchange trading was prohibited, leading to increased trading volume. The basic framework for an effective securities market has been developed, although the Kyrgyz Stock Exchange requires increased corporate listings and the development of a cost-efficient over-the-counter (OTC) system. USAID assistance to the stock market will terminate in early 2000.

USAID's primary function will be technical assistance to improve bank supervision. This will include some assistance to the banking sector that focuses on transparency issues, and training accountants from the central bank and commercial banks to better understand international accounting standards. In addition, the banks will be provided with technical assistance for the development of better information systems.

Possible Adjustments to Plans: It is expected that the bank accounting reform activities will end in 2000. Work on bank supervision will have a longer time horizon.

Other Donor Programs: USAID assistance is coordinated closely with the World Bank, as well as with other donors, particularly the European Union. The International Monetary Fund is currently supporting an advisor in bank supervision (off-site), thereby complementing USAID's assistance.

Principal Contractors, Grantees, and Implementing Agencies: USAID financial assistance activities are implemented through two private U.S. firms, Pragma and International Business & Technical Consultants, Inc. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1995)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Bank deposits as a percentage of GDP	4%	6.6%	9.0%	15%	20%
Number of companies listed on the stock exchange	10	45	60	100	150
Number of financial services available*					
Percentage of banks meeting capital adequacy requirements*					
Types of financial institutions*					
Types of firms operating in securities market*					

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*During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program. Subsequently, data were not collected on these indicators.

ACTIVITY DATA SHEET

PROGRAM: Kyrgyzstan
TITLE AND NUMBER: Increased Citizens' Participation in Political and Economic Decision-making, 116-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,500,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $3,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY1993 **ESTIMATED COMPLETION DATE:** FY 2004

Summary: Kyrgyzstan is an emerging democracy and the only country in the region where there is considerable support for reform. Citizens are increasingly becoming more informed and are participating in political and economic decision-making at all levels. However, the process for democratization has yet to become institutionalized. For

example, elections do not yet fully meet international standards, NGOs and independent media are still not sustainable, and NGO-government partnerships are nascent. Formal public parliamentary hearings are held on an *ad hoc* basis. The purpose of USAID's effort is to address these issues of institutionalization and long-term sustainability of democratic reforms and in this, the activities support the U.S. Embassy's Mission Performance Plan. The direct beneficiaries of the activities in this area are the members and leaders of the NGOs and independent media. Indirectly, all citizens will benefit from a strengthened civil society which permits free and open participation in elections.

Open, competitive elections are integral to the long-term sustainability of citizen participation. USAID is devoting attention to the upcoming 1999-2000 elections cycle. USAID assistance aims to increase citizen participation in the electoral process and to help the government comply with its commitments to international electoral standards. Additional priorities are the creation of a legal infrastructure to expand existing government accountability, and the fortification of NGO and media development to promote well-informed citizen participation. Assistance to the NGO community aims to increase its professional and management capabilities, to encourage advocacy and lobbying, to influence legal and regulatory processes, to effect social change, and to provide needed social services.

USAID's program includes a strong emphasis on building social partnerships between civil society, government, and the business sector to further foster citizen participation in decision-making. USAID is working to make public hearings a part of the formal legislative process and to cultivate government receptivity toward citizen participation.

Key Results: Three key results are necessary to promote civic participation: 1) NGO roles in civil society must be augmented; 2) information on domestic economic policies and politics must become readily available; and 3) the government must become more responsive and accountable to citizens and citizens' organizations.

Performance and Prospects: Progress has exceeded expectations. However, the Ministry of Justice is not allowing several political parties to participate in the upcoming parliamentary elections. This matter is currently before the courts. In addition, there are reports that some media outlets are under government pressure to cease programming related to the election campaign. The upcoming election campaign and the elections themselves will be a true test of Kyrgyzstan's commitment to democratic processes.

Despite these issues, the Government of Kyrgyzstan adopted a new electoral code that, for the most part, meets international standards for elections as outlined in the Organizations for Security and Cooperation in Europe (OSCE) Copenhagen Document. USAID assistance played an integral role in helping the government draft the legislation and include ideas from the NGO and media communities. NGOs continue to grow and expand their advocacy activities. For example, the Coalition for Democracy, an USAID-supported leading democracy-related coalition of NGOs, expanded its activities this election cycle and established branch offices in each of the oblasts in Kyrgyzstan. The Parliament is increasingly viewing NGO and citizen input as an important part of the legislative process. Several active journalist associations in Kyrgyzstan have also participated in reviewing draft legislation and submitting commentary to Parliament. With USAID assistance, a new legislative drafting center now provides the Parliament greatly needed drafting services. With respect to media, broadcast journalists increasingly engage in more politically sensitive reporting. Until recently, only print journalists produced hard-hitting political news.

In FY 2001, USAID is anticipating additional programming in the area of women's legal rights issues, women's participation in political processes, and youth social activism at the local level.

Possible Adjustments to Plans: No strategic changes identified at this time.

Other Donor Programs: Civil society development is a multi-donor effort in Kyrgyzstan. The United Nations High Commission for Refugees (UNHCR), OSCE, United Nations Development Program (UNDP) and Soros all support local NGOs with small grants. The UNHCR is co-funding NGO resource centers along with USAID. In the area of independent media, the UNDP, OSCE and Soros support journalist associations and conferences. In the political processes area, UNDP is implementing an "automization" of elections. USAID and the European Union coordinate with parliamentary assistance.

Principal Contractors, Grantees, Implementing Agencies: Several USAID-funded U.S., private voluntary organizations such as the American Bar Association/Central and East Europe Law Institute, Internews, the National Democratic Institute, and the International Foundation for Electoral Systems are playing a role in promoting democracy in Kyrgyzstan. Counterpart International Aid to Artisans, and the International Center for Not-for-profit Law, together form the Counterpart Consortium, also participate in local NGO development. The U.S. NGO, Initiative for Social Action and Renewal in Eurasia, will also participate in the development of local environmental NGOs. The Academy

for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline	Actual (1998)	Target (1999)	Target (2000)	Target (2001)
Number of NGOs involved in advocacy (media/gov)	70/74(1996)	57/42	75/50	100/55	125/70
Average daily minutes of local news programming	1 (1994)	20	22	24	26
Number of Parliamentary hearings and committee meetings addressing legislative/policy issues	2 (1996)	5	45	45	45

ACTIVITY DATA SHEET

PROGRAM: Kyrgyzstan
TITLE AND NUMBER: More Effective, Responsive, and Accountable Local Government, 116-023
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,000,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,500,000 FSA
STATUS: Continuing
INITIAL OBLIGATIONS: FY 1998 **ESTIMATED COMPLETION DATE:** FY 2004

Summary: Kyrgyzstan inherited an inefficient and highly centralized, Soviet-style governmental structure. The nation can no longer maintain its infrastructure or administer social services adequately now that these are no longer subsidized the Union of Soviet Socialist Republics. On the other hand, modest democratic reforms have taken root in "self-governing cities," in which the President appoints a mayor from among the popularly elected council members. This system increases accountability since these mayors are local leaders with a local reputation to maintain. A promising development this past year is that the Congress of Local Communities, a government-sponsored NGO, is an advocate for decentralization and for the professionalization of local government.

Local government reform has the potential to improve the quality of everyday life for citizens, to increase local control over local issues, and to involve the population more actively in public affairs. Local government assistance can serve as a platform for USAID or other agencies' objectives. Improved water supply, greater civil society, and economic development are areas which would benefit from more effective and responsive local governments. The direct beneficiaries of the activities in local municipal reform are the citizens of the municipalities who will receive improved services from their local government.

Assistance under this objective is critical for laying the groundwork for reform by strengthening the institutional capacity of selected municipal governments, and by cultivating advocates for local government reform within the sector. The demonstration effect of the models inspire other local governments to adopt improved practices, as well as encourage the national government to devolve greater authority to self-governing bodies.

Key Results: The three results are to 1) increase citizen participation, 2) to strengthen local governments' capacity, and 3) to increase the autonomy of local government from national and oblast authority.

Performance and Prospects: During this first year many activities were begun under the Local Government Initiative. The highlights in 1999 included: the first public budget hearing ever, held in Naryn; the rapid formation of democratically organized housing associations throughout the country; and the appointment and training of procurement agents nationwide. Successful model practices included a model procurement in Bishkek and competition among the best housing associations for grants that built in competitive procurement practices. Well-received, on-going activities include support to local organizers to form democratically controlled housing associations to perform functions previously performed by government agencies, leadership skills, financial management and procurement training for officials and council members, and the automation of financial management systems in the rayon of Chuy-Tokmok. A change in contractors slowed implementation in the fall of 1999. However, the new firm retained most of the local staff and, after a culling process, the most promising activities are being pursued further.

An enormous agenda remains in the area of local government empowerment. Villages, towns, and cities are severely constrained by the Finance Ministry's control over their budgets. The tax law allows local authorities to collect a number of local taxes and fees, but these sources provide only a fraction of the required local revenues. Despite the reforms being implemented by national agencies, much remains to be done, including involving the Ministry of Finance, which remains an opponent of fiscal decentralization. USAID will continue to address these issues through policy dialogue with the national government.

The 2000 work plans will build on current activities, as well as expand the development and implementation of model "good practices" in up to four local governments.

Possible Adjustments to Plans: No change in strategic plans identified at this time.

Other Donor Programs: A number of other donors including the World Bank, UNDP, and the European Union also support activities with a local government dimension that build around the principles of promoting sustainable human development in the country through decentralized management and a professional civil service.

Principle Contractors, Grantees, and Implementing Agencies: Urban Institute and the International City/County Management Association through its Resource Cities Program. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1998)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Adoption of practices promoting citizen input and involvement (cumulative)	0	0	0	3	4
Adoption of practices improving delivery of services and management of resources (cumulative)	0	0	1	3	4
Increasing the powers of local government (cumulative)	0	0	1	2	2

ACTIVITY DATA SHEET

PROGRAM: Kyrgyzstan
TITLE AND NUMBER: Improved Sustainability of Health and Social Benefits and Services, 116-032
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,400,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $4,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2004

Summary: Improved social services are critical to the welfare of the population and to engaging public support for overall reforms. The health care delivery system which Kyrgyzstan inherited from the soviet era can be characterized as an inverted pyramid. Primary care is at the bottom, with too few resources, while specialized hospital care at the top receives too much. One of the major problems is the inefficient allocation of existing resources and nonexistent infrastructure for primary health care.

In 1994, USAID initiated health care reform assistance to restructure the health-care system. The government has been a leader in health reform, introducing an integrated package of reforms at a rapid pace, especially in the pilot activity in Issyk-Kul. The success of USAID’s assistance helped to leverage a World Bank loan to replicate the reforms more broadly. With combined USAID and World Bank efforts, approximately 90% of Kyrgyzstan’s population will have access to primary health care services by the year 2002. The newly created Family Group Practices (FGPs) will be the first points of contact for the population at the local level. All citizens of Kyrgyzstan are beneficiaries of this reform.

Key Results: This activity contributes to the improved sustainability of selected social services through achievement of two results: 1) cost-effective health care services will be demonstrated in selected oblasts, and 2) cost-effective health sector reforms adopted nationally. To date, 329 FGPs are operational nationally. 87% of the people have openly enrolled

and are exercising their choice for their FGP in the pilot sites. The health care system is already more cost-effective, and 60% of the service providers in the pilot oblast are being reimbursed by market-oriented payment systems. The Issyk-Kul model has now been adopted in five additional Oblasts. NGOs have become an important vehicle for these reforms and will help ensure that more effective delivery and change is taking place in target communities.

Performance and Prospects: This activity has progressed well with a high proportion of the targeted populations (85%) now exercising their right to select the family group practice of their choice in areas where enrollment campaigns have been conducted. All management information systems have been developed and implemented, allowing the providers to respond to new incentive payment systems. A new provider payment system, which encourages primary care physicians to treat more and refer less often to specialty hospitals, is being implemented. USAID has also provided technical assistance to integrate women's reproductive health, childhood health services, and infectious diseases such as tuberculosis into (FGPs). All FGPs will provide family planning services by 2001.

USAID policy and legal assistance led to the establishment of a national framework for health care, which incorporates health insurance into a broader social insurance context. Information on health reform has been widely disseminated to the public through television and radio spots and newspaper and magazine articles. The health insurance fund has implemented nationwide the hospital payment system which was developed in the Issyk-Kul demonstration. By FY 2004, it is expected that health reforms in Kyrgyzstan will be completely institutionalized at the policy and program levels.

Possible Adjustments to Plans: Integration of vertical health programs (i.e., infectious diseases, and reproductive health) into the Family Group Practice health delivery structure will become institutionalized.

Other Donor Programs: Various other donors are involved in this crucial area, including the World Bank, the Asian Development Bank, World Health Organization, United Nations Development Program, UNICEF, UNAIDS, United Nations Population Fund, and the European Union.

Principal Contractors, Grantees, and Implementing Agencies: Abt Associates is currently the principal contractor implementing the health reform assistance activity. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of independent primary care practices (Family Group Practices – FGPs) (cumulative) (pilot/nationwide)	32 (1996)	81/344	81/344	350	400
Percent of health care providers reimbursed by market-oriented payment (pilot/nationwide)	40%(1997)	60%/17%	65%/22%	70%	80%
Percentage of the population enrolled in FGPs	0 (1995)	87%	85%	90%	95%

The United States Agency for International Development

Kyrgyzstan

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	24,617	32,013	29,460	37,540
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**24,617**	**32,013**	**29,460**	**37,540**
Operating Expenses	0	0	0	0
Trust Funds	0	0	0	0
Total Operating Costs	**0**	**0**	**0**	**0**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	1	2	1	1
Other U.S. Citizen	1	1	1	1
FSN/TCN DH	5	5	5	5

Subtotal	**7**	**8**	**7**	**7**
Program Funded*				
U.S. Citizen	0	0	0	0
FSN/TCN	2	1	2	2
Subtotal	**2**	**1**	**2**	**2**
Total Direct Hire Work Force	**9**	**9**	**9**	**9**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**9**	**9**	**9**	**9**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
116-012 Incr. Soundness of Fiscal Policies & Fiscal Mgmt. Practices							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	3,500	0	0	0	0	0	3,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
116-013 Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	10,800	0	0	0	0	0	10,800
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
116-014 A More Competitive and Mkt.-Responsive Priv. Fin. Sector							

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	700	0	0	0	0	0	700
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
116-021 Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	3,000	0	0	3,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
116-023 More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	2,500	0	0	2,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
116-032 Improve the Sustainability of Social Benefits and Services							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	4,000	0	0	0	0	4,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
116-041 Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	8,540	0	0	0	0	0	8,540

- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
116-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	4,500	0	0	0	0	0	4,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	28,040	4,000	0	5,500	0	0	37,540
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Glenn Anders

The United States Agency for International Development

KAZAKHSTAN

Development Challenge

Other Donors

FY2001 Program / Activity & Budget Information

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Introduction

Kazakhstan continues to enjoy a special bilateral relationship with the United States because of its strategic importance, U.S. investment, and environmental initiatives. It is the largest recipient of U.S. assistance in Central Asia. Throughout 1999, Kazakhstan worked closely with the United States on a range of non-proliferation initiatives under the Cooperative Threat Reduction program. During 1999, Kazakhstan moved toward compliance with the Kyoto Accords on Global Climate Change. Kazakhstan was the first USAID-assisted country to support the U.S. Government position on this important environmental issue. In November 1999, Kazakhstan joined the United States in signing the Caspian Pipeline Accord. In December 1999, Kazakhstan signed the 2000 Bilateral Defense Cooperation Agreement. Through 1999, however, U.S.-Kazakhstan relations were strained by serious concerns about continuing corruption, flawed elections, illegal arm sales, and local hassling of investors.

The Development Challenge

Kazakhstan still faces many challenges, following years of Soviet domination. Its business and industrial sectors are limited; and its economy is unbalanced. Kazakhstan relies too heavily on inefficient agricultural and mineral extraction systems that exacerbate already fragile environmental situations. With a per capita income of $1,300, most citizens of Kazakhstan have yet to see the benefits of macro-economic reform and the resurgence of world prices for the country's significant oil, gas, and gold deposits. The social safety net has been weakened with declines in health status, benefits for senior citizens, and education opportunities. Dramatic increases in infectious diseases such as drug-resistant tuberculosis pose global threats.

National leadership remains committed to an open economy, financial reforms, civil society, health reform, and sound environmental policy. In the economic arena, Kazakhstan has put in place sound monetary and fiscal policies, and an innovative private pension system. The government has actively encouraged international trade and foreign investment. The national currency, the t*enge*, remains fully convertible.

The majority of power generation facilities and coal mines have been privatized, and the government has announced its intention to privatize the electric distribution companies. The government has established an independent regulatory entity for the power sector. In 1999, the government passed a series of environmentally-sound, oil and gas regulations that meet international standards. Two-thirds of all oil pumped in Kazakhstan comes from joint venture operations with international petroleum firms. Kazakhstan receives assistance with energy and environmental challenges through USAID's Central Asia Regional program.

At the same time, the government has taken some steps to protect its vulnerable populations through reforms in the areas of health, housing and pension. Kazakhstan is beginning to improve efficiency, access to services, and the quality of health care. Building upon USAID's pioneering work in health reform in Kyrgyzstan, pilot programs in family group

practice and new payment systems have demonstrated that cost-effective, quality services are possible, and that health reform models can also work in Kazakhstan. The President has endorsed a plan to replicate nationwide the USAID health care reform model and a large World Bank (IBRD) loan is being developed based on the USAID approach. The introduction of new treatment protocols for tuberculosis is a major step toward containing this virulent disease that has reemerged in the post-Soviet period.

Government performance in democratic reform has been disappointing. Authority for all significant policy decisions remains centralized in the presidency. The leadership did not permit a fairly contested election for the presidency in early 1999. Instead, two opposition candidates, including a strong potential contender, were disqualified, leaving the outcome certain. In addition, government crackdowns on the media increased self-censorship, and reporting favored the incumbent. Freedom of assembly was at times restricted, and there were credible reports of numerous irregularities at the polls. In the October 1999 parliamentary elections there were some improvements. Candidate fees were significantly reduced, and political parties were allowed to register and campaign. The media – which also broadcast statements from and information about a wide range of candidates -- covered candidate debates. However, the leader of a main opposition party, the leading contender disqualified from the presidential election, was again barred from running for office. There were also reports of widespread abuses of the ballot counting process.

Nevertheless, it would be a mistake to judge democracy assistance as a wasted effort in Kazakhstan. With the assistance of USAID grantees, electoral improvements were adopted before the parliamentary elections. Non-partisan domestic monitors, trained and organized through USAID assistance, collected much of the evidence that exposed problems throughout the electoral system. USAID training of independent media contributed to the noticeably improved coverage of the parliamentary elections. Draft legislation calling for the election, rather than appointment, of village and city mayors was recently submitted to parliament. In the area of civil society, where USAID has made by far its greatest investment in democracy, there have been great strides. There are now over 700 non-governmental organizations (NGOs) operating in Kazakhstan. A significant number of the organizations are learning how to advocate their causes to the government. An NGO/Parliamentarian Working Group is drafting new NGO legislation.

Partnerships, training and exchanges remained an important component of US assistance. USAID trained over 600 reform-minded government leaders and professionals, of whom 45% were women, in areas directly related to democracy and a free-market economy. USAID supports a number of partnerships that seek to build long-lasting relationships between U.S. and Kazakhstani institutions.

Other Donors

The IBRD provides technical assistance for economic restructuring, and loans in areas of oil development, urban transport, social protection, public administration and finance, and enterprise development. New IBRD projects will address land registration, financial sector adjustment, private sector support, irrigation and drainage, water supply, agricultural privatization, fiscal reform and health. Late in 1999, Kazakhstan agreed in principle on the terms of a new International Monetary Fund agreement. To qualify for the new Extended Fund Facility, Kazakhstan had to reduce its budget deficit. USAD assistance was critical in helping the Government of Kazakhstan to increase fiscal revenue and bring national expenditures in line with government budgets through training and technical assistance aimed at more effective fiscal management. USAID’s work with the Government of Kazakhstan has helped to strengthen tax administration in Kazakhstan, and reduce opportunities within the system for corruption. The Government of Kazakhstan’s, computerized, automated tax system – developed with USAID assistance – is being expanded to the regional and state levels with a $17 million loan from the IBRD. The European Union, the European Bank for Reconstruction and Development, the Asian Development Bank, and major bilateral donors such as Germany, Britain, Japan, France, and Korea provide additional aid for programs, many of them pioneered by USAID.

The United States Agency for International Development

Kazakhstan

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID's priority assistance areas are economic growth, civil society, information dissemination (including public exposure of corruption) and health reform. USAID will increase work at the local or micro level to begin to bring the benefits of macro-level policy, legal and regulatory reforms to local institutions and citizens. An example of this approach is the Atyrau Regional Initiative. It is a public-private partnership designed to increase investment in a region of Kazakhstan that has significant human needs, despite its gas and oil reserves.

Economic assistance will focus on improving the business environment, business-related education, tax and budgetary reform, and financial mechanisms such as insurance, mortgages and micro-credit. In democracy, assistance will support: citizen advocacy and lobbying, civic education, independent media, local government capacity building, and NGO sustainability.

In the social sector, USAID will continue to work with the Government on finding cost-effective market-oriented ways to provide essential health services. This will include adapting and building on the successful Kyrgyzstan model which integrates infectious disease control and family planning into independent family group practices. The IBRD loan will provide the capital necessary to replicate the models nationally. HIV/AIDS prevention activities will be introduced to fight the nascent epidemic. USAID will also work to strengthen NGOs working on health-related issues and to promote popular participation in health care. Health partnerships will support the transfer of technology in both academic institutions and primary care.

In FY 2000 and FY 2001, significant FREEDOM Support Act (FSA) funds will be provided, under the Administration's Expanded Threat Reduction Initiative (ETRI), for programs designed to enhance border security and export control capabilities. ETRI assistance will contribute to the nonproliferation of weapons of mass destruction, and associated delivery systems, materials, technologies and expertise.

ACTIVITY DATA SHEET

PROGRAM: Kazakhstan
TITLE and Number: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 115-012
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $3,200,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $3,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2001

Summary: Given the central role that fiscal management plays in overall macroeconomic stability and economic growth, clearly manifested in the development of the Russian economic and financial crisis, success in this objective is central to Kazakhstan's hopes for sustained economic development. USAID began work on these issues in 1995. At that time, tax collections were about 11.5% of GDP, fiscal arrears were 6.2% of GDP and inflation was a resounding 60%. By 1998, tax collections were 12.5% of GDP, arrears had been slashed to a mere 2% of GDP and inflation was under control at 10%. As the lead donor in the field of fiscal policy, USAID's efforts to achieve sound policies and

management have contributed significantly to these results.

The direct beneficiaries of such improvements are the national and local government agencies that need tax revenues and sound budget policies and all entities with which the government is in arrears. Indirectly, all Kazakhstani citizens stand to benefit. Sound fiscal policies and management practices contribute to both short- and long-term economic stability and increase the potential for economic growth.

Key Results: Three key results are necessary to achieve this objective: 1) taxes that are more fairly and broadly applied and enforced; 2) clarified roles and responsibilities for different levels of government; and 3) position of primary fiscal manager and regulator shifts away from the government.

Performance and Prospects: Despite increased tax collection by mid-1999 – largely due to improved liquidity in the economy following currency devaluation – lack of secure financing for the budget continues to raise fears of currency and price instability. In September 1999, the government raised $200 million through a new five-year Eurobond issue, with a coupon of 13.6%. Although the Kazakhstan tax code, introduced in July 1995, is generally regarded as adequate, revenue pressures have led to cases of tax harassment. The tax police repeatedly resort to freezing enterprise bank accounts. Penalties can exceed 100% of the due tax sum, and the legislative base for tax appeals remains weak.

Nevertheless, USAID's program is well on track. USAID's role and achievements have been significant. Modifications to the Budget Systems Law in the first half of 1999 represented progress in the area of intergovernmental fiscal reform. In particular, progress was made in the area of expenditure assignments between central and local levels of government. In the area of Budget Management, progress has been noted as a result of the adoption of program budgeting. Over the past year, the Ministry of Revenues has agreed to a significant increase in its level of headquarters staff. Also, progress has been made in tax administration, including tax treaty administration and tax computerization. USAID-supported technical assistance has led to a World Bank loan of $17 million for tax computerization. At the local level, the USAID advisor in Atyrau is beginning to demonstrate success in improving municipal finance and budgeting.

With USAID assistance in 2001, stronger efforts are expected in the area of tax administration based on development of a tax auditing certification program, improvements in the presumptive taxation methodologies, and increased technical assistance in tax treaty administration. To the extent possible, USAID will continue to provide assistance to local and regional levels of government. For example, USAID is considering the expansion of this type of assistance to Shymkent. USAID will also work with the new Large Taxpayer Unit of the Ministry of Revenues. This unit was created in early 1999, with a primary objective being increased tax compliance from large taxpayers. There has, however, been criticism of this unit as unnecessary, unworkable, and contrary to confidentiality. USAID continues to assess the situation, while attempting to have the ministry and the private sector, particularly the Foreign Investors Council, work together on this difficult issue. Finally, USAID anticipates working closely with a new Debt Advisor from the U.S. Department of the Treasury.

Possible Adjustments to Plans: No change in strategy for this objective identified at this time.

Other Donor Programs: Ongoing efforts in the fiscal arena are coordinated with those of other donors, especially the International Bank for Reconstruction and Development (IBRD). USAID also collaborates with the International Monetary Fund and the European Union. The IMF has a three- year, economic program (Extended Fund Facility) with the government, but provides no technical assistance. IBRD is continuing with a major treasury modernization project that involves technical advisors, training and equipment. Meanwhile, the EU plans to provide limited technical assistance in tax administration. USAID technical advisors would play a key role in complementing these reforms.

Principal Contractors, Grantees, and Implementing Agencies: USAID activities are implemented through several USAID-funded contractors. KPMG/Barents works on fiscal reform, including budget, tax policy and administration and intergovernmental finance. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1995)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Government deficit as a percentage of GDP	3.0%	3.7%	5.2%	4.8%	4.41%
Govt. of Kazakhstan maintains compliance with conditions of international financial institutions	Yes	Yes	Yes	Yes	Yes
Tax revenues as a percentage of GDP	12.2%	12.2%	16%	17.5%	19%

ACTIVITY DATA SHEET

PROGRAM: Kazakhstan
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 115-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $8,400,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $12,400,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2001

Summary: A more vibrant private sector is the only hope for economic development in Kazakhstan. Private enterprise has recently stagnated. The private sector now confronts the effects of economic crises around the world, a general aversion of capital to the risks of emerging markets, low commodity export prices and a still difficult investment climate. In 1995, when USAID began work on this objective, 25% of GDP was generated by private enterprise. This percentage has since increased to 60% in 1998.

While steady progress toward achieving this objective occurred in 1999, substantial obstacles remain. There are numerous reasons: bureaucratic rent-seeking behavior by government officials, especially local ones; the sluggish progress in privatization of the largest enterprises; and the relative isolation of the country from major world markets. The primary impediments, however, continue to be over regulation and rent seeking by government, especially local government, and an overall environment which discourages competition.

Building the economic and legal framework for a market economy remains important, despite the recently slackening pace of transition. A combination of factors may soon force the government to allow freer development of private enterprise, particularly for the small- and medium-sized enterprises (SMEs). These factors include the lingering impacts of the Asian and Russian financial crises, the continuing low level of budgetary revenues – 12.5% per cent of GDP in 1999 - and the slow materialization of oil revenues.

The direct beneficiary of accelerated development and growth of private enterprise will be the entire private sector of Kazakhstan. All citizens would benefit indirectly.

Key Results: Three key results are necessary to achieve this objective: 1) an improved operating environment for private sector growth; 2) improved human resources; and 3) increased availability and accessibility of capital and technological resources for the private sector.

Performance and Prospects: An area of concentration for USAID is that of SMEs. According to official data, 87,000 enterprises with fewer than 50 employees were registered at the start of 1999. The contributions of SMEs to employment and output were estimated at 17% and 8% respectively for 1997. A government program approved in December 1998 provides for simplified registration and taxation practices, and the development of financial and information support institutions. Nonetheless, much remains to be done to improve the business environment, particularly for SMEs.

Private sector support represents by far the largest USAID activity in Kazakhstan. In the area of legal and regulatory reform, advisors are working in key areas, particularly in the promotion of trade and investment, and the identification and reduction of constraints to private enterprise. Pro-business laws covering bankruptcy, joint stock companies, foreign investment, and procurement have all been enacted with USAID support. USAID targets constraints to business operations by helping the government pass legislation in such areas as business inspection, business licensing and registration, work permits, contract law, and property rights. Many of these efforts are needed to expand opportunities for U.S. trade and investment.

USAID assistance is playing a critical role in moving the government to join the World Trade Organization. Kazakhstan has made progress in aligning its trade regime to the WTO requirements. This has been accomplished through enactment of WTO laws. People-to-people efforts and exchange programs have proven to be excellent vehicles to identify potential investment opportunities and develop appropriate business plans. The Central Asia-American Enterprise Fund (CAAEF) continues to provide equity and credit financing to Kazakhstani SMEs. In accounting reform,

through USAID's efforts, 1,400 enterprises have been converted to international accounting standards, while 4,000 accountants have been trained in the theory and practice of international accounting.

Through USAID's efforts, the Kazakhstan Community Loan Fund (KCLF) was established to provide for the first group-lending program in Kazakhstan. The KCLF is the first and only registered non-bank financial institution in Kazakhstan and has made over 7,000 loans to small enterprises with a delinquency rate of only 3%. Over 80% of KCLF's clients are women, who, on average, borrow less than $200. Further, USAID linked SMEs with U.S. partners that provide strategic marketing advice. Finally, in 1999, USAID began to provide significant financial support to the Masters Degree in Economics Program of Kazakhstan Institute of Management, Economics, and Strategic Research, the premier institution in Central Asia for western training in economics and business administration.

Because it is expected that the government will continue to pursue accession to the WTO at the same pace, no major changes are expected in this area. USAID will increase efforts to reduce and remove constraints to business, particularly at the local level.

While support for enterprise reform will continue to focus mainly on areas such as accounting reform, USAID will begin to provide more assistance directed at individual companies. This will complement the work on curriculum reform, i.*e.*, introducing undergraduate and graduate-level degree programs in business administration. The KCLF is in the process of expanding its successful micro-credit operation to Shymkent. USAID anticipates new activities in economic and business education in 2000 and 2001.

Possible Adjustments to Plans: No change in the strategy for this objective has been identified at this time.

Other Donor Programs: Efforts to strengthen private business operations are being developed in conjunction with the World Bank (IBRD), European Bank for Reconstruction and Development, United Nations Development Program, and the European Union (EU). The EU also has a special interest in the agricultural sector. An IBRD project on enterprise support is now being developed, as is a project in industrial restructuring by the EU. EBRD programs include a loan program for SMEs comparable to that of CAAEF.

Principal Contractors, Grantees, and Implementing Agencies: USAID activities are implemented through several U.S. firms, including Booz Allen & Hamilton which does trade and investment reform in preparation for WTO accession. The Carana Corporation works on accounting reform and training of sustainable accounting and auditing professional associations. Associates in Rural Development/Cheechi works on commercial law. U.S. private voluntary organizations include the International Executive Service Corps that provides technical, managerial, and business-planning assistance to private enterprises. The Agricultural Cooperative Development International's, Volunteers in Overseas Cooperation Assistance provides loans to micro-enterprises. CAAEF provides loans to micro-, and small-, medium- and large-sized private enterprises. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1995)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Share of GDP generated by private sector	24.5%	55% (estimate)	65%	70%	75%
Number of firms transferred to new accounting standards (annually)	0	1369	600	1000	1500
GOK maintains adherence to conditionality of international financial institutions	Yes	*	*	*	*

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*During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program. Data were not collected on this indicator subsequently.

ACTIVITY DATA SHEET

PROGRAM: Kazakhstan
TITLE AND NUMBER: A Competitive Private Financial Sector that is More Responsive to the Needs of a Market-Oriented Economy, 115-014
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $1,300,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,100,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2001

Summary: To enhance financial sector intermediation, people need adequate and secure opportunities to deposit their savings while borrowers need mechanisms to obtain those savings for use in productive investments. In Kazakhstan, USAID seeks to create a more competitive and market-responsive private financial sector by reforming the pension system, bringing stability to the banking sector, and developing a vibrant securities market.

Direct beneficiaries include professionals involved in financial market development; e.g., private bankers, stock brokers, and registered private enterprises. Indirect beneficiaries include those who will benefit from having a more secure banking system in which to deposit their savings. The increased savings can then be channeled into other types of investments, resulting in improved economic activity.

Key Results: Two results are necessary to achieve this objective: 1) government regulatory agencies supervise, administer and enforce legislation; and 2) more forms of financial intermediation are institutionalized and effectively supply the private sector on a competitive basis.

Performance and Prospects: The April 1999 devaluation of the *tenge* included an offer to convert all household bank deposits and 30% of all enterprise deposits into dollars at the pre-devaluation exchange rate, if they were kept frozen for nine and six months respectively. The stock market remains illiquid, despite increased capitalization. At the end of 1999, 65 companies traded on the stock exchange. Capitalization grew to $1.83 billion, but trading of shares remained low $43 million.

Through bank supervision and bank accounting reform, USAID has helped to tighten financial regulatory guidelines, enhance monitoring capacity, and improve financial transparency; thereby increasing the stability of the banking sector. In addition, USAID' bank accounting project facilitated financial monitoring by the central bank and introduced international accounting standards (IAS), furthering efforts to increase transparency in the banking sector. USAID's performance in the banking sector in 1999 was notable. USAID advisors continued to participate in on-site bank examinations with National Bank of the Republic of Kazakhstan (NBRK) inspectors.

During 1999,approximately 60% of all banking assets held by banks were recorded using IAS. This positive trend toward transparency enables the NBRK to more readily track the banks' financial performance, and affords foreign investors with access to standardized financial statements. It is expected that continued progress would be made in this area, with more than 100% of assets recorded under IAS by 2000. During late 1999 and early 2000, the NBRK has taken steps to increase confidence in the banking system by adopting a deposit insurance scheme, while also backing legislation that limits the ability of the Government of Kazakhstan to seize assets.

USAID has assisted with capital market development by creating an independent, National Securities Commission; developing a trading infrastructure in the Kazakhstan Stock Exchanges (KASE), which includes an over-the-counter market; and promoting share registries and depositories. USAID has supported the formation of self-regulatory organizations. Through USAID's efforts, the capital markets institutional infrastructure is in place, including the KASE, a self-regulatory association, the National Securities Commission, the Central Depository, and custodians and registrars.

Since 1996, USAID has led the way in pension reform. The potential benefits for citizens and the economy are tremendous for many reasons. Besides increasing the pool of capital available for investment, economic security for the elderly and individual choice for citizens, pension reform contributes to long-term fiscal stability. USAID worked closely with the GOK in drafting a new Pension Fund Law that went into effect in 1998. USAID advisors assisted the government in creating a State Center for Benefits Payments and the National Pension Agency. The pension system continues to require further development. The private pension funds, as well as the regulatory body, lack experience and maturity. A key issue being addressed in 2000 is the creation of a unified, independent regulatory body for the pension system.

In 2001, USAID will continue to promote financial sector reform in the major areas of bank reform and restructuring. USAID's thrust will be to make the financial system more participatory and open to citizens. Practical, on-the-job training be a special emphasis of the program. High-level policy advice will be accompanied by efforts to ensure that counterparts develop the capacity to undertake needed research and analysis on their own.

Possible Adjustments to Plans: By 2001, USAID will complete the Capital Markets Development and Pension Reform projects. Given the record of accomplishments to date, bank accounting and banking supervision efforts will also be scaled back. In 2001, based upon a request from the head of the central bank, a leader in economic reform, USAID will begin new activities to develop an insurance industry and a mortgage industry.

Other Donor Programs: USAID is the major donor working in the financial sector, and the only one involved in securities. Work is coordinated with the IBRD. Training activities for private banks, currently undertaken jointly by USAID and European Union, will soon be assumed by a single institution. This training should set the standard for banker training in Central Asia. In the area of pension reform, USAID collaborates with the International Bank for Reconstruction and Development and the Asian Development Bank, each of which have extended large loans to Kazakhstan to finance the transition costs associated with the new pension system. Both donors also have limited technical assistance efforts in the pension area.

Principal Contractors, Grantees, and Implementing Agencies: USAID activities are implemented through several U.S. firms. International Management Communication Corporation works on pension reform. Pragma and KPMG/Barents provide assistance in capital markets development. The Financial Services Volunteer Corps works on payment system development. All work in cooperation with local counterparts at the central bank, the Ministry of Finance, the Kazakhstan Stock Exchange and the National Securities Commission. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1995)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Bank deposits as a percentage of GDP	4.9%	7.0%	9.0%	12.0%	15.0%
Number of companies listed on stock exchange	12	8	100	150	300
Types of financial institutions*	*	*	*	*	*
Percentage of banks meeting capital adequacy requirements*	*	*	*	*	*
Number of private pension funds	0	7	9	15	18

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*During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program. Data were not collected on these indicators subsequently.

ACTIVITY DATA SHEET

PROGRAM: Kazakhstan
TITLE AND NUMBER: Increased Citizens' Participation in Political and Economic Decision-making, 115-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $3,000,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $3,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: FY 2006

Summary: For Kazakhstan to successfully make the transition to democracy, citizens must participate in economic and political decision-making. USAID supports improvements in the legal and regulatory environment for the NGO sector. Concurrent support enhances professionalism and management skills for NGOs, and works to enable NGOs to provide services and to effect needed social change. In addition, USAID supports independent broadcast media, thereby increasing the availability of information, and provides programs aimed at increasing government responsiveness.

USAID believes that these activities will help bring about a society in which citizens promote their interests to a responsive government that is held accountable by NGOs and the media.

Key Results: Three key results are necessary to achieve the desired increase in citizen participation. (1) NGO participation in civil society must be strengthened. (2) Information on domestic economic policies and politics must become readily available. (3) The government must become more responsive and accountable to citizens and citizen organizations.

Performance and Prospects: Performance over the last year has been satisfactory, with the exception of setbacks in the elections arena associated with the suppression of opposition groups and independent media. The Organization for Security and Cooperation in Europe (OSEC) cited violations in the recent parliamentary elections.

A number of fervent protests (e.g., several hunger strikes held by workers and women concerning salary payment arrears) throughout Kazakhstan over the past year indicate that people are becoming more vocal about their social-economic status, and want to be more involved in the decision-making process. With the help of grants and training from USAID, NGOs in Kazakhstan are developing a strong network, supported through 30 newsletters and seven associations, and are increasingly involved in advocacy. Efforts are being made, with the coordination of other donors, to help NGOs and Parliamentarians draft and present more effective NGO and domestic violence legislation. For example, representatives of the media community and a number of NGOs participated in a public hearing on the draft NGO legislation. USAID/CAR-supported efforts to provide commentary and suggested revisions to the recently adopted Law on Mass Media opened a dialogue, albeit constrained, between journalists and the GOK. Nevertheless, non-state media outlets continue to be pressured by the government. Notwithstanding the above, USAID assistance for journalists' training and station management is sought after more than ever, indicating a great desire for media personnel to continue to develop their skills.

As a result of the flawed 1999 presidential and parliamentary elections, USAID democracy programming may face particular challenges for continued openings in the electoral process, the independence of the media, and the participation of opposition groups.

In FY 2001, USAID will begin localizing its civil society activities and intends to expand the media program to include increased media advocacy efforts and other forms of information dissemination. In addition, activities are underway to support the Atyrau Regional Initiative by strengthening the advocacy role of environmental NGOs in Kazakhstan.

Possible Adjustments to Plans: No strategic changes identified at this time.

Other Donor Programs: USAID's efforts in developing civil society are part of a multi-donor effort. UNDP's center for the promotion of NGOs is in full operation and has been organizing seminars bringing together donors and NGOs. For example, this center supported USAID's efforts to encourage Parliament to adopt improved NGO legislation. The Soros and Eurasia foundations support NGOs through their grant programs. In the electronic media area, the OSCE is increasing developmental efforts with media outlets in the country. The Soros Foundation made a grant to Internews to publish textbooks for journalists. Soros also promotes civic education through its debates program. The United Nations Development Program (UNDP) supports the Parliament in various ways, and works with the American Bar Association's Central and Eastern European Law Institute to establish a legislative drafting center. Election assistance is coordinated through a donor coordination group which includes USAID, UNDP, Soros, European Union, Konrad Adenaur Foundation and various embassies.

Principal Contractors, Grantees, Implementing Agencies: Several USAID-supported American NGOs, such as the American Bar Association/Central and East European Law Initiatives, Internews, the National Democratic Institute, and the International Foundation for Electoral Systems, are playing a role in promoting democracy in Kazakhstan. Counterpart International, Aid to Artisans, and the International Center for Not-for-Profit Law, which together form the Counterpart Consortium, also participate in local NGO development. The NGO, Initiative for Social Action and Renewal in Eurasia, will also participate in the development of local environmental NGOs. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1996)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)

Number of NGOs involved in advocacy (media/government officials)	75/35	354/143	200/100	400/200	95/85
Average daily minutes of local news Programming	15	25	30	33	35
Number of Parliamentary hearings and committee meetings addressing legislative policy issues*	2	*	*	*	*

* During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program. Data will not be collected for this indicator subsequently.

ACTIVITY DATA SHEET

PROGRAM: Kazakhstan
TITLE AND NUMBER: More Effective, Responsive, and Accountable Local Government, 115-023
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $1,600,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATIONS: FY 1998 **ESTIMATED COMPLETION** DATE: FY 2004

Summary: The governmental structure of Kazakhstan is centralized and top-down. The President appoints regional governors, who in turn appoint the mayors of towns and cities. Popularly elected councils have some authority over governors and mayors. The government has delegated increased responsibility to its appointed local officials to administer health, education and other services, but has not given them the authority to raise adequate revenues. The growing need to cut national expenditures, however, has prompted the government to rethink the budget process. Done systematically, it could result in meaningful local government restructuring.

It is critical to lay the groundwork for real local government by strengthening the institutional capacity of selected municipal governments. The desired effect is to increase pressure on the national and oblast levels to devolve greater programmatic and fiscal authority to municipal governments. A twin objective is to engage elected councils and local NGOs in local governmental affairs in order to make greater use of two of the few institutions that citizens have for communicating their priorities to governing officials.

Direct beneficiaries are the local government officials. The indirect beneficiaries are the citizens of the municipalities. Local government reform has the potential to improve the quality of everyday life and to increase citizens' involvement in public affairs. Increasing access to potable water, improving health services, and encouraging local civil society and economic development are diverse areas that will benefit from more effective and responsive local governments.

Key Results: The three results necessary to the achievement of this objective are: 1) increased citizen participation; 2) strengthening of local governments' institutional capacity; and 3) increased autonomy of local government vis-a-vis the national and regional levels.

Performance and Prospects: The notable achievements in the past year include the adoption of public budget hearings as a vehicle for citizen participation in Pavlodar and Aktau and the official development, training, and use of competitive procurement standards by the Agency for Procurement. Although FY 1999 targets were met, implementation lagged at times due to the high turnover in contracting personnel. The municipal mayors of Pavlodar and Atyrau, the model sites of the local government initiative, are strong counterparts. Pavlodar is adopting program budgeting with USAID assistance, which in turn allows USAID to strengthen its health finance and fiscal reform objectives. Atyrau is particularly focused on the need to restructure its water supply system in order to meet World Bank loan conditions. USAID helped local governments prepare for public hearings and stringent citizen outreach on the required rate increases. USAID will assist with estimating sustainable utility rates.

The most successful component is the training program, which is conducted by local trainers, drawn from the Academy of Civil Service, the Pavlodar Academy of Civil Service, and other public and private training institutions. The training helps strengthen the political skills of elected council members and the budgeting and management skills of officials in model regions, cities and districts. It also serves as a vehicle for dissemination. The sudden interest in public hearings,

which sprang up following the Pavlodar hearing in June, is being nurtured by one-day "how to" workshops. These workshops have been conducted in numerous, interested cities. The academies' strong interest in the training bodes well for its future adoption in Government of Kazakhstan-funded training. National government policy makers participated in a study tour to the United States, and in December 1999 they and representatives from other ministries participated in a seminar on decentralization. These programs provided the groundwork to pursue an integrated, interdisciplinary approach to reform.

In its second year, the initiative is building on the momentum created by the well-received training program and the technical assistance efforts initiated in Atyrau and Pavlodar. A partnership is being developed between the Atyrau Office of Economic Development and its counterpart in Tucson, Arizona.

Possible Adjustments to Plans: No strategic changes identified at this time.

Other Donor Programs: Other donors also support activities with a local government dimension, including the World Bank, European Union, and European Bank for Reconstruction and Development (EBRD). The Technical Assistance for Commonwealth of Independent States program, which supported civil service reforms, is winding down. The EBRD's interest in extending a non-sovereign-guaranteed loan to the City of Almaty creates a valuable opportunity to promote transparency in public financial management through a creditworthiness assessment, which USAID is assisting with.

Principal Contractors, Grantees, and Implementing Agencies: International City/County Management Association. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1998)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of cities adopting practices promoting citizen input and involvement	0	1	1	2	2
Percent of cities adopting practices improving delivery of services and management of resources	0	1	1	2	2
Increasing the powers of local Government	0	0	1	2	3

ACTIVITY DATA SHEET

PROGRAM: Kazakhstan
TITLE AND NUMBER: Improve the Sustainability of Social Benefits and Services, 115-032
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $3,574,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $7,500,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: FY 2004

Summary: The social service system that Kazakhstan inherited was unsustainable and inefficient. Nearly 80% of the health care budget was consumed by inpatient care in a costly network of specialized health care institutions and hospitals. Improving sustainability of service is critical in implementing health reforms that utilize market-based approaches to health care financing and delivery. USAID assistance is improving access to primary health care through the establishment of low cost, efficient, community-based Family Group Practices (FGPs). This involves the consolidation of underutilized inpatient facilities and the establishment of necessary financial systems.

USAID began health care reform implementation in two demonstration sites, Semipalatinsk and Zhezkazgan Oblasts. Since the restructuring of the health care system in Zhezkazgan has proved successful, Kazakhstan has a viable primary health care model that can be replicated nationwide. In 1999, USAID plans to develop a phased approach for nationwide implementation, in order to ensure accurate duplication of this model. The FGPs are the first points of contact for populations at the local level. The number of FGPs will be increased to meet basic health care needs. USAID efforts

have leveraged a World Bank loan for $150 million over a ten-year period to assist Kazakhstan with health reforms.

USAID continues to support targeted health initiatives to improve reproductive health and infectious disease prevention and control. These efforts are structured to supplement overall USAID work on health reform. The introduction of the new tuberculosis treatment regimen, a modern World Health Organization (WHO) recommended approach, will fundamentally change the way the Ministry of Health treats tuberculosis patients.Through health partnerships, modern treatment practices have been introduced for women's health. As FGPs are established nationwide and the primary health care system becomes operational, the special initiatives efforts will become part of a comprehensive package of services at the FGP level. Successes in decentralizing the health finance systems were instrumental in designing the programs for local government accountability. All citizens of Kazakhstan benefit from this assistance, especially the vulnerable populations.

Key Results: The two key results needed to achieve this objective are: 1) cost-effective health care services demonstrated in selected oblasts; and 2) cost-effective health sector reforms adopted nationally.

Performance and Prospects: USAID has been a key player since 1993 in the reform of Kazakhstan's health care system. In the Zhezkazgan and Semipalatinsk health demonstration areas, USAID has developed and implemented comprehensive models of health reform. By shifting resources and services to more cost-effective primary care, USAID has supported the creation of independent, community-based structures that are financed by market-based payment methods and are staffed by newly trained, family physicians. FGPs have been established and are fully operational in the two demonstration sites, covering approximately 85% of the population. USAID helped establish a new case-based hospital payment system. Consumers can now exercise their right to choose the family practitioner of their choice. The Health Decree requiring nationwide replication of health reform causes some concern because of limited technical assistance. A $42.5 million World Bank health sector loan was finalized which provides the capital to establish FGPs and restructure the health care system over a ten-year period. In addition, under the first phase of the loan, USAID will intensively train family practitioners. Prospects are excellent for USAID to continue work during the first phase of the loan.

Possible Adjustments to Plans: Integration of vertical health programs (i.e., infectious diseases, and reproductive health) into the Family Group Practice health delivery structure will become a main objective.

Other Donor Programs: Various government ministries and other donors are involved in this crucial area, including the World Bank, World Health Organization, United Nations Development Program, UNAIDS, UNICEF, United Nations Population Fund, and European Union.

Principal Contractors, Grantees, Implementing Agencies: Abt Associates is currently the principle contractor working to implement this activity. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1993)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of independent primary care practices (Family Group Practices) pilot/nationwide	0	120/31	91/37	300	550
Percent of health care providers reimbursed by market-oriented payment pilot/nationwide	0	64%/22%	66%/32%	75%	80%
Percentage of the population openly enrolled in FGPs in pilot sites	0	85%	85%	85%	95%

The United States Agency for International Development

Kazakhstan

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	40,173	50,512	43,720	48,300
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**40,173**	**50,512**	**43,720**	**48,300**
Operating Expenses	6,029	6,196	6,400	6,500
Trust Funds	0	0	0	0
Total Operating Costs	**6,029**	**6,196**	**6,400**	**6,500**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	11	15	17	17
Other U.S. Citizen	2	3	5	5
FSN/TCN DH	77	80	82	82
Subtotal	**90**	**98**	**104**	**104**

Program Funded*				
U.S. Citizen	0	0	17	15
FSN/TCN	25	29	16	18
Subtotal	**25**	**29**	**33**	**33**
Total Direct Hire Work Force	**115**	**127**	**137**	**137**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**115**	**127**	**137**	**137**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
115-012 Incr. Soundness of Fiscal Policies & Fiscal Mgmt. Practices							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	3,000	0	0	0	0	0	3,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
115-013 Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	12,400	0	0	0	0	0	12,400
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
115-014 A More Competitive and Mkt.-Responsive Priv. Fin. Sector							
- DA	0	0	0	0	0	0	0

- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	1,100	0	0	0	0	0	1,100
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
115-021 Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	3,000	0	0	3,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
115-023 More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	2,000	0	0	2,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
115-032 Improve the Sustainability of Social Benefits and Services							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	7,500	0	0	0	0	7,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
115-041 Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	15,800	0	0	0	0	0	15,800
- SEED	0	0	0	0	0	0	0

- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
115-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	3,500	0	0	0	0	0	3,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	35,800	7,500	0	5,000	0	0	48,300
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Glenn Anders

The United States Agency for International Development

MOLDOVA

Development Challenge

External Debt

Other Donors

FY2001 Program / Activity & Budget Information

Summary Tables
- Program Summary
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Introduction

Since the collapse of the former Soviet Union, the United States has assisted Moldova in becoming a market-oriented, democratically-governed state as the basis for establishing mutually beneficial political, economic and security relations. Although small compared to other former Soviet republics, Moldova is important to U.S. interests for its potential as a model for its neighbors, given its stability in the face of ethnic conflicts and social hardships, and its exceptional efforts to implement economic reform. USAID's assistance program furthers broader U.S. goals of stability, democracy and economic prosperity. This is achieved through objectives that: promote economic reform, strengthening institutions and systems to complete Moldova's transition to a market economy; improve local governance, broadening citizen participation in decision-making, and promote long-term U.S.-Moldavian institutional relationships which will help sustain economic growth and democracy. During FY 2000 to 2001, USAID will prepare a new Country Strategic Plan for Moldova that builds upon past achievements.

The Development Challenge

Moldova has taken significant steps toward building a firm foundation for a market economy. Much remains to be done, however, to complete and consolidate reform, and set the stage for sustainable economic growth. Moldova's reform program has been notable in a number of areas, but several factors have impeded Moldova's transition progress.

Continued political instability resulted in extensive damage to Moldova's economic recovery. The 1998 parliamentary elections produced an unstable political coalition that resulted in the country operating without a government for six weeks in 1999. This situation did not create civil unrest. Ultimately, the mechanisms of a parliamentary democracy worked as evidenced in the formation of a new government. Compounding Moldova's problems is the failure to reach agreement on the status of the Transdniestr region; the country's most heavily industrialized region. Although it has the potential to supply all of Moldova's energy needs, this region's economic conditions and poverty are much worse than in the rest of the country. Until this dispute is settled, Moldova will not realize its potential as a market-oriented economy.

Prior to the mid-1998 Russian financial crisis, Moldova came close to financial and macroeconomic stabilization. The crisis adversely affected Moldova's economy, which has yet to recover fully from the effects of that situation due to its continuing economic dependence on Russia.

Energy remains a critical problem due to lack of resources, dependence on fuel imports from Russia, continuing inefficient use of energy supplies, and lack of market mechanisms to establish viable prices. Moldova's difficulty in paying its major energy suppliers has brought the country to a crisis point. In April 1999, both Romania and Ukraine temporarily suspended electricity supplies, leaving most of the country without power for several days. In the winter of 1999, Russia cut off Moldova's gas supply temporarily, worsening a winter heating crisis.

Despite these and other setbacks, Moldova's economic and democratic transition continues to progress steadily. Significant strides have been made in land privatization, and Moldova is noted as a model for its achievements in the break-up of state and collective farms. Energy sector restructuring is progressing, with the privatization of three electricity distribution companies now in process. Fiscal reform has also achieved steady progress. The creation of a market-oriented tax system has advanced, with the enactment of three major tax laws – personal and corporate income taxes and the value-added tax. Budget preparation and execution have been improved, and the treasury system has expanded nationwide with the installation of computer systems.

Democratic reforms have resulted in free and fair presidential and parliamentary elections, an increasingly independent judiciary, and an expanding civil society, including a budding non-governmental organization (NGO) sector with a growing capacity to express itself on policy matters.

External Debt

Moldova's large external debt burden, about a quarter of which is for energy supplies provided by Russia, Romania and Ukraine, totaled about $1.4 billion at the end of 1998, or about 73% of GDP.

Other Donors

The United States is the largest bilateral donor. Other bilateral donors include Germany, Japan and the Netherlands; working in such areas as export promotion, integrated business service development, support for World Bank loans and a pre-export guaranty facility. Multilateral donors include the World Bank, the International Monetary Fund, the European Union, and United Nations agencies. Assistance provided includes: emergency drought recovery; post-privatization reform; health care and energy restructuring; rural finance; food production, processing and distribution; public administration; enterprise restructuring; human resources development; strengthening judicial and legislative systems and local government; management reform; promotion of foreign investment and trade, crime and drug prevention; and strengthening the role of women in Moldova's transition.

The United States Agency for International Development

Moldova

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID's program in Moldova contributes to the following Agency Objectives: critical, private markets expanded and strengthened; access to economic opportunity for the rural and urban poor expanded and made more equitable; the development of politically active civil society; and use of environmentally sound energy services increased.

In economic restructuring, as the revised tax code is approved and implemented, USAID assistance will be needed to develop regulations, enhance tax analysis capability, reform and strengthen tax collection and administration, and improve the institutional capacity of Parliament to analyze the budget and promulgate economic legislation. With the completion of rural land privatization and titling in 2000, USAID will focus on promoting private systems of agricultural production and marketing, and developing a real property tax law.

To promote enterprise development, trade and investment, USAID will assist in developing a sound legal and regulatory framework, drafting commercial laws, and increasing firm-level investment, competition and productivity. USAID will also promote partnerships between U.S. firms and institutions and Moldavian counterparts in such areas as accounting and agribusiness.

USAID assistance in the energy sector will focus on de-monopolization and privatization, and establishment of a transparent, predictable regulatory regime to finance operational needs and repay fuel debt.

To strengthen democracy and governance, USAID is placing more emphasis on local government, increasing the involvement of people in political and economic decision making at the local level; and building the capacity of local NGOs and associations to promote reform.

USAID's crosscutting and special initiatives include training and seed grants to NGOs to strengthen capacity in a range of areas. USAID-sponsored humanitarian assistance programs help alleviate the hardships of vulnerable citizens. An example of this is USAID's 1999-2000 winter heat program for pensioners, schools, hospitals and orphanages.

In addition to USAID programs, FREEDOM Support Act (FSA) funds are allocated to a variety of U.S. agencies in support of Moldova's development. These include training and exchanges, as well as technical assistance in law enforcement and commercial law, through State, Commerce and Justice Departments. The Treasury Department also provides advisors in several areas of economic reform. In FY 2000 and FY 2001, FSA funds will be provided under the Administration's Expanded Threat Reduction Initiative (ETRI) for programs designed to enhance border security and export control capabilities. Additional funds also will be provided to further support the relocation of Russian military forces in Transdniestr, and disposal of ammunition stockpiles located there.

ACTIVITY DATA SHEET

PROGRAM: Moldova
TITLE AND NUMBER: Increased Transfer of State-Owned Assets to the Private Sector, 117-011
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $8,008,000 FSA

PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,000,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE:** FY 2001

Summary: Since the inception of USAID technical assistance in 1993, resources have been targeted towards the privatization of state assets. In the initial phase, efforts aimed at privatizing large numbers of small, medium and large enterprises. The second phase was dedicated to privatization of urban and agricultural land. In 1999, USAID entered the third phase of market reform, which is focused on completing the privatization of collective farms and privatizing strategic enterprises such as wineries, and grain and fertilizer complexes.

USAID is providing technical assistance to support the break-up, land arrangement and title issuance work involving 900 collective farms and 100,000 independent landowners that exited collective farms during 1992-96. The result of this process will be to breakup all collective farms by December 2000 and to issue three million individual land titles to new private farmers. USAID is also providing assistance to liquidate old debts to state and private creditors on all privatized farms so new land owners can begin operations debt-free. Concurrently, efforts will continue in perfecting the legal and regulatory environment to support a fledgling land and real estate market, especially in the area of titling and registration. Land under privatized enterprises must also be privatized to ensure clear and unencumbered land titles. Direct beneficiaries include the Moldavian population at large, as Moldova is primarily an agricultural economy. Private ownership and possession of land titles are key to achieving market reform and attracting domestic and foreign investment.

Key Results: Four key results are necessary to achieve this objective. (1) Enterprises are privatized through mechanisms other than National Patrimony Boards. (2) Housing units are privately owned. (3) Farmland is privatized and titles issued. (4) Privatized enterprises acquire associated land and titles are issued.

Performance and Prospects: Performance over the past year has been as expected, although some implementation delays have occurred. Following the start up of the Government of Moldova's National Land Reform Program (NLRP) in March 1998, it was quickly determined that if the Moldavian law on bankruptcy and enterprise restructuring were applied to the farm insolvency problems, the process would tie up critical farm property. However, the promulgation of the Law on Amending Several Legislative Acts freed up all critical movable farm equipment, and orchards and vineyards, allowing the NLRP to resume.

In FY 2001, resources are needed for privatization of strategic enterprises that were withheld from prior privatization programs. Such enterprises are wineries, and grain and fertilizer complexes.

Possible Adjustment to Plans: There are no major program adjustments contemplated during the coming year.

Other Donor Programs: USAID works closely with the World Bank and International Monetary Fund in setting common privatization targets and garnering support in Parliament for privatization laws and other issues.

Principal Contractors, Grantees, or Agencies: USAID's contractor for the rural land privatization program is the East-West Management Institute. Booz Allen & Hamilton is implementing the urban land privatization component and all aspects of land titling and registration. International Business & Technical Consultants, Inc. is the contractor providing technical assistance and support for the sale or disposition of residual, state-owned shares.

Selected Performance Measures:

	Baseline (1995)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of land titles issued (cumulative)	0	128,319	1.2M	1.5MI*	3M
Market-based land pricing system implemented	No	No	Yes	Yes	Yes

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* Target reduced in response to delay caused by the need for unanticipated technical changes in Moldavian law on bankruptcy and enterprise restructuring.

ACTIVITY DATA SHEET

PROGRAM: Moldova
TITLE: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 117-012
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $3,451,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $4,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: FY 2002

Summary: USAID technical assistance under this objective seeks to put in place fiscal policies and fiscal management practices that are conducive to macro-economic stability, and promote private sector development and sustained economic growth. USAID's fiscal reform project has been key to the success of Moldova's transition to market-based economy.

Key Results: Three key results are essential to increased soundness of fiscal policies and fiscal management practices. (1) Budgeting and financial management practices are reformed. (2) A market-oriented, tax system that encourages compliance is created. (3) Parliament acts effectively on fiscal reform.

Performance and Prospects: Moldova has an excellent record of progress on fiscal reforms. A comprehensive budget process law was adopted on March 31, 1997, and implementation started with the 1998 budget. The law on local government public finance was passed by Parliament in 1999. Significant progress also was made on the development of the treasury system in 1997 with all revenue and expenditure accounts of state organizations closed and their functions taken over by the Treasury. As of April 1998, the computerized system was extended to all regional treasuries. Moldova also achieved steady progress in tax reform with the adoption of a unified tax code that embodies a tax system appropriate for a market-oriented economy. Capacity building in tax administration contributed not only to increased tax collection and resource mobilization; but also to meet International Monetary Fund (IMF) budget-deficit targets, and promote economic stabilization.

These achievements were made possible by the Government of Moldova which has been highly receptive to the assistance provided by USAID, and eager to extend the fiscal reform program to Parliament and deepen its impact on local government. As of December 1999, the state budget had met its budget goals by 99.5%. Budget revenue was about 36.5% greater than in the first 11 months of 1998. Tax collection was up 34% in Chisinau for the same period. The social fund also received 75% more than in 1998. For the overall consolidated budget, an increase of 28.5% in revenue mobilization could reasonably be expected. As a result, the Government was able to pay civil service salaries and even repay one month's pension to all pensioners in cash. The sharp fall of yields on Treasury bonds from 36.8% in 1998 to 14.7% in 1999 will have a beneficial effect in bringing down the 30% refinancing rate of the National Bank and also the commercial rate on bank loans. Finally, the rate of inflation in Moldova was 4.3% in November 1999 as compared to 9.7% in November 1998.

In terms of tax policy, the single tax code advanced considerably with the passage of the corporate and individual income tax law, and the value-added tax law. The proposed, excise tax law was approved by the Government in 1999, and the draft for a law on land and property tax was finalized in December 1999. In 2000, Moldova will have a unified tax code consistent with a market-oriented economy. In parallel, capacity building was provided not only to the State Tax Service but also the Large Taxpayers Unit and the Customs Administration. As computerization took place with the support of USAID, better forecasting data became available and more accurate assessment of results can be provided.

Efforts have also been made in revenue mobilization and debt management. While the resumption of lending by the IMF and World Bank permitted Moldova to meet its debt service obligations in 1999, the Government will have to build up its financial capacity to face its debt burden in the long run. This can be accomplished through commitment to accelerated privatization, attracting increased levels of foreign investment, and increasing trade ties to the West, including accession to the World Trade Organization.

To maximize its impact, fiscal reform needs to be as comprehensive. Although work is proceeding according to plan there is a need to further develop the activities under this objective by: (1) expanding technical assistance within the Ministry of Finance, (2) broadening fiscal reform activities to Parliament and (3) deepening the impact of reforms to local government.

Possible Adjustments to Plans: There are no major program adjustments contemplated during the coming year.

Other Donors Programs: In 1999, USAID was by far the key provider of technical assistance in the fiscal reform area. The IMF assisted the Ministry of Finance in macro-economic analysis and development of the treasury. The World Bank provided a $1.9 million loan for computerization of the State Tax Service, with USAID providing the technical assistance necessary for the procurement of computers and the development of management and information systems. The German aid agency, GTZ, and other donors assisted in areas such as customs law and procedures.

Principal Contractors, Grantees or Agencies: The contractor for USAID's tax reform, budget process, intergovernmental finance and parliamentary development activities is KPMG / Barents Group

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Comprehensive budget law adopted and implemented *	No(1995)	Yes	*	*	*
Treasury system operational, centrally and locally*	No(1995)	Yes	Yes	*	*
Ratio of cost of tax administration to tax collection decreases	No(1995)	Yes	Yes	Yes	Yes
State budget revenue generated as percentage expected with full compliance(%) **	30(1997)	40	60	70	75
Government meets IMF deficit targets	No(1996)	Yes	Yes	Yes	Yes

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*Tracking and reporting against the indicator discontinued once "yes" status achieved.

** Formerly "State budget revenues equal or exceed forecast level." Reported in FY 2000 Congressional Presentation with 1995 baseline, No, and 1998 target, Yes. Measuring percentage change considered a more sensitive measure.

ACTIVITY DATA SHEET

PROGRAM: Moldova
TITLE: Accelerated development and growth of private enterprises, 117-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $5,500,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $14,200,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: The success of Moldova's transition hinges on the ability of the private sector to attract private investment, expand production and increase exports. To help in this process, USAID focuses on removing the impediments to sustained enterprise growth and trade and investment. Advisors continue to work on developing a sound legal and regulatory framework, international accounting standards, venture capital and joint ventures in agriculture. Cooperative U.S.-Moldavian efforts are promoted to increase firm-level investment, competition and productivity. The design of a post-privatization program envisions a significant agribusiness component, which would expand nationwide the agribusiness partnership concept and the farm service centers. The objective is to enhance the income opportunities of the more than 550,000 new private farmers emerging from the National Land Privatization Program (NLPP) by creating quick access to essential inputs, credit and technology, and new markets. Privatized and start-up businesses will benefit directly from these activities, but specific focus will be on restructuring the agro-industrial complex, including food processing, marketing, equipment and services suppliers, light manufacturing, construction and the service industry.

Key Results: Four results contribute to accelerated development and growth of private enterprises: (1) wider availability and flow of business-related information and services; (2) legal, regulatory and political environment conducive to sustainable private enterprise growth; (3) selected agricultural joint ventures created; and (4) venture capital investment supplied.

Performance and Prospects: Progress over the past year has been satisfactory, and in the area of accounting reform, better than expected. USAID's technical assistance in legal reform has assisted the Government of Moldova to evaluate the civil code preparatory to establishing the framework for new commercial law. The revision of the civil code and

drafting of the commercial law, which started in 1999, will be finalized in 2000. This will provide commercial legislation supportive of a market economy.

The accounting reform activity in Moldova has also made significant strides. Private enterprises have adopted the national accounting system, and the 1998 target of 450 members for the Association of Moldavian Accountants and Auditors has been surpassed. The U.S. agribusiness partnership program to encourage U.S. business to invest in Moldova is still in progress while USAID assistance is also helping Moldavian firms look to other, more stable markets than Russia as a consequence of the Russian economic crisis.

Over the next year, USAID will strengthen the policy reform component, pursuing more direct input on deregulation. It is expected that the development of an adequate body of commercial law based upon market principles and the adoption of international accounting standards by enterprises will insure Moldova's continued progress towards a market economy.

Possible Adjustments to Plans: There are no major program adjustments contemplated during the coming year.

Other Donor Programs: USAID coordinates with the United Nations Development Program and European Union to provide technical assistance and funding for business service centers that help small and medium-sized business managers improve business plans and management skills. USAID also coordinates with the German assistance agency regarding World Trade Organization accession.

Principal Contractors, Grantees or Agencies: Development Alternatives Inc. provides business support services. Peace Corps provides business volunteers to advise the Moldavian managers of the business service centers. Citizens' Network for Foreign Affairs (CNFA) provides funding for technical and other assistance to develop business partnerships through American investment in the country's agriculture sector. CNFA also provides volunteer executives to work in Moldavian enterprises, business associations, and business service providers. The West NIS Enterprise Fund makes debt and equity investments in Moldavian firms. The Center for Institutional Reform in the Informal Sector builds Moldavian capacity for drafting good commercial legislation based upon market principles and open trade.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Coherent commercial legislation supportive of a market economy					
A- Comment on draft civil code	Yes (1998)	Yes	Yes	Yes	Yes
B- Draft of commercial law	No(1998)	No	Yes	Yes	Yes
C- Draft of commercial law approved	No(1998)	No	No	No	Yes
Compliance with trade standards of World Trade Organization	No (1995)	No	Yes	Yes	Yes
International accounting standards adopted by enterprises (members of self-regulatory organization)	0 (1995)	640	1000	1500	2000
Number of companies listed on stock exchange with financial statements conforming to international accounting standards (cumulative)	0 (1995)	*	*	*	*
Number of Farm Service Centers established*	0 (1995)	*	*	*	*
Number of agriculture processing centers established	0 (1995)	*	*	*	*
Number of MBA graduates from Moldavian state institutions (cumulative)	50 (1995)	*	*	*	*

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*Data is not available, and reporting on these indicators is not expected in subsequent Congressional Presentations.

ACTIVITY DATA SHEET

PROGRAM: Moldova
TITLE: A More Competitive and Market-Responsive Private Financial Sector, 117-014

PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $1,848,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,800,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 199 ESTIMATED COMPLETION DATE: FY 2001

Summary: Moldova is a largely cash economy, and the financial sector is still underdeveloped. The development of a strong and dynamic, market-based economy requires an effective, transparent and safe financial sector. USAID's strategy emphasizes the development of a private banking sector together with the creation of a transparent and open securities system. USAID technical assistance is aimed at promoting an efficient banking sector together with a transparent and open securities system. Performance was largely in line with projections.

The role of the Government of Moldova in financial sector reform is to develop an efficient banking system and capital market to promote growth of business activities and private sector development. The revitalized banking system is fundamentally more solid in Moldova than in many other Eurasian countries. This strength results primarily from reforms pursued by the National Bank early in the transition to get rid of non-performing banks, and to develop one of the best banking laws among the Eurasian countries.

The development of the financial infrastructure in Moldova, however, has been seriously affected by the dramatic impact of the Russian crisis on the economy in Moldova in general, and the financial sector particularly. As for the Stock exchange, relatively few operations have been reported and cleared through the stock exchange's system since the Russian financial crisis. In the coming year, program activities will address continuing weaknesses in the financial sector. USAID plans to provide technical assistance to address on-site as well as off-site bank supervision in the wake of the IMF's termination of its financing of on-site bank supervision. Accounting reform will be expanded beyond the implementation of the international accounting standards in banking operations to cover the adoption and dissemination of international standards on audit. The Commercial Bankers Association will be strengthened to provide support to commercial banks and set them on equal footing in their policy dialogue with the Central Bank.

Key Results: Three results are necessary to achieve the objective of creating a more competitive and market-responsive private financial sector. (1) Government macro-economic and structural adjustment policies support market reform. (2) Market-oriented private banking sector developed with a standardized international accounting system, increase in depository savings, and more competitive banking. (3) Transparent and open securities system performs the function of direct inter-mediation of capital from savings to the private sector.

Performance and Prospects: Great strides have also been made in building basic capital markets in Moldova, including the State Commission for Securities Markets and the Moldova Stock Exchange though development of financial infrastructure was seriously affected by the dramatic impact of the Russian crisis on Moldova's economy. Since the crisis, relatively few operations have been reported and cleared through the stock exchange's system.

USAID technical assistance played a role in the significant progress made in building basic capital markets in Moldova with the establishment of government and self-regulatory bodies such as the State Commission for Securities Markets (SCSM) and the Moldova Stock Exchange. USAID technical assistance also led to the inauguration of the National Securities Depository of Moldova (NSDM). At the onset of this activity, the regulatory bodies were in an infant stage but operational and providing oversight and licensing to the private sector. Capital markets were also in a growth phase with trading taking place daily and the exchange operating as self-regulatory body.

USAID projects have helped create a professional bank supervision department at the national bank, and refine laws on banking and other regulatory reforms. Experts have worked with commercial banks in the implementation of back office procedures to efficiently use international accounting standards in banking operations. A market-oriented private banking sector is in place, and the role of former state banks has decreased relative to new private banks.

Possible Adjustments to Plans: No changes in strategy envisioned at this time.

Other Donor Programs: The IMF had stopped assisting the National Bank with its on-site inspection program and legal work. Until now, the World Bank has provided a number of financial sector assessment reports. USAID still remains the principal donor for technical assistance to the financial sector in Moldova.

Principal Contractors, Grantees or Agencies: The contractor for USAID's bank supervision and bank accounting activities is KPMG /Barents Group. The capital markets assistance implementers were The Intrados Group and Price-Waterhouse-Coopers.

Selected Performance Measures:

	Baseline	Actual (1998)	Target (1999)	Target (2000)	Target (2001)
Share of total commercial bank credits to private enterprises and households (as % of total bank credits)	35(1995)	55	60	65	75
Assets of former state-owned banks decreases (as %)	62 (1997)	54	52	47	42
International accounting standards adopted by commercial banks	No(1997)	Yes	Yes	Yes	Yes
Total corporate securities market capitalization ($ million)	7.7 (1997)	19.2	25	TBD	TBD
Volume of shares traded on Moldova Stock Exchange ($ thousand)	1,700(1997)*	2,550	3,000	3,500	TBD
Number of listings on Moldova Stock Exchange	715(1997)*	769	1,000	1,500	TBD

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*Baseline changes due to updated information.

ACTIVITY DATA SHEET

PROGRAM: Moldova
TITLE: A More Economically Sustainable and Environmentally Sound Electric Industry and Energy Sector 117-015
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $3,038,000 FSSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $$3,3000,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1996 **ESTIMATED COMPLETION DATE:** FY 2001

Summary: Moldova's energy sector is in desperate financial condition. There is consensus among experts that failure to restructure the energy sector will jeopardize Moldova's gains in economic reform. Moldova's dependency on imported gas and electricity combined with domestic non-payment and barter for electricity, gas and heat has resulted in over $500 million in energy debt to Russia and Ukraine. Lack of service in many rural areas is routine; interruptions occur with increasing frequency elsewhere. Industrial, agricultural and residential use of energy is inefficient due to inadequate technology, sparse metering and disincentives to conservation resulting from low prices and collection rates. To address the deteriorating situation, the Government of Moldova, with USAID's assistance, has established a sound energy legal framework and independent energy regulatory body, restructured the power sector including design of a new electricity market, and initiated 100% international strategic privatization of the electricity distribution and generation companies. The country will benefit through reversal of the foreign debt buildup, reduced domestic budget demands, improved electricity service, reduced non-payment and modern management and investment in the power sector.

Key Results: Achievement of three principal results is required to accomplish this objective. (1) A National Agency for Energy Regulation functions fully. (2) Electricity market functions. (3) Electric distribution and generation assets are privately owned and profitable.

Performance and Prospects: Performance over the last year has been satisfactory. The Government of Moldova, encouraged by World Bank and International Monetary Fund conditionality, and with the technical assistance of USAID, took several decisive measures. Steps taken were intended to result in: (1) divesting the former Soviet era monopoly which encompassed the entire electric energy sector, MoldEnergo, into its constituent operating units; (2) establishing the independent National Agency for Energy Regulation;, and (3) passing the Law Regarding the Individual Privatization Plan for Power Sector Enterprises. With USAID assistance Moldova is privatizing five distribution and three generation and supporting regulatory and electricity market development.

Possible Adjustments to plans: There are no major program adjustments contemplated during the coming year.

Other Donor Programs: USAID coordinates with the World Bank, European Union and European Bank for Reconstruction and Development.

Principal Contractors, Grantees, or Agencies: USAID's energy sector activities are implemented by Hagler-Bailly Consulting, Inc., the U.S. Energy Association, and Deloitte & Touche.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Restructured energy utilities	0(1996)	0	3	8	TBD
Independent regulatory agency established	No(1996)	Yes	Yes	Yes	Yes
Number of privately-owned utilities operating	0 (1996)	0	0	8	9
Elimination of budget subsidies for power and gas *	No(1996)	No	No	Yes	*

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*Planned discontinuation once "yes" status achieved.

ACTIVITY DATA SHEET

PROGRAM: Moldova
TITLE: Increased, Better Informed Citizen participation in Political and Economic Decision-Making. 117-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $ 971,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,300,000FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1999 ESTIMATED **COMPLETION DATE**: FY 2005

Summary: Involvement of people at the grass roots level in political and economic decision making is at the heart of the change required for Moldova's democratic transition. USAID technical assistance has provided experts and resources to assist Moldova in the revision and the passage of laws and democratic election procedures such as the Law on Political Parties and the Electoral Code. The Government of Moldova introduced and Parliament passed two laws designed to reform local government: the Law on Administrative and Territorial Organization and the Law on Local Public Administration. Notwithstanding a legislative scenario that recognizes the autonomy of local government, the reform strategy will remain confined to a statement of principle unless local government institutions are restructured, and citizens and community-based organizations and NGOs can effectively participate in the process of decision-making. USAID believes that there is a critical need for a broad, on-going process of promoting local government reform in Moldova to achieve greater fiscal autonomy, promote efficient administration and foster democratic governance.

Key Results: USAID will consider progress towards the achievement of this objective on track as targeted local governments and citizens begin to work together to solve priority community problems and to identify opportunities for future development. These efforts will bring about tangible improvements in service delivery. Sharing positive experience and lessons learned local governments in Moldova and in the region will facilitate the duplication of effective approaches in other localities, enabling a broader impact of USAID programs.

Performance and Prospects: Program activities will begin in early 2000.

Possible Adjustments to Plans: Because of the new emphasis of the Government of Moldova on local government reform, USAID has delayed start-up and will adjust this program to balance civil society and local government support activities. Greater emphasis will be placed on passage and implementation of laws that result in increased decentralization and local government autonomy, especially the Law on Local Public Finance, Law on Public Patrimony, and Law on Property Tax. USAID will assist in improving targeted local governments' technical and managerial capacity in areas such as fiscal and public administration, and effective delivery of social and communal services. USAIID assistance will help put in place democratic processes in targeted locales including increased participation of citizens in local decision-making and more accountable local governments.

Other Donor Programs: A number of donors are concerned with local government reform, including UN Development Program, the European Union's (EU's) technical assistance program for Eurasian states, World Bank and Soros

Foundation. USAID program aims at empowering local government at the municipal level through the effective transfer of power and responsibility to local government. Other donors including UNDP, EU, World Bank and the Soros Foundation focus on improving the central government efficiency through decentralization at the judet (regional) level.

Principal Contractors, Grantees, or Agencies: The contractor for USAID's local government reform activities is the Urban Institute.

Selected Performance Measures: This objective is still in the design phase and performance measures have not yet been determined

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The United States Agency for International Development

Moldova

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	33,080	45,390	64,260	49,960
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**33,080**	**45,390**	**64,260**	**49,960**
Operating Expenses	242	330	300	300
Trust Funds	0	0	0	0
Total Operating Costs	**242**	**330**	**300**	**300**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	0	1	1	1
Other U.S. Citizen	0	0	0	0
FSN/TCN DH	3	5	5	5

Subtotal	**3**	**6**	**6**	**6**
Program Funded*				
U.S. Citizen	0	2	3	3
FSN/TCN	0	5	5	5
Subtotal	**0**	**7**	**8**	**8**
Total Direct Hire Work Force	**3**	**13**	**14**	**14**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**3**	**13**	**14**	**14**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
117-011 Incr. Transfer of State-owned Assets to the Priv. Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	2,000	0	0	0	0	0	2,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
117-012 Incr. Soundness of Fiscal Policies & Fiscal Mgmt. Practices							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	4,000	0	0	0	0	0	4,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
117-013 Accel. Development and Growth of Private Enterprises							

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	14,200	0	0	0	0	0	14,200
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
117-014 A More Competitive and Mkt.-Responsive Priv. Fin. Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	1,800	0	0	0	0	0	1,800
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
117-015 A More Econ. Sustainable and Environ. Sound Energy Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	3,300	0	0	0	3,300
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
117-021 Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	2,300	0	0	2,300
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
117-041 Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	20,360	0	0	0	0	0	20,360
- SEED	0	0	0	0	0	0	0

- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
117-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	2,000	0	0	0	0	0	2,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	44,360	0	3,300	2,300	0	0	49,960
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Chris Crowley

The United States Agency for International Development

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Development Challenge

External Debt

FY 1999 Kosovo Supplemental

Other Donors

FY2001 Program / Activity & Budget Information

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Introduction

Maintenance of stability in the Former Yugoslav Republic of Macedonia (Macedonia) is a key element of U.S. Government efforts to reduce instability in the Balkans region. Macedonia identifies with western interests and values; e.g., supporting NATO, and hosting thousands of Kosovo refugees during the 1999 conflict with Yugoslavia at significant cost economically, and at cost to its generally friendly relationship with neighboring Yugoslavia. The country remains committed to reforming the economy and strengthening democratic institutions, and to joining such western institutions as the European Union (EU), the World Trade Organization (WTO), and North Atlantic Treaty Organization (NATO). USAID-implemented, Support for East European Democracy (SEED)-funded programs can play an important role in pursuing U.S. interests: promoting cooperation between Macedonia and its neighbors consistent with the tenets of the Stability Pact and other regional integration initiatives; and promoting economic prosperity, democracy, and peace. Thus, key objectives of the USAID program target economic restructuring and sustainable growth, with accompanying employment generation; the development of democratic practices, institutions, and viable civil society; and Euro-Atlantic integration as the basis for regional stability.

The Development Challenge

Macedonia's policies and institutions are not yet sufficient to ensure consolidation of its transition to a fully democratic, market economy. Overall, Macedonia's private sector remains relatively small – about 55% of total GDP, while the average in Central and Eastern Europe (CEE) is closer to 65%. Large, state-owned, loss-making enterprises have yet to be privatized, and continue their drag on the economy. Structural unemployment is high – with about one in three persons officially unemployed. A large informal economy – believed to be at least one-third the size of the official economy – temper hardship implied by the official employment statistics. However, a shadow economy of this size suggests the diversion of substantial tax revenues needed for the fiscal budget.

Per capita, foreign direct investment in the economy through 1999 has been the lowest in all of CEE, signaling low investor confidence in Macedonia's relative fragile commercial and financial systems. The banking sector has an excess of banks and a high proportion of bad loans. There is virtually no capital market in Macedonia. Commercial law reform needs considerably more work. Corporate governance within enterprises is weak. Macedonia's economy remains vulnerable to external shocks.

The Kosovo conflict, for instance, had direct and immediate impacts on Macedonia's economy. As a result of Macedonia's dependence on Serbia as a major market and transportation corridor, many businesses had to scale down operations, creating a situation of "temporary layoffs" and increased unemployment. Commerce disrupted constituted 30% of the country's GDP – i.e., 70% percent of exports to or through the Federal Republic of Yugoslavia. Government expenditures to cover the impact of hosting more than 320,000 Kosovo refugees threatened the fiscal balance.

Macedonia's democratic institutions and practices are fragile. Most major newspapers and electronic media in Macedonia are government controlled or subsidized. Slander and libel laws have led to media self-censorship. Political influence on the judiciary is significant. Civil society organizations (CSOs) are not yet effective mechanisms through which citizens identify their interests, negotiate conflicts, and influence government policy making. Public administration is inefficient, and potentially undermined by the rapidly changing composition of the country's ethnic populations. Addressing ethnic tensions in Macedonia is key to sustaining its evolution as a

democracy. The Kosovo conflict increased tensions among ethnic Macedonians, Albanians, and Serbs. Endemic corruption darkens prospects for consolidation of democratic and economic reforms.

Despite these challenges, there has been some progress on economic and political reforms, in part with assistance provided by USAID. In 1998, indicators of macroeconomic stability were good. GDP expanded by three percent. Prior to the Kosovo conflict, Macedonia had lowered its inflation rate in successive years through tight fiscal control, and the rate of inflation in 1998 was the lowest of all transition economies. Despite the collapse of trade with Serbia and decline in domestic and foreign investment due to the Kosovo crisis, Macedonia maintained macroeconomic stability in 1999.

USAID has been a key bilateral donor assisting Macedonia with economic and democratic reforms and development. USAID has provided: support for drafting and adoption of important bankruptcy and collateral laws; technical support and financing assistance to help with small-scale privatization, particularly in the agricultural sector; and technical assistance and training to businesses to improve management, marketing, and sales; and facilitating trade deals. USAID agribusiness assistance has helped increase employment and profits in the agriculture sector. USAID accounting reform assistance helped Macedonia to adopt international accounting standards – moving it ahead of other countries in Southeast Europe in this regard. In 1999, USAID helped Macedonia to complete its application process for accession to the WTO, bringing it closer to integration into the global economy.

Based on recommendations from USAID on central-local government roles, relationships and responsibilities, Macedonia has started to work on key provisions for decentralization and devolution of authorities to local governments. USAID-funded training helped Macedonia to hold free and fair elections in 1998, and make an orderly transition to new government leadership in the 1999 presidential elections. USAID assistance has been instrumental in passing a progressive, new law on non-governmental organizations (NGOs). USAID has helped mitigate ethnic conflict, providing training, and technical and financial support to establish a resolution and prevention ethos in Macedonian society.

Macedonia's commitment to democracy and to a market economy warrants continued support. Given the challenges facing Macedonia, including recovery from the impacts of Kosovo, termination of SEED assistance in 2004 as planned may be premature. Planning parameters for the Macedonia program, including the graduation date, are being reviewed in the context of post-Kosovo initiatives for regional stabilization.

External Debt

According to the November 1999 bulletin published by the National Bank of Macedonia, the external debt was $1.4 billion. Macedonia rescheduled the Paris Club debt in 1995, including $93 million of debt, interest and arrears to the United States.

FY 1999 Kosovo Supplemental

The influx of more than 320,000 refugees to Macedonia, the economic disruption caused by the bombing of Serbia and the related security problems called for a redirection of some USAID activities and caused delays in the implementation of others. Complementing longer-range objectives of economic and democratic development, USAID is implementing short-term activities designed to help alleviate negative impacts from the Kosovo crisis. Fourteen million dollars in FY 1999 SEED supplemental funds are supporting these activities which include programs in the areas of community self-help, environmental interventions in water and wastewater, local government services, assistance to and through NGOs, and micro lending. FY 1999 Economic Support Finds totaling $28 million were provided as budget support to help the Government of Macedonia deal with sharply increased financial burdens; and to offset unanticipated public costs, and some of the revenues lost, as a consequence of Kosovo conflict.

Other Donors

As a result of assistance provided during the Kosovo crisis, the United States now ranks first among bilateral donors to Macedonia. Macedonia receives substantial assistance from international financial institutions such as the World Bank, European Bank for Reconstruction and Development, the International Monetary Fund (IMF) and the World Bank's International Development Association. From 1996 to 1999, the European Union’s technical assistance program in Europe, PHARE, has committed euros 68 million in the following areas: support to enterprises and financial sector, public investments and infrastructure, agriculture and natural resources, social sector and human resources, and continuation of reforms. An additional euros 37 million were committed between 1996-1999 for cross-border cooperation between Macedonia and Greece,

The United States Agency for International Development

Former Yugoslav Republic of Macedonia

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

The U.S. assistance program in Macedonia has coalesced into three primary objectives, and involves expansion of the private sector, increased civic participation, and local government strengthening. These three objectives address a number of important cross cutting themes, of which unemployment and ethnic tensions are two of the most important.

Under the economic reform goal, USAID is requesting FY 2001funding for accelerated growth and development of the private sector. Efforts to combat unemployment and stimulate the development of small and medium-sized private businesses, the backbone of any middle class, will be of prime importance. USAID will continue to support a labor redeployment activity that emphasizes community economic development and worker adjustment. Support will be provided for micro lending and development of credit unions with particular focus on combating poverty by stimulating credit availability at the grass-roots level. In addition to working at the people-level, USAID will continue to support targeted activities to reform the legal and regulatory environment in Macedonia, and increase transparency and efficiency. Work at the enterprise level will continue, and be integrated with USAID efforts to stimulate regional trade and assist in Macedonia's accession to the WTO. Many of these programs have received important buy-in and support from other donors' mutually reinforcing programs.

USAID has two objectives in its democratic transition sector: one aimed at increasing people's participation in political and economic decision making; and the other aimed at strengthening the ability of local government to be more effective, responsive and accountable. Under the citizens' participation objective, USAID will continue to strengthen CSOs – such as NGOs, political parties and media – to provide citizens with the channels through which they can effectively participate in decision making in their communities. Forging mechanisms for cooperation at the grassroots level across ethnic lines on issues of mutual interest is the first step in creating tolerance and understanding among the different ethnic groups.

Funding will also go for efforts under the local government strengthening objective to ensure institutionalization of strong, representative, decentralized government, and help address ethnic conflict, by uniting groups around common issues and working on problem solving techniques. Implementation of a new activity under this objective is just starting. The activity will target reforms to devolve more authority to local municipalities; establish a system of local financing; and improve mechanisms for popular participation in local service delivery. This program will work to leverage important resources from the EU and World Bank, and will include an important USAID element addressing Macedonia's municipal pollution problems.

As a complement to these three strategic objectives USAID is requesting funds for a number of cross cutting activities, including participant training, evaluation and activity support.

ACTIVITY DATA SHEET

PROGRAM: Macedonia
TITLE AND NUMBER: Accelerated Development and Growth of the Private Sector, 165-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $14,250,000 SEED

PROPOSED FY 2001 OBGLIGATION AND FUNDING SOURCE: $14,250,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: 2004

Summary: USAID is working to strengthen the private sector in Macedonia; and the banking system at the National Bank level, and in several of the commercial banks. USAID is also providing alternative financing resources to businesses through micro lending, equity capital, and the establishment of rural credit unions.USAID provides technical assistance to Macedonia in the areas of enterprise development, legal and accounting reform, and financial sector reform. Consolidation of political power and an anticipated reshuffle of pertinent Ministerial positions following the recent presidential elections, could increase political will to effect private sector reform.

Key Results: Principal results include: 1) improved transparency of businesses which will attract domestic and foreign investment; 2) an increase in available sources of financing which will allow businesses to invest and expand; 3) development of the necessary legal reforms which will create a level playing field, increase transparency in the legal system, and establish the rule of law for businesses; and 4) improved management skills so managers can better take advantage of market opportunities.

Performance and Prospects: Despite the collapse of trade with Serbia, and potentially serious follow-on effects from the Kosovo crisis, Macedonia maintained macroeconomic stability in 1999. The value of USAID technical assistance to the private sector was evident in 1999 when the Kosovo conflict impacted the Macedonian economy. USAID continued providing technical assistance to Macedonia in the areas of enterprise assistance, legal and accounting reform, and financial sector reform during the very difficult mid-year period. Banks continued to operate despite low liquidity, over-regulation, and a lack of effective collateral legislation. Several of our implementers were able to address specific issues that arose from the crisis, such as the business center's facilitating nearly 100 trade deals valued at $13 million.

Existing plans to assist a local meat and dairy NGO in implementing a Seal of Quality (SOQ) program – in order to alleviate existing marketing constraints, improve domestic consumption and improve the profitability of the agribusiness sector – proved crucial to increasing profits and generating employment. This SOQ program complemented a Government of Macedonia-initiated, "Made In Macedonia," promotional campaign. These successes in trade and investment development warrant a more focused activity to provide technical assistance. USAID initiated a World Trade Organization accession assistance activity that helped the government complete the application process for accession. USAID is cooperating with other countries in the region to identify and remove barriers to regional trade.

USAID's efforts to increase access to financing also proved successful in 1999. A micro lending activity made over 1300 loans and opened its third office. The Small Enterprise Assistance Fund (SEAF), equity fund, made five investments in 1999. The first rural savings house was opened to increase rural access to credit. Responding to high unemployment, officially at 40%, USAID supported the U. S. Department of Labor-implemented, labor redeployment activity to improve worker access to micro lending and business development resources, and assist in local economic development. This type of program was successful in Hungary, and is being implemented in Macedonia as a complement to the community self-help program under the citizens' participation objective for Macedonia.

Macedonia leads the region in accounting reform in large part due to USAID's assistance. The country has adopted international accounting standards (IAS), and is moving towards IAS implementation in the banking and enterprise sectors. USAID has continued to provide assistance in training, self-regulatory capacity development, licensing and certification requirements reform, and IAS-compliant accounting systems conversions. Support for accounting and regulatory reform is the backbone of a new banking activity slated to start in January 2000. This activity will assist in streamlining the central bank's regulation of the commercial banking sector. Other financial sector reform work focuses on the development of the Government of Macedonia's ability to regulate its securities market, and streamline the tax collection and information technology systems through U.S. Treasury Department assistance.

Possible Adjustment to Plans: None identified at this time.

Other Donor Programs: USAID programs are highly coordinated with other donor activities. The World Bank is developing a Financial and Enterprise Stabilization Assistance Loan (FESAL) to help Macedonia stabilize balance of payments. Several World Bank loan conditionalities are based on USAID activities, primarily in the financial sector. In addition, the World Bank and European Union (EU) are funding significant work on reforming the payments system, which augments USAID's work in the banking and capital markets areas. The European Bank for Reconstruction and Development, the IFC, and the DEG (German government investment agency) have contributed an additional $9 million to the USAID, SEAF Equity Fund. EU activities partially complement USAID efforts in accounting and banking. The

German and Dutch governments are also active in providing funds for small businesses, and in areas of community development.

Principal Contractors, Grantees, or Agencies: Crimson Capital; Land O'Lakes; DAI/Price-Waterhouse-Coopers; Booz-Allen and Hamilton; Agricultural Cooperative Development Institute/Volunteers in Overseas Cooperative Assistance; American Bar Association/Central and East European Law Institute; International Business and Technical Consultants; Wold Council of Credit Unions; Carana; Financial Services Volunteers Corps; and Opportunity International. USAID also has interagency agreements with U.S. Treasury and the U.S. Department of Labor.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Private Sector share of GDP (%)	35% (1994)	45%	46%	50%	52%
Foreign investment (annual)	$36M (1995)	$122M	$30M	$140M	*
Increase in tax receipts from base year	0 (1997)	16%	5%	20%	15%
Exports/GDP	41% (1995)	45%	**	50%	*
Full-time Employment in Private Sector***	191,439(1996)	201,319	152,000	160,000	170,000
EBRD Ranking for Implementation and Enforcement of Commercial Laws	****	2.75	3.0	3.5	4

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* No FY 20001 projections available from the Government of Macedonia.

** This indicator will not be reported in the next year’s Congressional Presentation..

*** The new Government in 1999 adjusted Statistics on employment in the private sector downward significantly. It is hoped the level will stabilize and begin to show increases, reflecting the growth of Private Sector share of GDP.

**** The actual for 1998 is the baseline value given that this is a new indicator, and 1998 is the first year in which data was collected.

ACTIVITY DATA SHEET

PROGRAM: Macedonia
TITLE AND NUMBER: Increased, Better-Informed Citizens' Participation in Political and Economic Decision Making, 165-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $7,650,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $7,650,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** 2004

Summary: Building a sustainable foundation in democracy requires the development of bottom-up mechanisms that provide the means for people to influence public policy, push for transparency and accountability in government, and reinforce a system of checks and balances. At the same time, it requires the development of effective, accountable and transparent governmental institutions capable of reaching out to citizens and ensuring that their needs and interests are represented and accounted for in political and economic decision making. USAID’s democracy assistance has focused on strengthening the fledgling democratic institutions, both governmental and civil society, and the development of democratic practices to support a truly participatory democracy.

Key Results: A field review in early 1999 led to identification of a provisional, new framework for this objective that

has not been formally approved. Pending formal agency review in 2000, anticipated key results for this objective include: (1) strengthened civil society organizations (CSOs); (2) citizens are better informed about their rights and responsibilities; (3) strengthened political and parliamentary systems to better serve the needs of citizens and to enhance deputies communication with their constituency; and (4) effective, sustainable intermediate support organizations are in place.

Performance and Prospects: Civil society organizations (CSOs) such as non-governmental organizations (NGOs), political parties, trade unions and media are the key mechanisms through which and by which citizens can identify their interests, negotiate conflicts and have an impact on government policy. CSOs are also mechanisms for forging cooperation at the grassroots level, across ethnic lines, on issues of mutual interest, a first step in creating tolerance and understanding among the different ethnic groups living in a community. The Democracy Network Program (DemNet), implemented through the Institute for Sustainable Communities (ISC), is building the capacity of NGOs to serve as a forum for citizen involvement in community decision making and to strengthen participatory democracy. Through grants, training and technical assistance, ISC is working intensively with a core group of 27 NGOs to strengthen organizational, managerial, and advocacy skills to serve as models and mentors for other Macedonian NGOs. The DemNet will double the number of NGOs in its network in the coming year. This expansion is being funded with FY 1999 SEED supplemental funds, and will be directed at NGOs working in communities affected by the Kosovo crisis.

Following the passage of a progressive, new NGO law in 1998, the International Center for Not-for-Profit Law has continued its cooperation with key government officials and local NGOs to improve the legal and operating environment for indigenous NGOs by building local capacity to effectively implement the new law.

Facilitating local models which provide people with the ability to effect positive change will be key, and replication through role models, local-level NGOs and local governments will strengthen the democratic mechanisms for bottom-up input. USAID, through the Office of Transition Initiatives, is using FY 1999 SEED supplemental funds to launch the new, Community Self Help Initiative (CSHI). This mechanism for mobilizing community-level activity through small grants will address the most immediate economic and social needs of communities affected by the refugee crisis earlier this year. Under the CSHI, communities will undertake a process of identifying, prioritizing, and implementing micro-projects to contribute to community services, small infrastructure improvements, employment generation and economic recovery.

Political parties have benefited from USAID-funded training as illustrated by the polling and voter outreach techniques they employed in the last national elections. The National Democratic Institute has expanded its assistance to the parties to include work in parliament on: (1) caucus development; (2) constituent relations; and (3) information research and analysis. At the request of the parliament, assistance will be broadened to improve parliamentary independence, particularly through the development of rules of procedure and the functioning of committees.

Through two discrete activities, Search for Common Ground (SCG) is combining support for strengthening media with an effort to use media as a tool in conflict prevention and reconciliation. Working with ten local television stations, SCG provided training as well as technical and financial support for the production of a documentary series on indigenous methods of conflict resolution and prevention. USAID funded SCG's collaboration with Children's Television Workshop to create a weekly TV series, called Nashe Maalo (Our Neighborhood). The series taught conflict resolution to children aged 7-12 in multi-ethnic communities. We are requesting additional funding to continue this series for two more seasons.

A multitude of new broadcast media outlets have sprung up in Macedonia since its independence in 1991. Few, however, are providing real news and information, and the coverage among those that do is clearly split along political and ethnic lines. An independent media provides an important check on the actions of government and provides citizens with the information they need in order to make informed decisions and participate fully in democratic processes. Development of effective media associations is also a priority because journalists lack any means to address politically motivated actions or impact media legislation. USAID will be launching a new media assistance activity to improve the professionalism of Macedonia's media by increasing their ability to provide balanced coverage of the issues in the country, and provide citizens with accurate information on which to base their decisions.

Under has provided for Catholic Relief Services (CRS) to provide -- through its Civic Education Project -- the knowledge and skills Macedonian citizens need to be citizens in a democratic society and to teach the next generation to do this independently of ethnicity, religion, and economic status. CRS is working with the Ministry of Education, the National Parents' Association (NPA) and other partners to introduce civic education in primary schools. The civic education curriculum for grades Kindergarden to fourth will be introduced on a pilot basis in 120 primary schools

throughout Macedonia starting in 2000.

Possible Adjustments to Plans: New opportunities have arisen for working with national level governmental institutions to strengthen their ability to respond to the needs of citizens, to govern responsibly and effectively and to promote transparency and accountability. USAID has been asked by the new President to provide assistance in setting up his office, to help establish the necessary organizational, informational, and communication systems to ensure a smooth transition and a well-functioning cabinet. USAID is prepared to support such requests as a way to support more democratic governance practices and to increase public confidence in government.

Other Donor Programs: Donor assistance in this area has been rather limited. Except for well-coordinated assistance from the Dutch and minor amounts from the British Know How Fund, the United States largely has the field to itself. In 1999, the World Bank started an NGO small grant assistance program, and several of the humanitarian donors started to cooperate more closely with local NGOs during the Kosovo crisis.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include International Center for Not-for-profit Law, Institute for Sustainable Communities, National Democratic Institute , Search for Common Ground, and Catholic Relief Services .

Selected Performance Measures:

	Baseline (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
NGO Sustainability Index*	4.4	4	3.6	3
Number of political parties in Parliament with a functioning caucus	0	0**	4	6

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*The USAID Sustainability Index uses a seven point scale, to facilitate comparisons to the Freedom House indices, with 7 indicating a low or poor level of development and 1 indicating a very advanced NGO sector. Five different aspects of the NGO sector are analyzed in the Index: legal environment, organizational capacity, financial viability, advocacy and the public image of NGOs

**As the assistance to support the development of functioning caucuses in the Parliament only began in 1999, an increase in the number of political parties with a functioning caucus is not expected until 2000.

ACTIVITY DATA SHEET

PROGRAM: Macedonia
TITLE AND NUMBER: More Effective, Responsive and Accountable Local Government, 165-023
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,255,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,255,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE**: 2004

Summary: This objective addresses one of Macedonia's most urgent issues, decentralization of governance. As local governments are delegated more responsibility from central government, they must have the ability to respond to citizens' needs, provide better services, and be accountable for their decisions and actions. Stronger local governments are more capable of identifying and addressing development opportunities, generating and managing resources, and lobbying central government to create an enabling legal environment. This objective encompasses two activities. One, the Environmental Action Program, is ongoing. The other, Local Government Reform Project (LGRP), the major activity for this objective, is just starting.

LGRP will include five main tasks: facilitating policy reform, improving municipal management, building public

participation in local governments, strengthening local government associations, and developing continuing education and training programs. FY 1999 SEED supplemental funding of $1.5 million will particularly target areas affected by Kosovo refugees, placing emphasis on short-term interventions to improve crisis management and municipal service delivery, and build inter-ethnic consensus on decisions in municipalities.

The Environmental Action Program activity will provide funds and technical assistance to local government developments for small infrastructure projects in municipalities. It will also strengthen the Government of Macedonia's Fund for Environmental Protection and Promotion (Environmental Fund), creating a transparent financial institution that will identify and package bankable environmental projects. Currently, the Fund is mainly generating resources from automobile registration taxes. This activity will start addressing the environmental consequences from the influx of refugees caused by the Kosovo crisis, by co-financing selected projects in the most affected areas. FY 1999 SEED supplemental funds, totaling $2.5 million, will target assistance to areas where infrastructure is most at risk as a result of the Kosovo crisis.

Key Results: The result framework for this objective has not been formally approved, and is provisional pending formal Agency review in 2000. Anticipated key results include: (1) clearer delineation of local and national government roles and responsibilities; (2) a coherent system of local finances established; (3) improved channels for the expression of popular input into local service delivery; (4) strengthened local management capacity; (5) strengthened advocacy by municipal associations and networks.

Performance and Prospects: During 1999, specific policy recommendations, detailed plans for developing central-local, government relations, and guidelines for implementing actions at both levels of government were developed. These recommendations were used as the basis for developing and designing LGRP. Macedonian local government partners (Ministry of Local Government and several mayors) were engaged in designing this new activity. A key step will be implementation of reforms that delegate more fiscal authorities to local levels. Two workshops were organized in 1999 to discuss local government reform, and to get input from the local level. Participants from these workshops selected a representative task force of local officials – mayors, relevant ministry officials, municipal association representatives and other experts. This task force

has worked intensively on changes in the existing local government legal framework, completed the first draft of a new legal framework.

Through building the capacity of the Environmental Fund, a transparent financial and self-sustainable institution is being developed. Technical assistance has been provided to make the legal environment more supportive, including help in drafting a law that will allow the Fund to be established as an independent institution that can give loans. Assistance has also provided drafts of an overall financial strategy for the Fund, including the establishment of the "Polluter Pays Principle" as a major revenue resource for the Fund. A set of training workshops were held to enhance skills of local officials in identifying and prioritizing community problems, and finding possible resources for addressing these issues,

Given the lack of knowledge and skills of local government personnel to apply management and service delivery techniques, assistance efforts will be initially targeted to several municipalities. When successful models are developed, these will be replicated. Emphasis will be placed on the use of national and local associations to interact and network effectively to strengthen these important local and regional democratic institutions.

Possible Adjustments to Plans: The Macedonian Government has announced plans for restructuring. This may affect the relevant ministries that this program is dealing with. Additionally, local elections are scheduled for next fall. USAID is tracking the above mentioned events to minimize any impact on program activities.

Other Donor Programs: USAID maintains close coordination with other donors. The European Union's (EU's) technical assistance program in Europe, PHARE, is currently involved in public administration reform, and is planning to start a new local government activity in the second half of the year 2000. USAID will coordinate closely with the EU to avoid activity overlap and ensure that synergies are developed between the activities. The United Nations Development Program is mainly addressing the environmental sector and building local government capacity. The United Nations Office for Project Services (UNOPS) has received funding from Italy to implement local municipality strengthening and institute a small credit fund. This activity is expected to begin around March 2000 and will also be coordinately closely with the Local Government Reform Project.

Principle Contractors, Grantees, or Agencies: The Urban Institute carried out the assessment study for LGRP. Chemonics International is the main implementer for the Environmental Action Program Support activity. Development

Alternatives Inc. has been awarded the contract to implement the LGRP.

Selected Performance Measures: Performance indicators and targets are being developed currently.

The United States Agency for International Development

Former Yugoslav Republic of Macedonia

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	17,205	32,500	30,000	30,000
SEED Act Supplemental Funds Request	0	0	0	0
Economic Support funds	0	22,000	0	0
P.L. 480 Title II	0	0	7,850	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**17,205**	**54,500**	**37,850**	**30,000**
Operating Expenses	521	665	1,100	1,500
Trust Funds	0	0	0	0
Total Operating Costs	**521**	**665**	**1,100**	**1,500**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	3	2	3	3
Other U.S. Citizen	0	0	1	2

FSN/TCN DH	8	7	9	11
Subtotal	**11**	**9**	**13**	**16**
Program Funded*				
U.S. Citizen	2	1	2	2
FSN/TCN	3	3	3	3
Subtotal	**5**	**4**	**5**	**5**
Total Direct Hire Work Force	**16**	**13**	**18**	**21**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**16**	**13**	**18**	**21**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
165-013 - Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	14,250	0	0	0	0	0	14,250
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
165-021 - Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	7,650	0	0	7,650
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

165-023 - More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	2,255	0	0	2,255
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
165-041 - Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	3,445	0	0	0	0	0	3,445
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
165-042 - Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	2,400	0	0	0	0	0	2,400
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	20,095	0	0	9,905	0	0	30,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

The United States Agency for International Development

ROMANIA

Development Challenge

FY 1999 Kosovo Supplemental Funds

Other Donors

FY2001 Program / Activity & Budget Information

Summary Tables
- Program Summary
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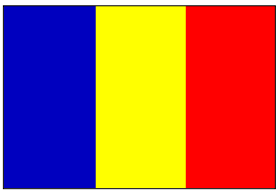
Introduction



A democratically strong and economically prosperous Romania is critical to achieving U.S. economic, democracy, and security interests in Southeast Europe. Romania, Southeast Europe's largest and most populous nation, identifies with U.S. interests as shown in its support of NATO actions in the former Yugoslavia. This support has been sustained through the current embargo against Serbia – Romania's traditionally friendly neighbor -- at significant economic and political cost to Romania. Romania's expressed interest in joining western institutions – and in fuller integration into the international economy – was demonstrated most recently in the intensified efforts of the Government of Romania to move forward on painful, long-postponed economic reforms. The U.S. program of assistance provides significant and sustained assistance to help bolster regional stability, promote economic development, strengthen democracy and address pressing social issues, while mitigating negative impacts of structural reforms. These broader, U.S. Mission Performance Plan goals are accomplished in large part through USAID's programs targeting development of private enterprises, restructuring of financial and energy sectors, improved natural resources management, increased citizens' participation in decision making, improved local government effectiveness and accountability, and improved welfare of women and children.

The Development Challenge

In 1999, Romania's leadership showed greater determination to make the structural changes required to turn around its struggling economy. Romania reached agreement with the International Monetary Fund and World Bank for a structural adjustment package of $1.5 billion based on measures taken by Romania to meet loan conditions such as tightening fiscal policy, privatizing and restructuring elements of the financial sector, and enacting legislation to improve the business climate. Progress was made in the sale of small and medium enterprises. Losses from unprofitable mines were reduced and some unprofitable mines closed. A few major industries were privatized. However, the banking system remained fragile, although the country weathered a potential banking crisis.

Romania's economic picture in 1999 was dim. The economy contracted – GDP decreasing about 5%, on the heels of a 7% drop in 1998 – in part due to impacts of the Kosovo conflict on trade and investment. Estimates indicate that the informal economy produced almost 50% of recorded GDP, providing jobs and incomes for a significant segment of the population. However, this shadow economy exists at significant cost to the formal economy, and shows the extent to which government's management is mistrusted. While close to 60% of GDP was in the private sector, this level fell below expectations. Inflation and exchange rate depreciation (by 53.5%) continued to reduce the purchasing power of the average Romanian. Pledged foreign direct investment through the third quarter of 1999 was $500 million – short of last year's $620 million for the same period, and constrained by residual fallout from the Russian economic crisis, and the regional impact of the Kosovo conflict including cessation of Danube traffic.

USAID's program in Romania has supported progress in key economic policy areas – including fiscal and financial sector reforms, privatization, stimulating private sector growth, energy sector restructuring and environmental policy. For instance, notable USAID achievements include provision of technical and financial assistance, and technology to firms and associations to improve management, productivity and sales. USAID assistance has helped also to create an independent electricity regulatory agency that is beginning to play a role in rationalizing the electricity market and improving prospects for investment. Working closely with international financial institutions, U.S. fiscal and financial sector advisors have worked to stabilize Romania's financial system, liquidate Romania's largest, loss-making state bank, and help it service almost one-third of its foreign debt. U.S. assistance is helping Romania's Ministry of Finance to manage its current budgetary crisis while improving prospects for future fiscal soundness through enhanced debt management, improved budgetary processes and revenue generation, and modernized tax administration. Banking supervision assistance is strengthening the Central Bank in order to avoid future crises, and make the banking sector sound.

In 1999, Romania continued to deepen democratic practices though civil society remained weak. Local governments began implementing new powers granted the previous year, albeit with growing pains. The Government of Romania, non-governmental entities (NGOs), and the media gave increased attention to the endemic problem of corruption. NGOs began to assume larger roles in advocating policy changes important to their clients, and providing services in such sectors as health, child welfare, agriculture and environment. U.S. democracy assistance has expanded opportunities for citizen participation and involvement; e.g., by improving the abilities of private media and NGOs to influence public policy and participate in resolving local problems, particularly problems affecting the most vulnerable Romanians. Individual NGOs are making meaningful contributions to successful advocacy campaigns, local partnerships to solve community problems, and improvements in local services.

USAID assistance is furthering more constructive relations between the Government of Romania and its citizens. Assistance has been provided for institutional capacity building in government institutions at the local and national levels; e.g., to improve the effectiveness of the Executive and the Parliament, particularly in terms of constituency outreach; and enable local governments to effectively implement new responsibilities granted by law. Attracting municipal financing to local governments, enabling them to address local needs, is just one way in which the assistance program is helping local administrators better serve their communities. Public confidence in local governments is on the rise as a result of these measures.

USAID's program of assistance to the social sector continues to promote women's health and child welfare through a community-based approach that advances decentralization and local communities' empowerment. Expanded information and service accessibility is improving women's health, decreasing maternal mortality and reliance on abortion. Preventative intervention and the availability of a continuum of family-centered, community-based alternatives are gradually decreasing the institutionalization of children. Nevertheless, national and local budget shortfalls have produced crises in hospital care, and in care for institutionalized children and the disabled. Opinion polls reflect heightened public concern about the social and economic impacts of the reform process. Public confidence in the Government of Romania's ability to achieve positive results is lagging.

Deep and sustained economic reforms are required before the economy can turn the corner. A healthy financial sector, extended access to credit, galvanized small and medium enterprises and an invigorated agricultural sector are required to spur economic growth and investment and to improve people's daily lives. Attention to persistent environmental problems and energy sector restructuring are still needed. Local government development is still in its early stages and civil society remains weak. Corruption must be addressed in order to ensure economic and democratic stability. The economic crisis is not over and the needs of the most vulnerable Romanians could become more desperate.

Achieving reform progress in an election year will be a formidable task under these circumstances. In the months leading to the election, the opposition has every reason to confound the present government's reform effort, making passage of reform legislation more difficult. Second, the severe economic decline does not inspire the government or the opposition to champion reform that will require additional sacrifices and pain. Donors need to acknowledge the social costs Romanians are paying for reform, and provide additional assistance to allay these costs to ensure that transition impetus is maintained. Graduating Romania from Support for East European Democracy (SEED) assistance in 2004 as planned in the current USAID strategy would be premature in light of these challenges. The negative impacts of the Russian and Asian financial crises, slower than expected progress on economic restructuring, and the Kosovo conflict have all impeded progress toward the results envisioned in the current plan. USAID continues to review the strategic parameters of its program in Romania, including the timeframe, in light of current realities such as U.S. commitments to support the Stability Pact for Southeastern Europe and other regional integration initiatives.

FY 1999 Kosovo Supplemental Funds

USAID received $19 million in supplemental funds for Romania in response to the impact of the Kosovo crisis -- $14 million in Economic Support Funds and $5 million from the FY 1999 SEED Supplemental. Economic Support Funds were used for balance of payments relief and, the Government of Romania programmed the equivalent amount in local currency to meet the funding crisis for institutionalized and disabled children. These funds will support approximately 47,000 children. About $3.0 million in SEED funds are expanding credit to micro, small and medium enterprises in Western Romania: those especially hard hit by reduced trade linkages with Serbia and the curtailment of the Danube traffic. To date, almost $300,000 has been lent at market interest rates. In November 1999, a $2 million grant to an American NGO was made to purchase Romanian products for humanitarian relief in Kosovo, fostering greater participation of Romanian firms in regional stability and development.

Other Donors

USAID assistance ranks fourth behind the World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Union (EU) as an assistance provider in Romania. The United States coordinates with other donors and leverages substantial financial resources from multilateral banks. USAID frequently provides the technical assistance to complement a loan, as in the energy sector and employment services. Through 1999, total World Bank commitments to Romania of $3 billion, covering energy, agriculture, privatization and financial reform, employment services, industrial pollution, health rehabilitation and social development. The EBRD investment is about $250 million annually, with projects in energy, municipal utilities and financial sector. The EU initially committed about $130 million for 1998-2000 in banking, small and micro lending, democracy, social sector, health and environment, but will raise its contribution to about $850 million in 2001.

The United States Agency for International Development

Romania

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

Romania continues to confront serious economic, democracy and social challenges. USAID's program in FY 2001 will continue to invest in areas having the greatest chances for impacting economic growth, democracy building and social sector restructuring. USAID assistance will be targeted to spur reform and support the contributions of the private sector and civil society in consummating Romania's transition. FY 2001 funding is requested for the following strategic objectives: private enterprise growth, financial sector reform, energy sector restructuring, environmental management, citizens' participation, local government, and improved welfare of women and children.

Moreover, new activities are being planned to promote a groundswell of demand for democratic principles and practices among Serbian populations in Romania and the Balkan region, and improve inter-ethnic relations are being planned. Romania and Serbia are expected to benefit from such activities geared toward increasing the capacity of local NGOs and some local-level government units to work within communities to improve relations with and between ethnically and religiously diverse groups. USAID also will consider fine-tuning assistance to advance Romania's role in regional stability and trade.

ACTIVITY DATA SHEET

PROGRAM: Romania
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 186-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $8,915,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $9,250,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE:** 2004

Summary: Supporting the U.S. Mission Performance Plan's goal of economic development, and USAID's Agency goal of promoting broad-based economic growth and agricultural development, this objective provides critical support to small and medium enterprise (SME) and agribusiness sectors, offering Romania the greatest potential to jumpstart economic growth and inspire investor confidence. Assistance to business support organizations and private associations broadens impact and targets Romania's most competitive sectors. Direct beneficiaries are private entrepreneurs, business support groups, producers and processors associations and agribusiness in sectors comprising 42% of Romania's workforce. Indirect beneficiaries are all those who benefit from economic growth and increased trade in Romania.

Economic reforms have not taken hold in Romania in ways that provide a commercial, regulatory environment that nurtures private sector growth. The legal framework is unstable and agricultural policy is still dominated by state interests. Large, state enterprises continue to drain the economy while the private sector suffers from a lack of affordable capital. The Government of Romania's inconsistent macro-economic stabilization has created disincentives to business creation, and forced especially small and micro firms to close or move into the informal sector. The private sector share of GDP, which had increased to 60%, is now stagnating. Economic contraction is negatively affecting employment and

real wages. Finally, the Kosovo conflict has inflicted significant damage on the Romanian economy that is still being felt, specifically in export-oriented industries and through the curtailment of shipping on the Danube. Foreign Direct Investment has continued to decrease since its peak in 1996

In late 1999, USAID initiated a two-year effort to improve the operating environment for private enterprises through legal and regulatory reforms. This initiative will ultimately help the Government of Romania and private sector support associations to implement critical policies necessary for a more business-friendly environment. It will address issues related to the underground economy and complement anti-corruption and commercial law assistance efforts. USAID has also expanded credit opportunities, particularly in communities most severely impacted by the Kosovo crisis.

Agriculture is the traditional backbone of the Romanian economy and remains most promising due to the low cost of land and labor, good soil, abundant water and a beneficial climate. With over 40% of its population in rural areas, unimpeded degradation of agricultural lands can disrupt agribusiness and exacerbate macroeconomic instability, impede relations with neighboring countries, and contribute to the urbanization of an ill-prepared workforce and increased social instability. Agricultural success can be a source of stability and economic health in Romania and throughout the region. Further, Romania could become a major customer for U.S. agribusiness equipment, technology, genetic stock, seeds, and other inputs.

Assistance under this objective promotes competitive, private enterprise; maximizes American linkages with Romanian agriculture through trade and investment; and advances the role of the private sector in regional trade and stability. The objective targets the structural problems that impede the ability to derive substantial economic benefits in areas such as grain market policy reform, rural credit and livestock sector analysis, and alternative, environmentally sustainable uses of agricultural products. It confronts the highly political issue of moving state lands into private ownership while maintaining the efficiencies and economies of scale of larger farms. A key approach to achieve policy change through this objective is to support trade associations and citizen coalitions to effect policy and regulatory change that provides greater opportunity for commerce to farmers and processors. Activities include identification and preparation of "investment ready" SMEs in the food industry. USAID cooperates with the U.S. Department of Agriculture (USDA) and U.S. Department of Commerce to identify opportunities for Romania to become a more active customer of the United States, and offers assistance to attract and efficiently utilize investment from local and foreign sources.

Key Results: Three key results contribute to the achievement of this objective: (1) improved policy/legal and regulatory framework supporting private enterprise development; (2) increased capital investment in private enterprises; and (3) improved management practices adopted by enterprises.

Performance and Prospects: Performance over the past year has been mixed, with limited progress in the emerging SME sector. The Government of Romania passed two laws required by the International Monetary Fund, but implementation is moving slowly. Romania’s foreign direct investment is declining and is lower than in several other Central European economies. USAID has helped meet the capital needs of hundreds of private enterprises (SMEs). The Romanian-American Enterprise Fund (RAEF) succeeded in offering $35 million in loans and venture capital to 17 large companies. The RAEF invested $1.1 million in seven, small- and medium-sized enterprises; and offered $6.1 million in loans to 97 small enterprises, and $1.9 million in micro loans for 235 micro-enterprises, with a repayment rate of 99%, during FY 1999 alone. Positive results from USAID’s recent expansion of small and micro loans in Western Romania will be visible next year.

USAID assistance delivered expertise, information and technology transfer, restructuring advice, marketing and management improvements, and improved credit access for more than 300 private firms in 1999. USAID’s, recently-initiated, "red tape analysis" is expected to yield tangible results in the upcoming year in terms of removing barriers to private sector development and foreign investment. In addition, a new and complementary activity that will develop the capacity of business support organizations and professional associations will broaden support to micro, small and medium enterprises, and will be self-sustaining. Together these components form a more comprehensive strategy to address unresolved constraints to private enterprise development.

U.S. assistance has also targeted agricultural policy, trade and investment. The associations of millers and bakers, meat processors and swine producers have had successes advocating beneficial policies to increase market share as a result. These include: legislation to privatize state-owned farms; rules, norms and procedures implemented, and an institution created to complete farm sales; legislation for restitution of farm and forest land which maintains size of farms at an economically efficient size; and a warehouse receipt law with enabling regulations. A warehouse receipt indemnity fund structure has been established and training provided to implement the structure, initially in two grain terminals. Romania now participates in USDA’s commodity support program providing export credit guarantees to U.S. suppliers.

Possible Adjustments to plans: Since new interventions have only recently been initiated, adjustments to future plans will depend upon results achieved in the upcoming year.

Other Donor Programs: In 1999, the World Bank's Redeployment Program (with U.S. Department of Labor participation) provided $8.5 million for micro lending and business support, and its Industrial Development Project disbursed $69 million to support export companies and SMEs through Romanian banks. The European Bank for Reconstruction and Development (EBRD) offered $58 million in credit through the Romanian Development Bank to support restructuring and privatization. The EBRD offered $50 million for both state-owned and private companies in agriculture, food, forestry and aqua culture; and, together with the European Union (EU), co-financed investments in private or privatized companies. European resources of over $50 million are available through the EU's technical assistance program for Europe, and the German and Swiss governments. The UNDP, the Canadians and the Soros Foundation, and non-government organizations such as World Vision and the Izvor Foundation/Opportunities International offer smaller credit programs. The Romanian government provides support to the private sector; e.g., credit for small enterprises and job creation; co-funding for export-oriented enterprises; and a state, co-guarantee fund for SMEs, totaling about $12 million. U.S. support to private firms and business and professional associations facilitates access to these credit sources and other opportunities through close coordination with the donors. This highly successful donors group has become a key coordination body and advocate for improvements in the business environment, and contributor to proposed legislation relating to SMEs.

Principal Contractors, Grantees or Agencies: Romanian-American Enterprise Fund, the University of Maryland's IRIS Center, ACDI/VOCA, Land O'Lakes, Price-Waterhouse-Coopers, Aid to Artisans, the Cooperative Housing Foundation, and the U.S. Peace Corps.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Percent of annual GDP from Private Sector	45%(1995)	58%	59%	62%	65%
Annual level of actual foreign direct investment (USD million)	300(1995)	222	165.8	200	300
Increase access to finance through the Romanian American Enterprise Fund and Cooperative Housing Foundation)(USD million)	1SME, (1997) 1.5 Micro	3.0 SMEs 1.6 micro	6.1SMEs 2.8 Micro	2.2 SMEs 2.5 Micro	2.5 SMEs 3 Micro
Average increase in sales for USAID-assisted firms	5% (1995)	40%	*	*	*

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*No plan to report on this Indicator in subsequent Congressional Presentations.

ACTIVITY DATA SHEET

PROGRAM: Romania
TITLE AND NUMBER: A More Competitive and Market-Responsive Financial Sector, 186-014
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $5,650,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $4,425,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: To help Romania recover from its financial crisis and to improve the overall functioning of the banking sector, assistance concentrates on bank privatization, banking supervision, bankruptcy, and macroeconomic policy assistance to the Ministry of Finance. The partnership with the National Bank's (NBR) Banking Supervision Department, initiated in 1997, is improving the financial soundness of the State-dominated and financially insolvent banking sector, and building public confidence. Advisory services are provided to help privatize and restructure large State banks. A banking supervision program at the NBR provides training in on-site and off-site supervision of State and private banks. Training and technical assistance in bankruptcy procedures for the Competition Council and the Ministry

of Justice modernize aspects of the legal framework and strengthen enforcement. Since 1995, the Financial Services Volunteer provides pro Bonn technical assistance through short-term advisors in central banking activities, pension reform, commodities market and financial sector legislation. In order to stabilize and reform the fiscal system, senior U.S. Treasury advisors provide support in macroeconomic, budget, tax, debt management and bank privatization.

Direct beneficiaries are management and staff of key financial institutions, including the Ministry of Finance and the President's Office. All receive advisory assistance and training. Increased fiscal stability and financial system improvements will increase public confidence in reform, promote political stability, improve private sector development prospects and enhance long-term investment opportunities. This objective supports the U.S. Mission Performance Plan's goal of economic development and USAID's Agency goal of promoting broad-based economic growth and agricultural development.

Key Results: In a 1999 proposal to change the framework for achieving this objective, four results were identified as key to achieving this objective. (1) Private banking sector strengthened. (2) Investment and liquidity increased via a transparent regulated market. (3) Privatization process improved. (4) Sector's legal and regulatory framework improved. These key results may be modified following review in FY 2000.

Performance and Prospects: U.S. Treasury, macroeconomic, budget, tax, debt management and bank privatization advisors have intensified assistance to advance fiscal reforms and overcome the banking crisis under Support for East European Democracy (SEED) auspices. Key advisory support helped the Government of Romania to stabilize the financial system by liquidating the largest, loss making, State bank, and by servicing some one-third of foreign debt. In addition to the Bank Privatization Advisor, the other Treasury advisors will continue advising the Ministry of Finance to consolidate gains in fiscal management and economic stabilization; enhance debt service capacity; assist in the establishment of a global income tax system; and further fiscal decentralization.

With USAID support, the NBR is now better prepared to resolve bank insolvency, conduct off-site inspections and enforce banking regulations. Continued assistance to build banking supervision capacity will be required to ameliorate the conditions that contributed to the crisis, to augment its developing off-site inspection capacity, and to improve staff capacity in its restructured organization. Ongoing advisory assistance will better prepare State-owned banks for privatization, increase sector transparency and efficiency, and ultimately improve the private banking operational environment.

In USAID's effort to improve the legal sector, more than 500 judges, court clerks, liquidators, inspectors, and their professional staffs have received training that improved performance in bankruptcy and competition law implementation. Additional training will be required to fortify judicial understanding of new laws and to increase the effectiveness of enforcement. Targeted advisory services in areas such as pensions, insurance and commodity exchange complement the support to the financial sector. The Financial Service Volunteer Corps will continue to provide technical assistance in several financial areas through FY 2001.

Possible Adjustments to plans: The situation in the banking sector remains fluid with considerable merger, privatization and restructuring activity underway. USAID is well positioned to respond to new demands and opportunities. USAID is reassessing its role in financial services' development to determine what future efforts will best increase the effectiveness of private intermediaries.

Other Donor Programs: USAID's financial sector assistance has leveraged international financial institution programs; and supports the World Bank's objectives of designing a solid bankruptcy framework, addressing enforcement issues, and strengthening legal and banking sectors. USAID cooperates with the European Union's (EU's) technical assistance program in providing complementary support for accounting reform. The EU's technical assistance program helped with the international accounting standards conversion for 50 enterprises listed on the Bucharest Stock Exchange, and the RASDAQ. USAID, through the Banking Supervision program, is developing international accounting standards for the banking sector. USAID coordinates closely with the EU and French advisors to ensure consistency with EU accession requirements in banking supervision and competition. Canadian assistance was provided to the Bucharest Stock Exchange.

Principal Contractors, Grantees or Agencies: The Barents Group, Carana, Federal Trade Commission, Department of Justice, U.S. Treasury and volunteers from the Financial Services Volunteer Corp.

Selected Performance Measures:

	Baseline (1997)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Decrease in percentage of banking assets in state hands	100%	71%	49%	45%	40%
Passage of a set of key reforms that enhance the consistency of the Financial Sector legal framework* (% completed)	20%	30%	40%	60%	80%
Increased availability of private capital (USD millions)	1,044	1,922	**	2,500	3,500

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*Laws include Privatization Law, Company Law, Securities Law, Collateral Law, Foreign Investment Law, Bankruptcy Law, Property Law and Competition Law.

**No target determined for 1999. The 1999 Actual is 1,711. The data represents the value of trades on two Romanian exchanges, BSE and RASDAQ, total sale of government treasury bills and privatization proceeds; and is based upon the exchange rate ROL/USD at the middle of each year reported.

ACTIVITY DATA SHEET

PROGRAM: Romania
TITLE AND NUMBER: A More Economically Sustainable and Environmentally Sound Energy Sector, 186-015
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $ 335,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,500,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** 2002

Summary: USAID's energy reform program promotes competition, private sector participation and compliance with European Union requirements, and leverages significant multilateral lending to the sector. Assistance continues to emphasize restructuring and commercialization of the power sector, beginning with electricity distribution, and the creation of an independent regulatory authority. In July 1998, the government approved the USAID-supported restructuring plan for the electric power sector. Separation of distribution, generation and transmission has now begun and efforts are underway to commercialize and ultimately privatize much of the sector. This contributes to a liberalized electricity market not only in Romania, but also in the region, based on interconnection of high voltage grid with Western Europe and the border countries, thus underpinning the Stability Pact objective of regional integration.

Technical assistance and training has also supported the establishment of energy service companies and private, consulting firms to carry out energy efficiency projects in targeted private industries. The beneficiaries are commercial and household customers who will ultimately receive more efficient and less costly energy service. A more efficient energy sector also decreases negative environmental impacts and fiscal budget expenditures. It reduces dependence on one single supplier and improves economic stability. The model used and results obtained through energy efficiency projects will be disseminated in the country and region to reinforce integration through the Stability Pact. This objective supports the U.S. Mission Performance Plan's goal of economic development and USAID's Agency goals of promoting broad-based economic growth.

Key Results: Three results contribute to the achievement of this objective. (1) Private investment and share of electricity generated increased. (2) The National Regulatory Agency for Energy (ANRE) transformed into a sustainable, regulatory body. (3) Energy efficiency improved.

Performance and Prospects: USAID has helped ANRE to become a permanent, independent regulatory authority; and helped to establish a regulatory framework to accelerate industry restructuring and attract capital for needed investments. USAID's work with ANRE has resulted in a number of important regulations, including the design of a new structure for an open segment of the electricity market and establishing new rules for participation in this market. Also accomplished was the introduction of transparent prices both for commercial and household customers. USAID's program is providing assistance to help CONEL, the national, power company and its subsidiaries to develop a new market structure – i.e., to structurally unbundle and privatize its assets, improve financial and accounting systems, and

prepare grid codes and other standards.

Support through the regional Utility Partnership program, which included an agreement between Mississippi Power Company and Romania's state electric power company in 1998, is being continued through the Utility Management Institute program. Another Utility and Regulatory Partnership Program, through the U.S. Energy Association (USEA) is being developed to assist CONEL and ANRE in their restructuring and sustainability efforts, respectively.

Energy efficiency assistance emphasizing the development of a private consultancy market for the sector was completed in 1999. Another energy efficiency project aimed at achieving energy savings in schools, and in the district heating system in the city of Constantza, is underway. This project will also assist the municipality in improving its ability to manage loans needed for future implementation; loans expected to be financed by the EBRD. The project is part of the Southeast Europe Cooperation Initiative (SECI), and will be a model for other towns in Romania and the region where energy intensity remains high.

Possible Adjustments to plans: None identified at this time.

Other Donor Programs: USAID assistance leverages approximately $300 million in World Bank and EBRD loans to restructure the power sector and to promote modernization and investment in the Romanian energy sector. The EU closely coordinates its technical assistance with USAID's to avoid overlap and enhance synergy in overall assistance offered to the sector. A new energy efficiency fund to be developed in 2000 by Global Environment Fund (GEF) could benefit USAID's Constantza project and accelerate its implementation. While USAID assistance helps to leverage considerable investment by multilateral banks, delays in loan negotiations have negatively impacted timing and overall implementation. USAID will invigorate coordination with the other donors to speed disbursements, while continuing to closely monitor progress and evidence of the government's commitment to reform – particularly in relation to the electricity sector, where assistance for restructuring and eventual privatization of some segments remains a possibility through 2001. In the context of regional electricity, liberalized markets developed will facilitate regional integration, which is an objective under the Stability Pact.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include: Advanced Engineering Associated International (AEAI), Electrotek Concepts, and the U.S. Energy Association.

Selected Performance Measures:

	Baseline (1996)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Private investment and share of electricity generated increased (power share in total annual MW production)	0	14%	15%	30%	50%
Transformation of the ANRE into a sustainable, regulatory body (*)					
- A) Achievement of ANRE sustainability;	0	50%	80%	100%	---
- B) Achievement of ANRE independence in decision-making;	No	Yes	Yes	---	---
- C) Achievement of capability to issue specific regulations;	No	No	Yes	---	
Dollars saved as a result of energy efficiency projects (USD million)	**	$3	**	**	
Private foreign investment in oil and gas (in USD million) ***					

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* Indicator was included in FY 98

**Baseline year was 1998, and baseline value, zero (0). No plan to report on this indicator in subsequent Congressional Presentations.

***USAID suspended efforts to support the petroleum sub-sector at the end of 1997 due to the Government of Romania's reluctance to implement concrete measures to restructure and privatize. Subsequently, data on private foreign investment in oil and gas ceased to be collected.

ACTIVITY DATA SHEET

PROGRAM: Romania
TITLE AND NUMBER: Increased Management Capacity to Promote Sustainable Economic Growth, 186-016
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $-0-
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,750,000 SEED

STATUS: Continuing
INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE:** 2004

Summary: As in other post-communist countries, the legacy of Romania's pre-1989 industrial and economic policies severely degraded the environment. Environmental degradation continues, and continues to pose severe economic costs and additional risks to the public health. Romania plans to begin negotiations for accession to the European Union (EU) in early 2000, but faces an estimated $26 billion shortfall in environmental infrastructure and waste management capacity needed for this process to start. Romania's environmental institutions and programs significantly lag behind other accession candidates and have been unable to adequately respond to the responsibilities of a sustainable global market place. Efforts under the Stability Pact, the Global Environmental Fund (GEF), and other initiatives have highlighted the urgency to respond to the environmental needs of this transitional economy.

USAID assistance builds both public and private management capacities to address critical constraints to sustainable development and facilitates urgently needed environmental investments. Assistance in drafting and implementing environmental policies, laws and regulations, including advancing the polluter pays concept, increases transparency and information exchange, improves the appropriateness and predictability of environmental regulations and procedures, and promotes fair and equitable approaches to ensure compliance. USAID facilitates and leverages a higher level of capital investment directed toward responsible environmental management. Assistance activities are also directed to both national and local environmental protection authorities (EPAs) and for local demonstration projects. USAID supports training and institutional development of the local authorities critical to improving environmental compliance and for participation in international efforts to reduce greenhouse gas emissions and reduced risk of Global Climate Change, a key U.S. environmental objective. USAID also supports environmental training activities including a graduate program in environmental management at the Technical University in Cluj, the only such program in Romania.

The direct beneficiaries of USAID assistance programs are the Ministry of Waters, Forests and Environmental Protection, county EPA's, targeted industries and municipalities requiring improved environmental management, and non-governmental organizations working in the environmental sector. Environmental improvements directly benefit the health of local populations, provide for the rational management of natural resources and energy, and are directly linked to the sustainability of economic development in emerging market economies. These activities support the U.S. Mission Performance Plan's goal of economic development and contribute to USAID's Agency goals of protecting the environment and broad-based economic development.

Key Results: Three results will contribute to the achievement of this objective: (1) improved environmental resource management; (2) enhanced environmental legal authority; and (3) increased environmental sector financial sustainability.

Performance and Prospects: USAID has financed several cleaner technology demonstration projects and continues to promote the ideas of cleaner production, pollution prevention, and waste minimization as preferred environmental management control practices. These projects have generated economic benefits for targeted industries and communities and are being replicated. These private sector projects are helping to develop a cadre of private environmental service firms. USAID technical assistance and training activities have developed an environmental sector much more skilled in critical areas, increased the capacity of national and local, public and private institutions, and established key environmental policies. Over one thousand environmental professionals have participated in more than seventy training courses in subjects critical to sound environmental management. Assistance to help enact the Waters and Environment Laws has facilitated integrated management, improved operations of the EPA regulatory programs and has contributed to greater self-sustainability of the sector. Complementary regulations for privatization that promote investment and growth have also been designed. Policy and regulatory development assistance is harmonized with applicable EU directives.

Full-cost pricing of water services has been introduced. The country's capacity for sustainable environmental improvement may be moved significantly forward though USAID support to effectively implement a new law on

"self-financing." USAID may help establish a possible revenue stream to support environmental licensing and inspections and avert potential reductions that may otherwise occur in the reallocation of the national budget. Model projects to address production and pollution problems, developed in cooperation with local enterprises and the Pollution Prevention Center, have generated significant savings and reduced risks to workers' health. The success of the Environmental Management Program at the Technical University of Cluj has spurred enterprises to require their managers to attend the program. This program has now become self-sustaining and no longer relies on USAID support. With improved environmental professionalism and sound decision making practices, Romania is more ready than ever before to effectively mobilize viable environmental projects that meet the objectives of a healthy and sustainable modern society.

Possible Adjustments to plans: Assistance may be continued to increase the capacity of the water authority and local EPAs to execute new laws and regulations and for other stakeholders to participate in environmental rulemaking and implementation with positive results for public health and the environment. USAID may concentrate on assisting Romania to establish and implement an environmental investment strategy with important national and local policy implications. This effort may ultimately result in the creation of a Romania Environmental Investment Facility, commonly referred to as an Environmental Fund.

Other Donor Programs: USAID’s technical assistance complements World Bank and EBRD loans to improve water management systems and pollution prevention at select enterprises. The French and Germans support advisors in water and waste policy at the Ministry. The EU’s technical assistance program has designated between 20% and 26% of its environmental program funding for environmental infrastructure in Romania. If fully mobilized, these resources will provide $ 150-200 million per year of additional grants to build environmental infrastructure over the next seven years. The Danish Environmental Protection Agency funds project preparation in district heating and municipal wastewater plants, and the Netherlands is promoting joint implementation programs related to climate change. Support for East European Democracy (SEED) regional funding provides additional resources to Romania through the ECOLINKS program; and additional regional support is anticipated for Climate Change training under the Environment and Energy Training Projects. The environmental program strongly links to USAID’s energy efficiency and improved local governance activities. The Government of Romania provides targeted cash contributions, staff salaries and in-kind contributions.

Principal Contractors, Grantees or Agencies: Chemonics, International Resources Group (IRG), World Learning, the University of Minnesota, the U.S. Forest Service, and the U.S. Environmental Protection Agency.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of improved regulations issued :	0 (1996)	3	5	10	15
County EPA Compliance Activities Supported by Polluter Pay Principle (Cumulative percentage)	0 (1997)	0	0	20	30
Number of demonstration Models established and Replicated	0 (1996)	10	*	*	*
Response to regulatory Enforcement (% increase In regulatory revenues over the previous year, starting In 1997)	0 (1997)	**			
Increased issuance of Regulatory permits by EPAs (annually, starting in 1997)	0 (1997)	**			
Institutional cost retention (% of tariff revenue retained by the sector)***	0 (1997)	0	*	*	*

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*No plans to report on Indicators in subsequent Congressional Presentations.

**These indicators were replaced by "Improved regulations issued" in order to better reflect USAID’s environmental assistance impact, and due to the difficulty of obtaining accurate data.

***It is important to note that energy service companies were not able to increase incomes through fee-based services in 1998 because the self-financing law, though passed, did not yet have implementation regulations in place.

ACTIVITY DATA SHEET

PROGRAM: Romania
TITLE AND NUMBER: Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making, 186-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $8,445,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $5,750,000SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE:** 2004

Summary: Ten years after the revolution of 1989, consolidating democracy in Romania continues; but faces several challenges including the impact of severe economic conditions. Facing elections in 2000 after four years of a reformist coalition government, Romanian citizens remain frustrated by the pace of and elusive benefits of political and economic reforms. USAID democracy initiatives have sought to improve the effectiveness and accountability of the Romania's newly democratic government, on one hand, while increasing citizens' political efficacy and civic responsibility on the other. Despite enormous strides in the establishment of institutions and mechanisms that make Romania's democracy function reasonably well, continued assistance is needed to assure the advantages of democracy are assumed widely by ordinary citizens. Complicating the challenges that face Romania's reformers are pervasive corruption and the instability of Serbia, Romania's western neighbor. Accordingly, USAID has launched a multifaceted initiative to help Romanians fight corruption; and partnered with Romanian organizations that wish to hasten the arrival of democracy in Serbia.

The direct beneficiaries, Parliament, the Executive, the Judiciary, independent media and civil society, all play crucial roles in consolidating Romanian democracy. Assisting them to play their respective roles more effectively makes democracy more valuable to a wider spectrum of citizens; and frees them to become active participants in obtaining redress, receiving justice, and contributing positively to the future of Romania. This objective supports the U.S. Mission Performance Plan's goal of consolidating democracy and USAID's Agency goal of strengthening democracy and good governance.

Key Results: Two principal results will contribute to achieving this objective: (1) increased effectiveness and accountability of the Romanian leadership; and (2) strengthened ability of civil society to address policy concerns.

Performance and Prospects: USAID democracy programs have helped to consolidate democracy and deepen trust in democratic institutions and processes. USAID's implementing partners have provided technical training and assistance to the Parliamentary, Executive, and judicial branches of government. Support has been provided also to non-government organizations that provide avenues for popular input into public policy. Legal and technical assistance was provided to improve transparency and operations within government institutions that serve the public; and programs to improve the sophistication and independence of media organizations. Alumni of USAID-sponsored exchange programs populate key positions in all branches of government and use skills developed to improve communication and management systems. Assistance to the Parliament has improved legislators' oversight, and communication between Parliaments' chambers and the public. Parliamentarians in both chambers now utilize staff resources more effectively. Access to public debate and dissemination of actions taken in Parliament has improved. Considerable challenges remain in order to make the two chambers of Parliament work together seamlessly, provide appropriate oversight of the Executive, or play a more meaningful role in fiscal policy. USAID's Rule of Law program is helping courts deliver justice more quickly and understandably to citizens. Judicial training, focused on young lawyers, new magistrates and prosecutors, is enabling speedier trials, and introducing alternative dispute resolution mechanisms. Judicial ethics are being emphasized, and will enjoy greater visibility in anti-corruption activities. Assistance to civil society has increased their capacity to meet the public's need to participate and improve community life, and/or influence public policy and help guide its implementation. Inasmuch as Romania's non-government organization (NGO) sector has widened, it has not deepened to the grassroots level. As the Government of Romania decentralizes government services, the more "professional" layer of NGOs dependent on foreign donor support will need to decentralize as well. The sustainability of Romania's vibrant print media outlets has been improved by establishing an Audit Bureau of Circulation and by improving business operations. In late 1999, USAID awarded a new media sector assistance program to build upon the earlier successes. Pro Media II will focus on media enterprise sustainability and the development of investigative journalists. While print media do enjoy editorial independence, business operations remain fragile and prone to using editorial powers to boost advertising sales.

Possible Adjustments to plans: Recognizing three major undercurrents affecting Romanians, decentralization of

power, pervasive corruption, and regional stability, USAID is formulating programs to face these trends and better complement other objectives in the program. Decentralizing key government functions, particularly in delivering public services, has encouraged USAID to aim its civil society assistance resources toward the community level. This complements USAID's assistance to develop effective local public administration and foster privatization of state enterprises. Corruption is a major challenge to all sectors of Romanian society and contributes daily to citizens' skepticism of democratic reforms. For this reason, USAID plans a systemic approach to complement U.S. Department of Justice assistance. Media programs will complement this transparency strategy by improving the sophistication and independence of investigative journalists. Romanians recently initiated the Euro-Regional Democracy Center to support the region's democracy activists. USAID will support Romanian-led partnerships with regional counterparts as an adjunct to ongoing civil society and political leadership assistance. To the extent that regional stability depends upon improving inter-ethnic relations within and between states, USAID will help Romanian society face inter-ethnic issues constructively.

Other Donor Programs: USAID's support to community-based NGOs will continue to leverage the World Bank's $20 million Social Development Fund. USAID is positioned to build sustainable partnerships with the "Soros Open Network" of NGOs. The UNDP and the EU's technical assistance program also provide assistance to NGOs and media, but shifted to smaller, local recipients. Assistance at the national level will have a distinct anti-corruption emphasis and will be coordinated with other donors.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include IREX, Freedom House, the American Bar Association's Central and East European Law Initiative, World Learning, the National Democratic Institute, the International Republican Institute, and ACILS.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Increased Contacts between Parliament with Civil society: Number of MP field offices with formal systems to receive and act upon inquiries from citizens. (*maximum number, assuming all MPs have field offices)	5 (1997)	75	330	350	485*
Freedom House" "Nations-in-Transit Index**:** A rating of elements, including political process, civil society, independent media, governance and public adm, rule of law, corruption, privatization, economics, of 1-7 from best to worst	7 (1989)	4.18	4.15	4.10	4.05
Transparency International Corruption Perception Index: Publicperceptions of the degree of corruption among public officials as seen by business people, risk analysts, and the general public, on a scale of 10 (highly clean) to 0 (highly corrupt).	3.44 (1997)	3.0	3.3	3.5	3.65
Response to regulatory Enforcement (% increase In regulatory revenues over the previous year, starting In 1997)	0 (1997)	16	**	**	**
Number of priority Community concerns Formally targeted through Collaboration between public Authorities, civil society and Citizens Average capacity rating for USAID-assisted local NGOs(4-point scale: 1=start-up, 2=developing, 3=consolidating, 4=sustaining)	1.3 (1996)	3.0	**	**	**

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**There are no plans to report on these indicators in subsequent Congressional Presentations.

ACTIVITY DATA SHEET

PROGRAM: Romania
TITLE AND NUMBER: More Effective, Responsive and Accountable Local Governments, 186-023
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $540,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $3,050,000 SEED
STATUS: Continuing

INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** 2003

Summary: Direct beneficiaries are local officials who receive training and develop their skills in management and finance. Citizens of the targeted communities will benefit from improved services and having an increased role in local decision-making. Ultimately, the central government will benefit by turning over authority and responsibility for local services to local governments. This objective supports the U.S. Mission Performance Plan's goal of consolidating democracy, and USAID's Agency goals of strengthening democracy and good governance, and economic prosperity.

Key Results: Three intermediate results under this objective are: (1) advanced capacity of local governments to manage resources; (2) enabling regulations and policy framework for decentralization established; and (3) increased revenues available for local governments.

Performance and Prospects: The legislative process for fiscal decentralization is substantially advanced and municipalities can now legally incur debt, finance capital improvements and service municipal debt. Significant progress has taken place over the past few years in local government strengthening in Romania through USAID and other donor programs aimed at decentralization and capacity building. These efforts have contributed to recent passage of important decentralization laws. In particular, the local government finance law devolves key powers to manage financial affairs, to prepare and adopt budgets, to set rates for local taxes and fees, to collect revenues for planned capital improvements and to finance construction of those improvements.

In addition to legislative support, assistance was provided to city and county council members and local government officials to familiarize them with the new laws. Efforts will continue to deepen the legislative reforms, reconcile inconsistencies in regulations, improve the capacities of officials; and to spur partnerships between the private sector, non-government organizations, and local governments to confront community development challenges. USAID is assisting local governments to respond to these new responsibilities by providing training in public budgeting and operations, IAS, personnel and organizational management, revenue generation, council training, customer service, citizen information and create a business friendly environment to spur economic development.

Assistance to build strong local budgeting capacity has introduced program performance budgeting and reformed financial management; program performance budgeting is now the national standard. In order to increase accessibility to resources and to exercise new capacities and responsibilities at the local government level, critical work is underway to assure municipalities can meet the criteria for market credit, and to encourage banks to understand municipal credit in their risk assessments. This assistance is carefully coordinated with potential lenders, government regulators and potential borrowers, and will be crafted with attention to transparency and citizen participation issues. Continued support to strengthen local government associations will help them offer a full range of services to their members, to conduct effective legislative advocacy and to benefit from peer relations in the United States, and with other Central and Eastern Europe countries. USAID funds citizen participation in local decision-making through work with non-government organizations (NGOs), and provides small loans to community associations, contributing to local economic development and services. The U.S. Department of Labor (DOL) has initiated a local economic development project in seven, pilot localities where it is offering training, and small grant support for community projects. DOL has recently fielded an advisor to provide technical support on national, labor policy issues.

Budgeting and public management assistance will be at the core of local government assistance because it supports the achievement USAID's three results in local government. The need for financial management assistance will increase as local governments begin to use their new financing authority and as a municipal credit system is created. Municipal finance, local credit and active citizen's participation all contribute to USAID objectives in other sectors. As the economic contraction intensifies and citizen's confidence in central government dwindles in response to its failure to effect meaningful reforms, Romanians are increasingly looking to local governments for results. Creating the appropriate business friendly environment will produce the synergies for realizing overall community development.

Possible Adjustments to plans: None identified at this time.

Other Donor Programs: The EBRD and World Bank are key partners in establishing a municipal credit system. USAID coordinates with Soros, the European Union's technical assistance program and the United Kingdom's Know How Fund which contribute to improved local government capabilities – with a greater emphasis on general public administration reforms. With USAID support and funds from the World Bank, the U.S. Department of Labor supports active labor measures in communities most heavily impacted by economic restructuring.

Principal Contractors, Grantees or Agencies: Current contractors and grantees include the Research Triangle

Institute, Chemonics, Urban Institute, Cooperative Housing Foundation and the U.S. Department of Labor. USAID works closely with various professional associations of local governments and local NGOs.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Laws establishing regulatory and policy framework for decentralization	0(1996)	0	2	3	5
Creation, development and use of performance based budgets	2(1996)	2	2	24	35
Numbers of municipalities borrowing for capital investment	5 (1995)	3	2	10	25
Increased citizen satisfaction in municipalities surveyed (survey indicates >50% satisfaction)	unknown(1996)	50%	*	*	*

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*The first survey for this indicator was taken in 1998. Subsequent surveys were not undertaken because local surveys proved too costly. Nationwide polling, though not directly comparable, demonstrates higher public confidence in local governments relative to other government institutions – local government confidence ratings placing third but well below those for the church and the military. It is important to note, that public confidence in government overall has deteriorated due to the economic crisis.

ACTIVITY DATA SHEET

PROGRAM: Romania
TITLE AND NUMBER: Improved Welfare of Women and Children, 186-O32
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $6,525,000 SEED
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $6,000,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1990 **ESTIMATED COMPLETION DATE:** 2004

Summary: The communists' pro-natalist policies, and their prohibition of modern contraception, forced many women to bear children for whom they could not care, or to resort to clandestine abortions. As a consequence, Romania has some of the highest rates for institutionalization of children and maternal mortality in the world. The health of women and children in Romania is compromised. USAID attempts to remedy these problems include a comprehensive system of community-based, family services for children who need protection, a system of reproductive health services, integrated with primary health care, and a reimbursable insurance program.

In child welfare, USAID will reduce Romania's dependence upon institutional care by developing a continuum of services in three counties, and helping to establish these services in seven additional counties. USAID also works to establish standards of practice; nationwide systems to track children and identify the best placement options; life skills programs to assist children (including the disabled) from institutions, to become productive members of society. Since 1990, women's reproductive health services have developed, but many women still rely on traditional methods and abortion. USAID plays a key role in integrating modern contraceptive services, improved pre- and post-natal care, breast and cervical cancer screening, and STD/HIV/AIDS screening and treatment into the primary care network with training and technical assistance to general practitioners and pharmacists. In addition, physicians and nurses receive training to manage medical facilities to ensure fiscal viability, sustainability, and quality of care. Because funding for primary care requires effectiveness and efficiency, USAID is embarking on two pilot projects geared to cost-effective health care delivery – a diagnostic-related groupings (DRG)-based reimbursement system, and a model of integrated primary care.

Direct beneficiaries include women of reproductive age and children. These groups account for 40% of the population in Romania. USAID's programs reach about one-half, or 4.5 million, of these beneficiaries. All Romanians will eventually benefit from health care reform. This objective supports the U.S. Mission Performance Plan's goal of economic development, and USAID's Agency goals of stabilizing population growth and protecting human health.

Key Results: Four principal results contribute to decreased dependency on the use of institutions for children: (1)

improved child welfare policies and administrative procedures; (2) improved quality of community child welfare services; (3) increased utilization of community child welfare services; and (4) increased parental and citizen involvement with children. Three results contribute to increased use of women's reproductive health services: (1) improved access, (2) increased demand, and (3) improved quality.

Performance and Prospects: USAID has expanded access to quality, women's health services to reduce unwanted pregnancy and abortion. Through 1999,USAID trained virtually all counties in child welfare systems and most are shifting from institution-based to community-based services. Foster care systems are in place; Foster Care Standards have been adopted and foster parents have been hired and trained in almost all counties. The number of children in institutions has been reduced in many counties and community based services is now widely accepted. Many children have been reintegrated into their families. Financial problems experienced this year in the child welfare system will be addressed by the soon-to-be established new Agency for Child Welfare with a commitment by the central government for funding to supplement local level financing.

Maternal mortality rates have declined from 84 per 100,000 live births in 1990 to 41 in 1998. USAID-supported model clinics offer comprehensive, high quality women's health services; additional service delivery sites are being developed. Awareness and advocacy activities through the media and local, non-government organizations promote improved quality and accessibility of contraception and health care for women. Preliminary statistics from the 1999 Reproductive Health Survey indicate that the percent of women using modern contraception has doubled (from 14% to 28% of women aged 15-44) since 1993. The Ministry of Health’s plan to initiate nationwide implementation of the USAID cost-containment demonstration project (DRG-based) holds great promise for an approach to funding health care that can afford preventive programs such as reproductive health. This decision was a result of USAID training and technical assistance.

This objective will continue to focus on local capacity building of child welfare and women's health services, taking advantage of synergies with the democratization, local government and economic development activities of USAID to do so. Building on successes in the three target counties, activities are expanding into seven additional counties. Community-based assistance to handicapped children will also be provided. Local work groups, comprised of local officials, non-government organizations, professional medical associations and service providers have organized to address reproductive health needs in those counties.

Possible Adjustments to plans: Programs underway in Romania have great relevance for other countries in the region and could be enhanced for broader coverage.

Other Donor Programs: USAID works in concert with donors to meet priority health and welfare needs. The World Bank has been the major donor in health providing loans for primary care, family planning clinics, and a health management-training institute. An $80 million loan in 2000 will focus on health reform and developing models of integrated care. The European Union’s (EU’s) technical assistance program has three, health reform projects targeting institutional reform at the Ministry of Health, health financing, and legislation in the pharmaceutical sector. USAID’s demonstration projects in integrated primary care and DRG-based reimbursement were precursors for these World Bank and EU efforts. USAID efforts have helped shape the Soros Foundation training for general practitioners. USAID has convinced other donors to advance community alternatives to institutionalization. Other contributions for women's health and child welfare come from the EU Child Protection Program, Soros, the Council of Europe, the UN Children's Fund (UNICEF), the UN Fund for Population Activities (UNFPA) and the UN Development Program (UNDP).

Principal Contractors, Grantees or Agencies: Current grantees and contractors include: World Vision/ Bethany Services, Holt International, Feed the Children, Johns Hopkins University Population Communications Services, the U.S. Centers for Disease Control, John Snow, Inc., Management Sciences for Health, Project Concern Int’l, the U.S. Department of Health and Human Services, American Int’l Health Alliance (University of Chicago, Humana, University of Louisville, and Hennepin County Hospital), Howard University, and several local non-government organizations.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of children living in child placement centers (in three target Counties)	7343 (1997)	3891	3184	3000	2682

Number of children serviced by community-based child welfare services(in three target counties)	2155 (1998)	2155	3227	3308	4574
Maternal mortality ratio (Deaths per 100,000 births)	84 (1990)	41	41	40	39
Number of women utilizing modern Contraception*	14%(1993)	not avail.	28%	30%	35%

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* Data is derived from a survey that until late 1999 had not been conducted since 1996, and thus there were no data for 1998. The final report on the 1999 survey is expected shortly, and initial indications are that contraceptive usage has increased 100% -- i.e., from 14% to an estimated 30% prevalence in the target areas surveyed.

The United States Agency for International Development

Romania

Summary Tables

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Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	37,119	41,400	35,000	35,000
SEED Act Supplemental Funds Request	0	0	0	0
Economic Support funds	0	14,000	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**37,119**	**55,400**	**35,000**	**35,000**
Operating Expenses	1,358	1,665	1,800	2,000
Trust Funds	0	0	0	0
Total Operating Costs	**1,358**	**1,665**	**1,800**	**2,000**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	5	5	4	4
Other U.S. Citizen	0	0	0	1

FSN/TCN DH	16	17	18	20
Subtotal	**21**	**22**	**22**	**25**
Program Funded*				
U.S. Citizen	0	7	8	9
FSN/TCN	15	19	19	19
Subtotal	**15**	**26**	**27**	**28**
Total Direct Hire Work Force	**36**	**48**	**49**	**53**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**36**	**48**	**49**	**53**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
186-013 - Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	9,250	0	0	0	0	0	9,250
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
186-014 - A More Competitive and Mkt.-Responsive Priv. Fin. Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	4,425	0	0	0	0	0	4,425
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
186-015 - A More Econ. Sustainable and Environ. Sound Energy Sector							

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	1,500	0	0	0	1,500
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
186-016 - Improve capacity for Envir mgt to promote sustainable econ growth							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	1,750	0	0	0	1,750
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
186-021 - Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	5,750	0	0	5,750
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
186-023 - More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	3,050	0	0	3,050
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
186-032 - Improve the Sustainability of Social Benefits and Services							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	6,000	0	0	0	0	6,000
- ESF	0	0	0	0	0	0	0

- P.L. 480/II	0	0	0	0	0	0	0
186-042 - Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	3,275	0	0	0	0	0	3,275
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	16,950	6,000	3,250	8,800	0	0	35,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

The United States Agency for International Development

RUSSIA

Development Challenge

External Debt

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FY2001 Program / Activity & Budget Information

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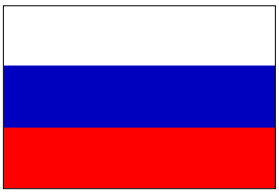
Introduction



Supporting Russia's transition to a democratic, market economy promotes important U.S. national interests. The U.S. Government's overall program in Russia focuses on maintaining regional and international peace, reducing environmental threats, and transforming Russia into a viable trading partner. The USAID program remains an integral part of this effort. Specifically, USAID assists Russia in its transition by providing Russians with opportunities to participate in developing a more open democratic society and dynamic market economy at the local, regional, and national levels. Many of the challenges confronting the USAID program stem from the aftershocks of the August 1998 devaluation of the Russian ruble, which have fundamentally altered the economic, political, and social conditions in the Russian Federation. After having modified its program approach in response to this crisis, USAID now emphasizes partnerships with civil society and interventions at the regional level. These modifications enable USAID to better position itself to address the evolving needs of the Russian people.

The USAID country program directly supports the following U.S. national interests, as defined in the U.S. Embassy's Mission Performance Plan for 1999: national security, economic prosperity, global environmental protection, and the development of participatory democracy. The activities under the economic development programs promote broad-based economic growth and recovery as well as strengthen U.S.-Russian commercial relations. Activities under the environmental program help protect Russia's environment, which safeguards global stocks of strategic natural resources. The activities under the democracy and governance programs foster genuine democratic transition in Russia. Finally, activities in the social sector program help improve the effectiveness of health and other social safety netservices, reducing the spread of disease within Russia and across international borders.

The Development Challenge

The Government of Russia's failure to implement effective reform and the resulting distortion of partial reforms undertaken represent the development challenge. As a result of its preoccupation with the December 1999 parliamentary elections, and anticipation of the 2000 presidential elections, the Government of Russia made little reform progress in FY 1999. The failure to create a sound legal and regulatory framework stunted GDP growth and delayed restructuring and modernization of Russian industry. Tax revenues are inadequate to cover government spending and domestic and foreign debt obligations. Complicating this situation, the Central Bank frequently employed scarce foreign currency reserves to intervene in the currency market to support the ruble. Despite these measures, the ruble has fallen from 6 to over 26 to the dollar since August 1998. This lack of sound monetary and fiscal policies depleted Russia's scarce foreign exchange reserves, stunted GDP growth, and discouraged private sector development.

Nevertheless, other economic indicators have shown some signs of stabilization and growth over the past year. Industrial output grew by an estimated 7% this year compared to a 5.2% drop in 1998. In 1999, real GDP growth

increased by an estimated 1.5%, a sharp improvement from 1998's precipitous drop. Annual inflation was not as high as expected at the start of the year. Russia's tax revenues significantly exceeded 1998 levels as higher world oil prices increased government revenues**,** which may reduce theirreliance on International Monetary Fund (IMF) loans to meet foreign debt obligations. The Government of Russia reduced personal income tax rates from 45% to 30%, increasing the likelihood that citizens would pay taxes and that the Government would meet revenue targets.

Still, developments in other sectors appeared to be troubling. The continuing dearth of effective systems to implement the rule of law reinforced lack of public confidence in the legal system. Independent media outlets -- particularly TV stations -- continued to struggle financially. Although the non-governmental organizations (NGOs) developed and increased their reach across the country, government-required registration processes remained problematic. Health risks, including the spread of drug-resistant tuberculosis and a possible explosion in the number of HIV/AIDS cases over the next decade, have begun to seriously affect Russia's human resource base. Limited financial support to address domestic violence and the plight of Russian orphans continued to be major challenges. Finally, environmental concerns, including environmentally harmful production processes, received greater attention by industry but lack of local government funding to address this issue remained a problem.

In the environment described above, USAID-supported initiatives provided a solid foundation for the adoption and use of democratic principles and free-market mechanisms in targeted regions. For example, USAID programs targeting private enterprise development improved small- and medium-sized entrepreneurs' ability to access external financing. Entrepreneurs receiving support from USAID's business support centers obtained $36.9 million in credit through 1999. In addition, USAID technical assistance had a direct impact on key improvements in Russia's public finance policy. Amendments to the General Part of Russia's tax code signed into law in July 1999 brought this code into compliance with the civil code. USAID activities have made important progress towards rationalizing economic development and the environment. Eighty percent of Russian oblasts have begun to implement environmental management activities, with 35% of oblasts implementing pollution reduction activities; 34% of oblasts supporting natural resource management activities; and 18% of oblasts developing eco-businesses or environment-related business plans.

With respect to increasing citizens' participation in governance, USAID's programming focus has become increasingly regional although impacts are notable at the community, regional and national levels. Specifically, USAID assistance strengthened major reform parties, helping them to establish strong regional organizations and local party chapters. Independent media grew impressively. USAID training and production support to over 300 regional non-state television stations, which operate in 81 of the 89 regions in the Russian Federation, has been instrumental in this development. USAID assistance strengthened the rule of law to protect basic human rights and support commercial activities. Support to human rights organizations in 30 regions resulted in the generation of human rights reports in all 30 regions and a report about the national human rights situation. Finally, USAID programs helped Russian legal professionals learn about newly enacted commercial laws and about issues affecting women's rights.

Social sector activities increased the provision of better health and selected social services. USAID's health program activities produced an 11% reduction in the abortion rate in the USAID intervention zone; a result credited to USAID's comprehensive reproductive health strategy. The project provided over 4 million women in Russia with access to modern maternal and infant health services. In addition, the Mission, in collaboration with international and local partners, identified sites for pilot tuberculosis projects in Ivanovo, Orel, and Vladimir where they will implement tuberculosis therapy, including treatment of multi-drug resistant tuberculosis in Ivanovo. Finally, USAID interventions helped ensure that over 90% of Russian communities have adopted housing allowance programs to ensure that deserving families receive needed subsidies.

External Debt

Russia's debt burden has been significant. Total debt of the government totaled approximately $150 billion, roughly $100 billion of which was Soviet era debt, by the end of 1999. The remaining $50 billion represented debt issued to the post-Soviet Russian Federation. To date, Russia has paid its post-Soviet Russian Federation foreign debt, but has effectively defaulted on everything else until investors accepted a restructuring, with the hardest line on domestic obligations. For example, the Paris Club of official creditors agreed to reschedule some $8 billion in debt repayments that had been due in 1999-2000 but ruled out debt forgiveness and postponed any discussion of the longer-term situation until after the 2000 presidential election. Negotiations have been underway with the London Club to write off between 35% to 40% of the nominal value of some $30 billion of Soviet-era debt, establish below-

market interest rates, and offer a grace period for principal repayments. These negotiations have yet to reach an

agreement, something that is unlikely to occur until after the presidential election in March 2000.

Other Donors

The United States has been the single, largest, bilateral donor in Russia, followed by Germany, the United Kingdom and Norway. Financing provided by international financial institutions such as the European Bank for Reconstruction, the World Bank, and IMF has been substantially larger than development assistance. USAID works collaboratively with the European Union's technical assistance program for the Commonwealth of Independent States (EU-TACIS) in Russia. For instance, USAID-funded, private enterprise development programs complement technical assistance provided by EU/TACIS. The Eurasia Foundation, EU-TACIS, the World Bank, British Know How Fund, Ford Foundation, and several European embassies coordinate their support to private Russian media. The Canadian International Development Agency (CIDA), EU-TACIS, United Nations Development Program, the Mott Foundation, the MacArthur Foundation, the Ford Foundation, and the Open Society Institute coordinate on NGO development issues. Quarterly donor discussions on rule-of-law in Russia involve USAID, CIDA, Eurasia Foundation, EU-TACIS, Ford Foundation, MacArthur Foundation, Open Society Institute, British Know How Fund, Russian Foundation for Legal Reform, and the World Bank. USAID funds activities of the U.S. Centers for Disease Control and Prevention and the World Health Organization to control tuberculosis. The United Nation's AIDS Program is implementing activities to combat HIV/AIDS and other sexually transmitted diseases. Russia's health authorities look to USAID for technical leadership.

The United States Agency for International Development

Russia

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

Consolidating the strategy developed as a result of the 1998 economic crisis, USAID will continue to move away from programs with the central government. In FY 2001, USAID assistance will continue to promote the development of democracy and private enterprise in Russia. In addition, assistance will be directed to mitigating the social costs of the transition. Overall in FY 2001, USAID will direct funding toward reform-minded regions under the USAID Regional Initiative, which includes the Russian Far East, Samara and Novgorod, and a fourth Regional Initiative site in Tomsk. USAID-supported activities in these regions will assist economic, democratic, and health and social sector reforms. Economic reform activities will include the development of micro-credit facilities; small- and medium-enterprise support by Russian-run business development centers; assistance to local and regional governments interested in building an investor-friendly business climate; and the expansion of environmental activities with Russian partners. Activities will also include provision of assistance to targeted banks, the possible continuation of work on tax reform (mostly in the regions); and funding Russian policy think tanks to develop and disseminate applied policy advice on Russia's most critical economic issues.

In addition, USAID will continue to promote adoption of international accounting standards that are necessary to attract foreign investment. In the area of democratic reform, USAID will support civil society development through assistance that targets non-governmental organizations, independent media, rule of law, and political processes. Human rights, anti-corruption, and violence against women are additional areas of focus. In health and social sector reform, USAID programs support Russian orphans, provide assistance to slow the spread of HIV/AIDS and tuberculosis, and enhance women's reproductive health, with a focus on maternal and child health. USAID projects will also include evaluations, socio-economic studies, and the provision of targeted training to Russians in technical fields both in the United States and in Russia. The broad economic and democracy small-grants program of the Eurasia Foundation will continue.

A significant share of the FREEDOM Support Act (FSA) funds allocated for Russia in FY 2000 and 2001 will be provided for programs designed to enhance Russian export control capabilities, and contribute to the nonproliferation of weapons of mass destruction and associated delivery systems, materials, technologies, and expertise. Special emphasis will be placed on redirection of former biological warfare scientists and facilities to peaceful research and development activities that address global, public health concerns. Additional funds also will be made available to support the relocation of military forces in Transdniestr and the disposal of ammunition stockpiles located there. Other U.S. Government agencies providing technical assistance to Russia through inter-agency transfers from the FSA account include: the U.S. Environmental Protection Agency, the National Research Council, the National Science Foundation, the U.S. Departments of Health and Human Services (Center for Disease Control tuberculosis activities), the U.S. Treasury (banking, tax and budget reform), State (USIA exchanges, law enforcement and humanitarian transport), and the Departments of Commerce (private sector initiatives), and Justice (anti-corruption initiatives).

ACTIVITY DATA SHEET

PROGRAM: Russia
TITLE: Accelerated Development and Growth of Private Enterprise, 118-013

PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $11,047,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $11,547,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1992 **ESTIMATED COMPLETION DATE:** FY 2010

Summary: More than a year after the August 1998 devaluation, the Russian economy remains turbulent although significantly more stable. Despite this stabilization, the Russian Government's policies are not encouraging the private sector to take advantage of the tremendous business opportunities in Russia. To ameliorate this situation, USAID activities stimulate economic growth by fostering the development of micro, small and medium enterprises in Russia. The ultimate aim is to create a more prosperous market-oriented economy capable of meeting the economic needs of the Russian people. To achieve this objective, USAID supports (1) business training for individual entrepreneurs in marketing and western management practices; (2) on-site client focused business consulting services; (3) the formation of effective and sustainable business associations, trade organizations and business support centers; and (4) access to credit for small private businesses.

The direct beneficiaries of these activities are the entrepreneurs who receive the services and credit provided by USAID-funded organizations. These entrepreneurs will create long-term employment, and their businesses will drive economic growth. As these strong small and medium sized businesses grow and expand their operations, they will attract greater foreign and domestic investment. In addition entrepreneurs will advocate for changes in the policies, regulations and practices that constrain their businesses. The indirect beneficiaries include the people employed by these businesses and the businesses' customers. This objective directly supports the U.S. national interests of economic prosperity and national security, as defined in the U.S. Embassy's Mission Performance Plan for 1999. Specifically, the activities under this objective promote Russian economic recovery and strengthen U.S.-Russian commercial relations. As a result, Russian stability should increase, helping to secure U.S. national security and economic prosperity.

Key Results Three key results are necessary to achieve this objective: (1) small- and medium-sized businesses that flourish over time; (2) successful models of private ownership and modern management that are widely replicated; and (3) the widespread adoption of modern management practices by private firms, which then attract external financing.

Performance and Prospects: Over the past seven years, USAID support has played an instrumental role in promoting local initiative to develop viable private enterprises. USAID-assisted businesses have improved their ability to access external financing, as witnessed by the $36.9 million obtained by the client firms of USAID's business support centers through 1999. During 1999, USAID provided a total of $2.5 million in micro loans to 2,718 borrowers. From the inception of the program, USAID has provided a total of $8.4 million in micro-credit loans to 5,822 entrepreneurs. Since 1997, USAID has allocated over $5 million of this total to women, who have comprised 70% of borrowers. Since 1994, 597,505 Russian entrepreneurs received business training and consulting assistance through USAID programs. Eighty percent of Russia's oblasts have implemented environmental management activities to help preserve Russia's valuable resource base in economically efficient ways.

In addition, activities under this objective have improved Russia's housing sector. USAID assistance has been institutionalized through the development of the Russian-run Institute for Urban Economics to ensure the continuation of reform in the housing sector. According to a recent outside evaluation, USAID's housing project significantly influenced the passage of 160 pieces of legislation that provided the legal framework for housing and urban development reform. The introduction of mortgage lending, the creation of over 3,000 condominiums of ownership, and the development of the conceptual and legislative framework for housing allowances that paved the way for the acceptance of rent reform have all constituted other major accomplishments for this program.

Despite positive program performance, severe constraints impede further progress in Russia. The major obstacle to private enterprise growth is the Russian government's lack of political will to adopt and implement stronger contract enforcement, an improved tax regime, and enhanced shareholders' rights. Private enterprise development receives little budgetary support from the government despite the recognition that the paucity of business skills constrains economic growth. Access by private businesses to finance remains another formidable constraint. Traditional lending institutions are hesitant to supply capital due to poor business plans, lack of management skills, and limited financial knowledge in Russia's emerging middle market private sector.

Additional initiatives planned for next year will strengthen ongoing activities and address these constraints. Increased economic policy and investment advice to the regions should improve the investment environment in selected oblasts, particularly under the Regional Initiative. Organizational capacity strengthening activities will increase the Business Support Centers' financial viability. Continuing assistance will strengthen professional real estate associations. A heat

efficiency program will improve the energy efficiency of district heating systems in selected cities in the Russian Far East. After USAID launched a Development Credit Authority project in the Russian Far East to provide credit guarantees, banks should make more loans to telecommunications and infrastructure projects such as ports, municipal services, and energy resource management.

Since the fundamental problems faced by private businesses in Russia remains unchanged, responding to Russian initiative and developing Russian capacity continues to be the key to the long-term impact of the sector on the country. The USAID-sponsored network of business support institutions, business training programs, and client focused business volunteer assignments will continue to supply Russian enterprises with tools to weather the current economic crisis and to accelerate private sector growth. Areas with greatest demand, such as micro credit, may receive increased support.

Possible Adjustment to Plans: No changes in the strategic plan for this objective are identified at this time.

Other Donor Programs: As a leader in the small business sector, USAID works with private Russian institutions, the managers and owners of private enterprises and associations of private businesses, and various Ministries and agencies of the government at national, regional, and local levels. Other donors utilize USAID models extensively and coordinate with USAID to ensure that no activity overlap or duplication occurs. For instance, technical assistance from the European Union (EU-TACIS) complements USAID-funded private enterprise development programs through the Small and Medium Enterprise Development Agency (SMEDA) initiative. While this program concluded last year, its results include the creation of 23 business support centers, of which 12 are fully self-sustaining. These centers provide training and consulting services to small and medium enterprises.

Principal Contractors, Grantees, or Agencies: USAID cooperates extensively with U.S. non-governmental organizations and for-profit contractors to implement the Mission's broad program of support to private sector growth under this objective. They include Counterpart International, ACDI/VOCA, University of Alaska, Foundation for International Community Assistance, American Development Foundation, U.S. Energy Association, Academy of Management and the Market, U.S Russia Business Forum, Citizens Democracy Corps, Opportunity International, and Center for Citizen Initiatives.

Selected Performance Measures:

Indicator	Baseline (year)	Actual (1998)	Target (1999)	Target (2000)	Target (2001)
New jobs created/sustained	0 (1997)	80,622	59,250 (estimate)	20,000	25,000
Modern management practices adopted as measured by financing ($ millions) received (cumulative)	8 (1995)	29.2	36.9	50	65
Private sector production as % of GDP*	20 (1995)	70	*	45	*
New businesses created**	5,000 (1998)	**	**	25,000	**

*The indicator has been discontinued as too aggregate a measure to serve as a target for USAID.

**The indicator no longer tracked due to difficulties in data collection. The current budget includes funds to improve collection of relevant data in this area.

ACTIVITY DATA SHEET

PROGRAM: Russia
TITLE: Improved Economic Infrastructure to Support Economic Growth, 118-014
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $5,900,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $5,900,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1992 **ESTIMATED COMPLETION DATE:** FY 2010

Summary: An improved economic infrastructure will strengthen the Russian economy by providing a transparent legal and regulatory framework to encourage foreign and domestic investment. Economic growth will increase, thus spurring the development of a prosperous and healthy Russian middle class. The improvement of Russia's economic infrastructure, however, requires cooperation with federal, regional, and local governments. USAID's ability to work with the central government is limited by law due to Russia's continued cooperation with Iran. Hence, under this objective, USAID supports only a limited numberof activities with the central government. In FY 2000, USAID will provide technical expertise to the Central Bank, to selected regional and local governments to analyze the budgetary impact of different tax regimes, and to local policy makers to design investment policies to attract foreign and domestic capital. In other areas less dependent on the central government, USAID intervenes significantly to improve economic infrastructure. Specifically, USAID supports two important think-tank initiatives that ensure that sound economic policy analysis will be available to government decision-makers and the general public. In addition, USAID provides assistance to strengthen Russian commercial banks. Direct beneficiaries under this objective include Russian Government agencies, Russian entrepreneurs, foreign and domestic investors, and Russian think tank institutions. Indirect beneficiaries include the Russian public, which benefits from a stronger economy.

This objective directly supports the U.S. national interest of economic prosperity, as defined in the U.S. Embassy's Mission Performance Plan for 1999. Specifically, the activities under this objective promote broad-based economic growth in Russia and encourage Russia's progress toward the development of a legal and regulatory infrastructure for private sector growth. Positive progress will provide opportunities for international business, including U.S. business, thereby strengthening economic prosperity in the United States.

Key Results: To build an improved economic infrastructure, USAID will: (1) help develop a system for transfer of resources from center to regions; (2) strengthen the legal and regulatory framework for the financial sector; and (3) strengthen the analytical and advisory capabilities of economic think tanks to support sound policy formation.

Performance and Prospects: Economic recovery has faced two significant obstacles. First, the Russian government has made slow progress to date in implementing structural reform. Second, the Russian government's lack of political will to invest in economic infrastructure has not only discouraged the development of private businesses but also provided a disincentive for foreign and domestic investment. Nevertheless, USAID activities have shown progress in several key areas. The USAID fiscal team lent economic and legal guidance to the Russian Government and Duma to evaluate the strengths and weaknesses of the proposed tax code and amendments. In addition, the fiscal team provided economic analysis to the Ministry of Finance, demonstrating the impact of changing taxation, in particular the personal income tax, on the hypothetical taxpayer. This assistance contributed to key improvements in Russia's public finance policy. Amendments to the General Part of Russia's tax code, signed into law in July 1999, brought this section of the code into compliance with the civil code. Finally, the federal government put a more transparent, objective, and efficient revenue sharing formula into place in its budget. As a result, the Russian Federal budget for 1999 included a revised formula for distribution of funds from the Federal government to the regions.

USAID work in other areas helped improve Russia's economic infrastructure. Cooperation with the central government strengthened the weak banking system. USAID helped the central government identify insolvent banks and revoke other banks' licenses. These actions constituted the first steps towards developing the central government's capacity for regulatory oversight of the banking sector. Regional assistance continued to commercial banks for consulting and training in areas such as credit risk management, liquidity, asset management and mortgage lending. In addition, the Mission began working with economic policy think tanks last year to strengthen these institutions and support the formation of sound economic policies. USAID has strengthened several Russian institutions, including the Institute for Economy in Transition, through institutional and applied research support. Thirty-two papers, on topics ranging from the banking crisis to the social obligations of the state, have been published with USAID support to date - twenty-seven in FY 1999. These papers employed current economic thinking and international expertise to develop policy recommendations, which were then discussed at policy conferences open to Russian decision-makers and the general public. Finally, ongoing assistance strengthened the Sakhalin region's energy, transportation, environmental, legislative, and financial infrastructure through the Alaska-Sakhalin Working Group and the support of Alaskan firms and banks.

In FY 1999, USAID trained 3,670 Russians in the use of international accounting standards. Over 3,000 books on international accounting standards have now been published in Russian. The International Accounting Standards Committee and the Russia Interagency Committee on Accounting Reform has accepted these standards, which are increasingly being adopted by businesses. In addition, USAID has worked at the regional level in Samara and Novgorod to provide training in international accounting standards to Russian accountants, strengthen local Russian accounting

associations, and assist a number of local companies in preparing financial statements based on international accounting standards.

Possible Adjustments to Plans: Congressional legislation concerning restrictions on direct work with the Russian government may affect the Mission's economic infrastructure program. As seen above in the description of FY 1999 activities, USAID is unable to carry out many of its public finance-oriented activities. Further refinements in these activities depend on progress in tax reform and changes as a result of the 1999 Duma elections. USAID is considering continuing its banking program as the economy stabilizes in collaboration with the World Bank. USAID may fund a Fiscal Policy Resource Center to respond to requests for economic analysis from Russian Government agencies, the Duma, the Presidency, and regional governments. More generally, under this objective USAID will ensure that its activities, to the greatest degree possible, can be replicated and continued by Russians long after USAID leaves Russia.

Other Donor Programs: USAID is a strategic player in the collaborative effort of the donor community. The World Bank. International Monetary Fund, other bilateral donors, including the European Bank for Reconstruction and Development, EU-TACIS, Germany, Japan, the British Know How Fund, as well as the U.S. Department of the Treasury collaborate in the development of technical assistance to the financial sector in Russia. USAID is a member of the Inter-Agency Coordinating Committee for Banking Reform comprised of Russian institutions and donor institutions involved in banking reform. Ongoing collaboration between USAID, the World Bank, the International Monetary Fund, the U.S. Treasury and other donors in bank restructuring will be particularly important as USAID decides whether to increase activity in the banking sector. USAID works closely with the International Center for Accounting Reform and donors such as the European Union and the British Know How Fund in its international accounting standards project.

Principal Contractors, Grantees, or Agencies: USAID implementers include: the Department of Commerce of the State of Alaska, Georgia State University, the Financial Services Volunteer Corps, the Institute for the Economy in Transition, the Moscow Public Science Foundation, Carana Cooperation, and executive ministries of the Russian Government working on tax reform.

Selected Performance Measures:

Indicator	Baseline (year)	Actual (1998)	Target (1999)	Target (2000)	Target (2001)
Wider dissemination of Policy advice and publications (# paper disseminated)	1 (1998)	See baseline	32 (actual)	10	15
Transparent criteria for distribution of federal funds to regions developed	No (1995)	Yes	Improved Formula (actual)	Improved Formula	Improved Formula
Bank licenses revoked	225 (1995)	1004	1024 (actual)	1150	1200
Legislative authority for bank restructuring agency (ARCO) passed*	No (1998)	No	Yes (actual)	*	*
Fixed capital formation (% increase from previous year)	87 (1995)	95.5	100	**	**

*Since this indicator has been accomplished, other targets are not applicable.

**These data are not applicable due to program completion.

ACTIVITY DATA SHEET

PROGRAM: Russia
TITLE: Increased Environmental Management Capacity to Support Sustainable Economic Growth, 118-016
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $6,780,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $6,780,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1992 **ESTIMATED COMPLETION DATE:** FY 2010

Summary: In 1992 when USAID began work on this objective in Russia, few Russians understood the relationship between environmental management and sustainable development. Few environmental non-governmental organizations existed; the general public was not well informed about environmental issues; and policy-makers did not adequately incorporate environmental concerns into the process of economic transition. As a result, severe pollution and environmental mismanagement from the Soviet period continued and caused significant losses in current and future economic productivity. Manifestations include the sub-optimal use of valuable natural resources, deforestation, and the near extinction of many rare and endangered species. To address this situation, activities in this objective have introduced sustainable environmental management practices to environmental managers, policy-makers, private industry, non-governmental organizations, and the general public in 80% of Russia's oblasts. In so doing, USAID activities have helped Russia manage its rich natural resource base. Improved environmental management capacity has spurred economic growth while reducing air and water pollution levels, preventing forest fires, and generating extra-budgetary revenues for protected areas.

Direct beneficiaries include Russian private and public sector organizations, regional governments, local businesses, schools, libraries, and hospitals. Indirect beneficiaries include all Russian citizens who benefit from a better-maintained natural resource base. In particular, the Russian Far East benefits from the forestry initiatives under this objective. This objective directly supports the U.S. national interest of global issues, as defined in the U.S. Embassy's Mission Performance Plan for 1999. Specifically, the activities under this objective promote protection of Russia's environment, which is a key global issue.

Key Results: Three key results are necessary to improve environmental management practices: (1) improved Russian management of natural resources and biodiversity protection; (2) improved economic mechanisms for natural resources management and environmental protection; and (3) increased Russian capacity to deal with environmental pollution.

Performance and Prospects: Performance under this objective has greatly improved environmental management in Russia. The improvement of environmental management practices has been replicated in many regions: 35% of oblasts have implemented environmental management activities; 34% of oblasts have implemented natural resources activities; and 18% of oblasts have implemented improved economic mechanisms. A small grants program that promotes partnerships between Russian organizations to work with each other to improve environmental management capacity has been the key tool utilized by USAID. Since 1996 under this activity, USAID has awarded 137 grants that support approximately 500 organizations to Russian partners to implement environmentally sound practices at the grassroots level. In 1999 under this project, USAID awarded 87 grants that average $28,000 with cost sharing from Russian partners reaching 30%. For example, the Center for Ecological Training in Obninsk introduced environmental education programs to over 4,000 children and educators in five regions in the Russian Far East. Through a multiplier effect from teacher-to-teacher training and regional environmental educational centers, these programs have continued to spread throughout the remote regions of the Russian Far East.

Projects targeted at fire prevention, pest control, reforestation, forest policy, protected areas management, and sustainable use of non-timber and timber products have added considerable value to the program. USAID's reforestation project has already resulted in the production of over 2.5 million seedlings in 1999, compared to the 6,500 produced before the program began. The Khabarovsk Krai Duma approved a new Regional Forestry Code in 1999. Drafting of a similar code was completed in Amurskaya Oblast and initiated in Krasnoyarski Krai. Eco-tourism programs have generated extra-budgetary income for nature reserves that once received as little as $700 for yearly operating expenses. As one example, the USAID grantee World Wildlife Fund worked with the Marine Reserve to raise $4,500 during a three-month period by conducting 55 excursions for schoolchildren, visitors from Primorski Krai, foreign tourists, and specialists. These successful fund-raising techniques were being taught to eight other park directors throughout the Russian Far East. During FY 1999, eco-business activities in the Russian Far East and Siberia increased the profit of more than 30 non-timber and secondary wood processing companies.

An outside evaluation noted that USAID's environment activities have strengthened and expanded the network of Russian environmental non-governmental organizations and developed. In addition the report noted that the grant selection process was excellent and that many of recipients whose projects were selected were well designed and responsive to local needs. This evaluation further highlighted USAID's key role in building institutional capacity in grantees. Despite the successes above, constraints continue impede progress on this objective. Most importantly, the current economic situation in Russia has limited the Government of Russia funding for environmental support, which would strengthen the impact of Mission activities.

Environmental projects are being consolidated to streamline program management. It is not clear at this time that these changes will result in changes to the strategy.

Possible Adjustments: No strategic changes identified at this time.

Other Donor Programs: USAID coordinates its activities closely with other donor governments, non-governmental organizations and international financial institutions, particularly the World Bank and the European Bank for Reconstruction and Development. Most notably, USAID contributes to a multi-donor effort to phase-out the production of ozone depleting substances in the Russian Federation. Donors involved include the United Kingdom, Sweden, Norway, Denmark, Finland, Austria, Japan, Italy, and Germany.

Principal Contractors, Grantees, or Agencies: USAID works with a wide range of partners interested in preserving Russia's natural environment. They include the World Bank, the United States Forest Service, the United States Environmental Protection Agency, the United States Department of the Interior, and the Institute for Sustainable Communities.

Selected Performance Measures:

Indicators	Baseline	Actual (1998)	Target (1999)	Target (2000)	Target (2001)
New approaches, actions to prevent and reduce industrial pollution introduced and implemented (% of oblasts)	0 (1992)	35	40	45	50
New approaches, actions to improve management of natural resources and protect biodiversity implemented (% of oblasts)*	NA (1993)	34	40	45	50
Eco-business organizations developed and strengthened	0 (1992)	12	25	30	35
Environment-related business plans developed and implemented**	0 (1993)	5	**	8	**
Number of self-sustaining environmental NGOs**	5 (1993)	19	**	25	**
Environmental grants provided to local entities throughout Russia**	0 (1993)	43	**	50	**

*No data was available on this measure at program inception.

**Performance against these indicators was not tracked because data collection was suspended at the completion of the activities reflected here.

ACTIVITY DATA SHEET

PROGRAM: Russia
TITLE: Increased Better-Informed Citizens' Participation in Political and Economic Decision-Making, 118-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $8,824,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $9,324,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1992 **ESTIMATED COMPLETION DATE:** FY 2010

Summary: Increased citizen participation in political and economic decision-making is a key component of Russia's democratic transition. USAID-supported activities under this objective promote enhanced citizen's participation in three critical areas: civil society, independent media, and elections. Civil society activities help empower non-governmental organizations to ensure that citizens can articulate their opinions and influence decision-makers through collective action. Media programs increase the professionalism and financial management of the independent media. They help media provide objective information through national and local networks, which is critical to creating an informed, educated citizenry. Programs that support electoral institutions and non-governmental organizations enable Russia's citizens to elect their leaders in a more open and transparent manner. These activities are increasingly important due to the recent Duma elections and the upcoming presidential elections in March 2000.

Direct beneficiaries include non-governmental organizations, public officials, independent TV and radio stations, independent print media, and political parties. Indirect beneficiaries include virtually all Russians who will benefit from stronger mechanisms for substantive participation in civil society. This objective directly supports the U.S. national interest of national security, as defined in the U.S. Embassy's Mission Performance Plan for 1999. Specifically, the activities under this objective support participatory civil society, which contributes towards Russia's democratic transition.

Key Results: Three key results are central to this objective. (1) Non-governmental organizations provide alternatives to the ballot box for participation in economic and political decision-making. (2) Increased public access to information, through more programming produced and broadcast by independent stations in the regions, enables more informed political and economic choices. (3) Nationally and locally administered elections are free and fair.

Performance and Prospects: Performance to date has been encouraging although the effects of the ruble's devaluation and the collapse of the banking system affected most activities throughout 1999 under this objective. Non-governmental organizations experienced serious setbacks in their fundraising efforts. The sharp decline in advertising revenues threatened the very survival of many non-state controlled regional media. The banking and financial crisis also froze political party assets, making it difficult for political parties to support party-building activities.

Despite these setbacks, development of political processes made substantial progress in 1999. A Russian non-governmental organization, the Institute for Electoral Systems Development, was established with USAID assistance to provide electoral advice to Russian officials when USAID funding ends. USAID also provided assistance to the Central Elections Commission and the State Duma Committee in electoral law reform. Russia's fundamental election law was amended in April 1999, and these changes included 55 USAID recommendations. Related assistance from USAID has assisted the efforts of the major reform parties in Russia to establish strong regional organizations and local party chapters.

Largely non-existent in Russia before 1991, independent media has grown impressively. The share of viewers in Russia's regions watching private broadcasting (as opposed to state television) jumped from 0% in early 1991 to 40% in 1998 and is estimated to have the potential to reach over 50% in 1999. USAID extended training and production support to over 300 regional non-state television stations that operate in 81 of the 89 regions in the Russian Federation. This support has been instrumental in the rise in the private broadcast media's audience share. In the non-state print sector, USAID has provided professional consulting to over 1,500 non-state regional newspapers in over 70 regions in Russia since 1993. An emergency media assistance program allowed USAID to provide immediate economic crisis-related assistance in 1999, helping ensure independent media's survival.

Civil society continued to grow in 1999 as non-governmental organizations made encouraging progress. Between 1997 and 1999 USAID assistance facilitate the passage of more than 50 laws support to promote cooperation between NGOs and the government in 24 cities and regions. There was virtually no legislation of this kind in 1993 when USAID launched NGO support programs in Russia. Since 1995, USAID has fostered the development of 24 NGO resource centers to provide training services, information resources, and technical consultations. Over the last three years, USAID has assisted over 3,000 union activists with training in collective bargaining, financial documentation, and basic trade unionism.

In 1999, USAID supported 24 U.S.-Russian partnerships that conducted joint programs in several key sectors, including civil society, business development, health, and environment. The successful implementation of the partnership programs benefited Russian institutions through training and collaboration with American partners. Over the next year, USAID anticipates that preparations for the presidential elections will be an important focus of our democracy program. After these elections in March 2000, much of USAID's election support will focus on strengthening Russian civic non-governmental organizations to increase citizen political participation. Another key new area for USAID over the next few years is domestic violence. With other U.S. Government agencies and donors, USAID is increasing civic awareness of the issue to prevent domestic violence; supporting legal institutions to protect victims; improving crisis centers; and training lawyers, prosecutors and judges to prosecute offenders.

Possible Adjustments to Plans: In the area of political processes and elections, USAID will be poised to respond quickly to Russian needs in the run-up to the March 2000 presidential elections. Depending on the outcome of the Duma elections, USAID may also provide training and technical assistance to new parliamentarians at the local level.

Other Donor Programs: Relying on USAID to provide practical guidance in quarterly donor meetings, the Canadian

International Development Agency, EU-TACIS, United Nations Development Program, the Mott Foundation, the MacArthur Foundation, the Ford Foundation and the Open Society Institute pursue limited NGO strengthening initiatives. USAID is the lead donor in electoral assistance, but EU-TACIS and the Organization for Security and Cooperation in Europe are the primary coordinators of elections monitoring assistance. Regarding political processes, EU-TACIS, the British Know-How Fund, the Carnegie Foundation, the Ford Foundation, and the McArthur Foundation are involved in political party development. The National Endowment for Democracy also provides grants to support women's political development programs. In addition, the British Know How Fund provides small grants to strengthen voter education and increase youth participation in politics. USAID support for political education through the Moscow School of Political Studies is closely coordinated with EU-TACIS, the Council of Europe, and the British Know How Fund. USAID and the Open Society Institute coordinate on key media issues, especially on crisis-related media assistance during 1999. Otherwise, the Media Assistance Donor's Forum includes the Eurasia Foundation, EU-TACIS, the World Bank, and several European Embassies**.**

Principal Contractors, Grantees, or Agencies: USAID works closely with the following partners: American Center for International Labor Solidarity, World Learning, Institute on Soviet-American Relations, Internews, National Press Institute, Eurasia Foundation, the Moscow School of Political Studies, Sakharov Center, Moscow Helsinki Group, International Republican Institute, National Democratic Institute, and International Foundation for Electoral Systems. USAID also works closely with many local Russian non-governmental organizations that receive grants under USAID's civil society programs.

Selected Performance Measures:

Indicator	**Baseline (year)**	**Actual (1998)**	**Target (1999)**	**Target (2000)**	**Target (2001)**
Participation in national elections certified free and fair by observers*	* (1995)	*	*	Yes	*
Percentage of viewers with access to independent TV	0 (1991)	40	40	45	50
Interactions between NGOs and local government	0 (1994)	22	25	35	40
Increased and strengthened party identification among voters**	22 (1994)	26	**	**	**
Number of media partnerships that are fully self sustaining**	0 (1995)	1	**	**	
Share of assisted NGOs showing increased domestic funding***	15 (1995)	***	***	***	***

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*Measurements are not applicable with elections not scheduled or held in these years.

**Performance against these indicators will not be racked beyond 1999 because activities reflected here have been completed.

****This indicator was not tracked in 1998 and has been discontinued because of changed project activities. The improved indicator tracked in this area is "NGOs diversify sources of financial support." Data on this new indicator will be collected in 1999.

ACTIVITY DATA SHEET

PROGRAM: Russia
TITLE: Strengthened Rule of Law and Respect for Human Rights, 118-022
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $5,709,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $5,709,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1992 **ESTIMATED COMPLETION DATE:** FY 2010

Summary: USAID support for the rule of law represents a long-term commitment, the program having begun 1993. One principal aim of assistance is to increase investor confidence in Russia by strengthening legal systems to better support democratic processes and market reforms. USAID's work under this objective for FY 2000 focuses on strengthening judicial administration and training; improving the quality of legal representation through legal education and training; improving the enforcement of judgments; and supporting human rights.

The direct beneficiaries of these activities include the Russian judiciary, attorneys, the Bailiffs Service, and Russian non-governmental organizations. Indirect beneficiaries include local and international private businesses, and the entire Russian population that benefits when USAID programs ensure that rule of law exists in Russia. This objective directly supports U.S. national security, as defined in the U.S. Embassy's Mission Performance Plan for 1999. Specifically, the activities under this objective help strengthen democratic institutions and values in Russia.

Key Results: Three key results will help achieve this objective: (1) making judicial decisions uniform, predictable and made without delay; (2) strengthening judicial enforcement services to induce greater voluntary compliance with court judgments; and (3) enabling effective advocacy to increase adherence to international human rights commitments.

Performance and Prospects: Many constraints in Russia have impeded progress in rule of law and human rights. These constraints have included lack of financial resources for the judiciary; the absence of strong government mechanisms for enforcement of judgments; violations of the social and economic rights of the poor and vulnerable; and widespread corruption. Working within these constraints, USAID has forged ahead to strengthen rule of law and human rights in Russia during FY 1999.

Despite these constraints, USAID assistance improved the rule of law by strengthening the judiciary. Specifically, over the past year and a half, over 1,300 Russian judges and court administrators have participated in programs aimed at improving judicial understanding of law and judicial ethics, court administration, and continuing judicial education. Support for the new Judicial Department of the Supreme Court, which is the judicial branch organ now responsible for administering the courts of general jurisdiction, has contributed to strengthening judicial administration. In addition, USAID has fostered partnerships between U.S. and Russian judicial agencies, such as the Judicial Department and the Administrative Office of the U.S. Courts. A special project with the Supreme Qualifying Collegium, the judicial branch organ responsible for enforcing discipline against judges accused of ethics violations, raised awareness of judicial ethics among hundreds of regional judicial leaders.

In addition, USAID concentrated on increasing the availability of competent counsel and improving enforcement of court judgments during FY 1999. USAID programs continued to help Russian legal professionals learn about newly enacted commercial laws and issues affecting women's rights and further promoted clinical legal education in Russian law schools. Support continued for sister bar partner partnerships between the legal communities of five U.S. states and five Russian regions. USAID funded training for members of the Bailiff's Service of the Ministry of Justice who enforce court judgments, including specialized seminars on such topics as tracing of assets. Finally, USAID supported a human rights program in 30 regions in Russia, resulting in reports for all 30 regions as well as a report about the national human rights situation. Other human rights programs supported and made facilities available to organizations working on issues such as the rights of minorities, refugees, and psychiatric patients among other groups.

Possible Adjustments to Plans: USAID is designing a follow-on assistance program to support the Russian judiciary, including the Judicial Department and the Judicial Academy. USAID is also assessing its anti-corruption activities and plans to initiate new activities in the areas of corporate governance, the legal and regulatory framework for business and investment, and non-governmental organizations.

Other Donor Programs: USAID coordinates with other donors in rule of law and human rights through quarterly meetings for all rule of law donors in Russia. For instance, USAID-funded clinical and legal education activities complement similar activities conducted by the Ford Foundation, the Open Society Institute, and other donors. In addition, USAID works closely with U.S. Government agencies such as the State Department and the Department of Justice, which support criminal law reform and improved law enforcement for law enforcement officials, prosecutors, and judges. In addition, USAID cooperates with local institutions such as the Sakharov Center and the Moscow Helsinki Group. Finally, USAID works with the Russian government, local governments, and legal associations on rule of law issues.

Principle Contractors, Grantees, or Agencies: USAID works with a wide range of U.S., international, and local

organizations to implement its rule of law and human rights programs. Major partners include the Center for Institutional Reform and the Informal Sector; American Bar Association/Central and East European Law Institute; Chemonics and the National Judicial College; the Sakharov Center and Museum; Moscow Helsinki Group; and the Organization for Economic Cooperation and Development.

Selected Performance Measures:

Indicator	Baseline (year)	Actual (1998)	Target (1999)	Target (2000)	Target (2001)
Increased number of regions with human rights monitors	0 (1997)	30	60 (actual)	70	80
Judicial decisions are viewed as uniform and predictable by commercial lawyers (annual survey on scale of 1 to 4, with 4 as best result)*	*	2.4	2.4	2.4	2.6
Percentage of civil judgments fully executed	10 (1998)	10	15	20	25
Judges have electronic access to laws and judicial decisions**	no (1997)	no	yes (actual)	**	**

*A change in survey methodology change negates old baseline figure.

**Ten regional commercial courts have computers that allow them to obtain and share information on the Internet. The activity has concluded; thus there are no targets for 2000 and 2001.

ACTIVITY DATA SHEET

PROGRAM: Russia
TITLE: Improved Effectiveness of Selected Social Services and Benefits, 118-032
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $11,750,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $12,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1992 **ESTIMATED COMPLETION DATE:** FY 2010

Summary: USAID aims to improve the effectiveness of social services in Russia through improvements in the health sector and in community-level social services. Specific focus areas include HIV/AIDS and tuberculosis, women and infant care, orphans, community medical partnerships, and social service delivery systems. Given that many segments of the Russian population associate political and economic reforms with the deteriorating quality of life in the country, and given the continued deterioration of social services, this work is critical. Unchecked, this trend has the potential to negatively impact both economic growth and the development of a more open, democratic society.

Direct beneficiaries of this effort include orphans who will benefit from expanded range of life choices, young people who need information on the prevention of infectious diseases, young families who require housing and communal services, and Russians of reproductive age. Other direct beneficiaries include Russian health care professionals, health facilities, and non-governmental organizations. Indirect beneficiaries include all Russian citizens who will benefit from improved social services.

This objective directly supports the U.S. national interest in global issues, as defined in the U.S. Embassy's Mission Performance Plan for 1999. Specifically, the activities under this objective promote improvement in the effectiveness of health services, thus helping decrease the spread of disease within Russia and across international borders.

Key Results: Three key results under this objective are: (1) decreasing abortions; (2) increasing the number of family planning clinics that promote modern methods of contraception; and (3) targeting social safety net programs to meet the needs of the most vulnerable populations.

Performance and Prospects: USAID has faced a complex situation in the social service sector in Russia. This year,

abortion rates were twice as high as live births. The number of HIV infections tripled in 1997 and doubled again in 1998. Tuberculosis infection rates in Russia this year were ten times higher than those in the United States; and an increase has been registered in the incidence of drug resistant tuberculosis. Local social service entitlements have often left needy young Russian families overlooked in the provision of support. Given these overwhelming problems, USAID's ability to improve the general well being of the average Russian citizen has been limited, but it has achieved certain significant results.

Survey data on abortion rates in 1996-1997 showed that rates declined by 11% in USAID-assisted areas, compared to 7% in non-assisted areas. These results were attributed to USAID's comprehensive reproductive health strategy that introduced safe and efficacious family planning services through public education, training of health care providers, and service demonstration projects. This project ended in 1999, after having provided over four million women in Russia with access to modern family planning information and services. A follow-on strategy, which aims to improve maternal and infant health as well as women's health in general, began in FY 1999.

Two other new strategies, which focus on STD/HIV/AIDS and tuberculosis, began in FY 1999. USAID HIV/AIDS prevention work has provided basic information about HIV/AIDS, and has established U.S-Russian partnerships in Moscow and Saratov. USAID in collaboration with international and local partners has identified sites for pilot tuberculosis projects in Ivanovo, Orel,

and Vladimir. The Mission has made plans to implement tuberculosis therapy, including treatment of multi-drug resistant tuberculosis, in Ivanovo.

Progress occurred in other areas as well. In 1999, USAID initiated a project to address the plight of Russia's orphans. The program, which focuses on Regional Initiative sites, has emphasized community-based rehabilitation services to enable families to keep their children at home, including disabled children; family-centered alternatives to institutionalization; and life skills training for older orphans. USAID work has helped ensure that over 90% of Russian communities have adopted housing allowance programs to ensure that deserving families receive needed subsidies. Such programs have ensured that families receive housing subsidies based on actual financial need rather than on pre-determined categories (e.g. veterans of wars and military pensioners). While the overall percentage of families that receive housing allowances has remained steady at approximately 10%, more deserving families have now received a greater proportion of subsidies. This program has been shifting to emphasize broader urban issues of social sector support subsidies, including increasing the efficiency of service delivery, the rationalization of service distribution, and reducing the budgetary strain on local government from service provision. In September 1999, a new social service delivery project was started to help selected municipalities build on the success of the housing subsidy work by introducing means testing to other social sector services.

Partnerships continued to be an important theme in USAID's health portfolio. In October 1998, new U.S. and Russian health partnerships began to focus on community-based primary health care with a broad range of partners. Under this program, USAID established four new community-based partnerships to work with municipal governments, social services, schools, universities, and public organizations to foster more effective and efficient delivery of health services in communities. In 1999, 15 partnerships funded under the original hospital partnership program implemented activities in hospital management and administration, nursing, women's health, neonatal resuscitation, maternal and child health, hospital infection control, and tuberculosis.

Possible Adjustments to Plans: Key priorities will include assisting orphans, fighting infectious diseases (HIV/AIDS and tuberculosis), women and infant health care, and community partnerships in support of these priorities. A new initiative focusing on local economic development in small cities, most likely in Regional Initiative areas, may receive initial funding in FY 2000. USAID will continue its support to the U.S.-Russian Health Committee under the U.S.-Russia Joint Commission on Economic and Technological Cooperation.

Other Donor Programs: In HIV/AIDS/STDs, the United Nation's AIDS Program (UNAIDS) and Russia's health authorities look to follow on to USAID pilot efforts. The Open Society Institute, EU-TACIS, DFID (British Development Agency), *Medecins Sans Frontieres*, and others are implementing complementary efforts in areas such as harm reduction for injecting drug users. USAID funds the U.S. Centers for Disease Control and Prevention and the World Health Organization to implement a tuberculosis prevention and control program in three regions. More generally, USAID also participates in the U.S-Russia Health Committee's work on improving the overall health care delivery system.

Principal Contractors, Grantees, or Agencies: USAID uses a wide range of implementers, including the World

Health Organization, Holt International Children's Services, Mercy Corps International, U.S. Centers for Disease Control and Prevention, Population Services International, Boston University, American International Health Alliance, U.S. Department of Health and Human Services, Urban Institute, and Research Triangle Institute.

Selected Performance Measures:

Indicator	**Baseline (year)**	**Actual (1998)**	**Target (1999)**	**Target (2000)**	**Target (2001)**
Abortion rates in USAID-supported areas decrease more than the national average	5% (1996)	5%	5%	5%	5%
Family planning clinics operational	0 (1995)	46	48	51	51
Number of communities with quality social safety net programs	0 (1999)	0	(actual) 0	4	8
Number of facilities using modern cost accounting and financial systems in pilot oblasts*	0 (1994)	20	*	*	*
Infectious disease protocols initiated**	0 (1999)	**	**	**	**

*No 1999 data is available for this indicator, because the health activity that generated these data ended in fall 1998. This indicator will not be reported on in subsequent Congressional Presentations.

**This indicator was discontinued as the health strategy was refined and new indicators developed for tuberculosis and HIV/AIDS in 1999.

The United States Agency for International Development

Russia

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	129,617	161,162	178,480	161,850
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**129,617**	**161,162**	**178,480**	**161,850**
Operating Expenses	5,470	5,300	5,500	5,700
Trust Funds	0	0	0	0
Total Operating Costs	**5,470**	**5,300**	**5,500**	**5,700**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	18	15	17	17
Other U.S. Citizen	3	2	3	3
FSN/TCN DH	66	61	59	56

Subtotal	**87**	**78**	**79**	**76**
Program Funded*				
U.S. Citizen	19	12	15	15
FSN/TCN	46	46	46	45
Subtotal	**65**	**58**	**61**	**60**
Total Direct Hire Work Force	**152**	**136**	**140**	**136**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**152**	**136**	**140**	**136**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
118-013 Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	11,547	0	0	0	0	0	11,547
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
118-014 A More Competitive and Mkt.-Responsive Priv. Fin. Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	5,900	0	0	0	0	0	5,900
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

118-016 Improve capacity for Envir mgt to promote sustainable econ growth

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	6,780	0	0	0	6,780
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

118-021 Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	9,324	0	0	9,324
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

118-022 Legal Systems that Better Support Dem. Processes and Mkt. Reform

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	5,709	0	0	5,709
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

118-032 Improve the Sustainability of Social Benefits and Services

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	12,000	0	0	0	0	12,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

118-041 Special Initiatives

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0

- FSA	96,850	0	0	0	0	0	96,850
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
118-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	12,540	0	0	0	1,200	0	13,740
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	126,837	12,000	6,780	15,033	1,200	0	161,850
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Carol Peasley

The United States Agency for International Development

TAJIKISTAN

Development Challenge

Humanitarian Assistance

Other Donors

FY2001 Program / Activity & Budget Information

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- Program Summary
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Introduction

Tajikistan is a small, unstable, new state in Central Asia bordering Afghanistan, China, Kyrgyzstan, and Uzbekistan. Tajikistan is emerging from five years of civil war between regional and ideological factions. The United States, the largest bilateral donor, is a key supporter of the 1997 Peace Accord. Securing the sovereignty, independence, and territorial integrity of the country is a fundamental goal of U.S. foreign policy. The fragile peace and potential disintegration of Tajikistan threaten regional stability and deflect attention within the region from critical economic and political change. Responding to humanitarian needs remains a key U.S. concern. USAID activities support the U.S. Embassy Mission Performance Plan which highlights the following U.S. priorities for national security in Tajikistan: ensuring that local and regional instabilities do not threaten the security and well-being of the United States and its allies; increasing adherence to democratic practices and respect for human rights; assisting recovery and broad-based economic growth after five years of civil war; and supporting privatization and reform of the banking systems.

The Development Challenge

Tajikistan is the poorest of the new Central Asian states and the only one in which underlying ethnic, regional, economic, and ideological strains led to open warfare and major population displacements in 1992, the time of independence. The June 27, 1997 Peace Accord opened a new phase in Tajikistan's short history, formally ending the civil war begun in 1992. The war left at least 50,000 dead and 700,000 displaced people. It also left a legacy of hatred and suspicion that makes reconstruction tenuous and difficult.

Tajikistan has made important strides in carrying out the Peace Accord. USAID supports the reconciliation process and the rebuilding of institutional capacity. In the fall of 1998, the U.S. Ambassador and all U.S. employees from Dushanbe were relocated to Almaty, Kazakhstan. In 1999, the country was relatively stable, and opposition forces were reintegrated into civilian society. Unfortunately, due to the security situation, neither USAID officers nor contractors have easy access to development partners or clients. Programs must be managed with limited resident staff.

A new constitution was adopted in late 1999. Demobilization has proceeded and parliamentary elections are planned for early 2000. On the negative side, the Government of Tajikistan continues to place significant obstacles to the full participation of opposition parties, as evidenced by the flawed presidential election in November 1999. As a result, election assistance has been put on hold.

Tajikistan had slightly positive economic growth in 1999, leading to relative macroeconomic stability. Meanwhile, the Tajik ruble continues its decline, albeit at a slower pace. The Government of Tajikistan has been implementing International Monetary Fund (IMF) fiscal austerity policies. The macroeconomic situation had made up some lost ground, due primarily to dynamic service-sector growth of the economy. Progress in large-scale privatization is slow,

but there are some hopeful signs with the completion of small-scale privatization and changes proposed to the antiquated Russian tax laws.

In 1999, USAID increased its support for the peace process through reconstruction, assistance to civil society development, and constitutional and electoral reform. USAID also continued to provide advice and training on privatization and granted a contract to an Almaty-based think tank to carry out social and economic surveys. Tajikistan receives assistance with energy and environmental challenges through activities in USAID's Central Asia Regional program.

Most of USAID's democracy work in Tajikistan is directed toward citizen community groups, helping citizens to rebuild their communities; reintegrating former combatants; and increasing opportunities for income generation, access to basic service, and citizens' participation in governance. In the area of elections, there is cautious optimism that upcoming parliamentary elections will be freer and fairer than the presidential election last fall. For this reason, USAID is continuing some of its election-related assistance. The outcome of the parliamentary election will determine the nature and extent of any further USAID support in this area.

Some short-term assistance and training is underway in economic restructuring, democratization, and health and family planning. USAID participant training programs both expose Tajik citizens to alternative approaches and systems for managing their country, and prepare the human resources needed for development once there is greater political stability. These partnerships and exchanges remain an important component of U.S. assistance. USAID trained over 340 reform-minded government leaders and professionals, in areas directly related to democracy and a free-market economy. Twenty percent of the trainees were women. USAID's successful third-country training allows participants to observe positive reform in other Central Asian Republics. Due to the security situation in Tajikistan, training has been one of the most effective means of affecting change.

Humanitarian Assistance

USAID has been providing humanitarian-focused, support for economic development. Through the Tajikistan Social Investment Fund's poverty alleviation program, USAID supports community mobilization around water use issues; institutes measures to prevent water-borne diseases; and addresses policy issues related to water charges and consumer use. In 1999, USAID provided $3.78 million in PL480 Title II assistance (commodities and transportation), and $25,000 in assistance from the Office of Foreign Disaster Assistance. An estimated $1.13 million PL480 Title II assistance (commodities and transportation) is budgeted for Tajikistan in FY 2000.

Other Donors

While the United States has taken the lead in responding to the humanitarian crises following the civil war, the IMF and the World Bank (IBRD) have provided substantial resources to support macroeconomic stability and reform. Thus far, $90 million has been disbursed from the IMF; $180 million from the IBRD for past and planned activities, and $40 million from the Asian Development Bank. The IBRD currently is financing a $12 million Poverty Alleviation Project with plans to initiate a second $10 million phase in 2000. The United Nations High Commission of Refugees provided significant assistance during the refugee repatriation period, with the United Nations Development Program moving into the field with increasingly significant resources since FY 1995. The European Union (EU) and individual EU countries (Turkey, Russia and Iran) have also assisted Tajikistan, as has the International Red Cross, supported in part by U.S. Government contributions. Large numbers of private voluntary organizations, including several from the United States, are active and effectively managing their programs.

The United States Agency for International Development

Tajikistan

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID will continue to emphasize the inter-Tajik peace process, integration of former combatants, and national reconciliation. The size and nature of USAID's programs will be determined by the political and security situation of Tajikistan. USAID will also promote micro-credit, private enterprise, and the evolution of a commercial legal and regulatory structure.

There may also be some assistance to the private banking sector as the majority of Tajikistan's 19 banks are small and financially weak. USAID will continue to support the development of non-governmental organizations (NGOs), with a focus on those that contribute to the peace process through reconciliation and local community development. USAID also promotes reconciliation and limited economic development efforts through microfinance opportunities, agricultural growth, community-based projects, and health reform. USAID will continue to support independent electronic media, focusing on how media stations can contribute to public understanding of the peace initiatives and upcoming elections. After the election of the new parliament, and contingent upon election proceedings, USAID intends to work on strengthening the institutional capacity of the parliament. In the social sector, USAID will continue to work closely with other donors, private voluntary organizations and NGOs.

ACTIVITY DATA SHEET

PROGRAM: Tajikstan
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 119-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $750,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,000,000 FSA
STATUS: Continuing **Act**

INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This objective is critical to rebuilding Tajikistan's war-torn economy and providing income and jobs to those displaced by years of civil conflict. While the economic policy environment has improved noticeably, chronic security problems resulted in the relocation of USAID personnel to Kazakhstan. This relocation diminished progress toward objectives. Long-term USAID development activities are just beginning.

USAID's initial training in commercial law reform has been well received. USAID is helping to establish the legal structure necessary for the emerging private sector. The government made significant progress toward a market economy in 1998 by privatizing 23% of Tajikistan's enterprises, raising the total privatized from 50% to 73%.

Key Results: Three key results are necessary to achieve this objective: 1) an improved operating environment for private sector growth; 2) improved human resources, so as to enhance the functioning of a market economy; and 3) increased availability and accessibility of capital and technological resources for the private sector.

Performance and Prospects: Private economic activity has displayed remarkable dynamism in recent years. Service

sector growth, particularly in private catering and retail trade establishments, has outstripped average growth. This dynamism, rather than privatization per se, lies behind a very rapid increase in the private sector share of GDP, to more than 30% in 1998. This is up from 15% in 1994. Restructuring of state-owned companies, by contrast, has been slow. Lack of restructuring has limited the interest of strategic outside investors. Foreign direct investment amounts to just $160 million since 1991, or $25 per person.

During 1999, Central Asian-American Enterprise Fund (CAAEF) made five loans totaling $800,000 to private businesses. A "Special Cooperation Agreement" between CAAEF and the government was signed in 1999. Winrock's Farmer-to-Farmer volunteers assisted enterprises in preparing business plans, and loan and equity proposals for CAAEF; and acted as consultants on post-investment management. In late 1999, a new micro credit project was started, and lending operations will start in 2000.

If the government remains committed to economic reforms and continued political stability, USAID will continue modest commercial law assistance in 2000 and 2001. The objective is to develop a market-oriented commercial infrastructure, including key reforms in the law. The program will initially focus on drafting the following laws: bankruptcy, collateral law, and foreign investment. Other areas will include promotion of the transfer of assets to the private sector and the strengthening of the rights of private investors. Practical constraints to business formation and operation (e.g., licensing and registration) will also be addressed. In addition to commercial law reform, in-country training will be provided to officials (i.e., judges, lawyers, and prosecutors) involved with the implementation of a market-friendly regulatory regime.

During 2000, CAAEF will review its loan portfolio, which is experiencing higher than expected levels of loan delinquencies. CAAEF is undertaking a review of the situation with its local partner banks, which tend to be undercapitalized with the central bank. Through 2000, USAID will support the Kazakhstan Institute of Management, Economics, and Strategic Research to research current economic issues in Tajikistan.

Possible Adjustments to Plans: A key focus in the coming years will be the Fergana Valley, for it is one of the most dynamic regions for private enterprise growth in Central Asia. If the security opportunity presents itself, USAID will provide business and economic training. During 2000, USAID will conduct an assessment of the trade and investment environment in Tajikistan to determine future directions. Also, USAID will develop policy reform benchmarks as part of a U.S. Department of Agriculture food assistance program.

Other Donors Programs: USAID will continue to coordinate closely with the World Bank and IMF, on private sector development and economic restructuring activities. USAID activities are also coordinated with those of other donors such as the European Union and UN Development Program on economic reform issues. The German Agency for Technical Cooperation and the Asian Development Bank are both beginning legal assistance efforts in Tajikistan, with USAID serving as coordinator. USAID is also working with the Center for International Legal Cooperation in Leiden, the Netherlands, to develop a multinational program of assistance to Tajikistan in the elaboration and adoption of a proposed Civil Code.

Principal Contractors, Grantees, and Implementing Agencies: USAID assistance activities are implemented through Associates in Rural Development/Checchi which does commercial law drafting and implementation and commercial law training. The U.S. private voluntary agency, International Executive Service Corps, provides short-term technical assistance and consulting services to develop business plans. CAAEF provides loans to small- and medium-sized private enterprises. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Govt. of Tajikistan adherence to conditions of international financial institutions	Yes (1997)	Yes	Yes	Yes	Yes
Share of GDP generated by private enterprises	20%(1996)	30%	50%	65%	75%
Dollar value of the joint venture funds*					
Percent of total capital investment in the private sector*					

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*During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program. Subsequently, data were not collected on these indicators.

ACTIVITY DATA SHEET

PROGRAM: Tajikstan
TITLE AND NUMBER: Increased Citizen's Participation in Political and Economic Decision-making, 119-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $1,000,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,000,000 FSA
STATUS: Continuing

FREEDOM Support Act
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2002

Summary: Citizen participation in political and economic decision making is not only a foundation for democracy in Tajikistan, but a cornerstone for building peace in the aftermath of the five-year civil war. A return to war may preclude further progress, and would likely reverse any democratic gains made to date. Thus, this assistance is closely linked to the process of building lasting peace. USAID activities under this objective support the U.S. Embassy Mission Performance Plan's priority to increase government adherence to democratic practices and respect for human rights by building the capacity of citizens and citizens' organizations to expect, and advocate for, a responsive government.

USAID suspended its voter registration system development project following irregularities in Tajikistan's presidential elections last fall. However, USAID is continuing some its election-related assistance this year in light of guarded optimism that upcoming parliamentary elections will be freer and fairer. This assistance includes training for poll workers and judges (on election adjudication) and voter education. The outcome of the parliamentary elections will determine the nature and extent of any further USAID assistance in this area.

In the area of civil society, USAID supports local, non-governmental organizations (NGOs) working to rehabilitate the country through repatriation of refugees, conflict resolution, and other activities. USAID's media program complements the civil society and political process activities by supporting the free flow of information during the elections, and by highlighting to journalists the importance of unbiased and accurate reporting about the peace process. Direct beneficiaries of these activities are assisted media organizations, and members and leaders of assisted NGOs. Indirectly, all of the citizens of Tajikistan will benefit from a strengthened civil society.

USAID also supports judicial reform through this objective. Tajikistan started the process of judicial reform with adoption by referendum of a constitutional provision for a Council of Judges. USAID is assisting the government in developing a modern model for the council as a means to develop the independence of the judiciary and, thereby, improve rule of law. USAID helped the government enact a civil code in mid 1999. The direct beneficiaries are all the citizens of Tajikistan who will benefit from a stronger and more equitable judicial system.

Key Results: Three key results are necessary to achieve this objective. (1) NGO participation in civil society is strengthened. (2) Information on domestic economic policies and politics becomes readily available. (3) The government becomes more responsive and accountable to citizens and citizen organizations.

Performance and Prospects: The return of the American staff of USAID-implementing partners has improved the performance of some of the democracy programs. With USAID assistance, a working group of NGOs and parliamentarians drafted a new NGO law that is scheduled to be presented to the Parliament early next calendar year. USAID continues to work with civil society organizations to promote their involvement in peace in the country.

Assistance to independent media continues to be important given the government's use of the media law against media outlets and future demands of the peace process. As such, USAID's implementing partner has developed a comprehensive plan of legal assistance and training for media outlets throughout Tajikistan. The production of Pairachi Zindagi ("The Path of Life"), a national news exchange, has become an expanded source of local news with critical reporting of community issues. Finally, USAID recently helped register the National Association of Independent Mass Media. This organization now provides a stronger opportunity for media advocacy efforts in the country.

With USAID assistance, the judicial association played an active role over the past year in promoting an independent

judiciary as the Council for National Reconciliation considered constitutional amendments.

Possible Adjustments to Plans: USAID democracy assistance will continue to be focused on strengthening the peace process. In particular, USAID will look for new opportunities to integrate ex-combatants and displaced persons into the community activities of civil society organizations. Furthermore, USAID intends to work more closely with other donor partners on cross-sectoral integration and synergies in our programming.

Other Donor Programs: USAID is working closely with the United Nations Mission of Observers in Tajikistan and the Organization for Security and Cooperation in Europe on coordinating election-related assistance, as well as civic education projects. Other joint activities include co-sponsoring constitutional reform and election workshops and the rehabilitation of various newspapers. The UN High Commission for Refugees provides additional financial support for USAID-supported NGO resource centers throughout the country. Other donors, including the European Union and various United Nations agencies, are also involved in a variety of activities that promote democracy and the peace efforts. Donors meet regularly to discuss areas of common concern, and this coordination will continue.

Principal Contractors, Grantees, Implementing Agencies: Several USAID-funded American NGOs, such as the American Bar Association/Central and Eastern European Law Institute, Internews, and the International Foundation for Electoral System, are playing a role in promoting democracy and the peace effort in Tajikistan. The Counterpart Consortium comprised of Counterpart International and the International Center for Not-for-profit Law, also participates in local NGO development. The NGO, Initiative for Social Action and Renewal in Eurasia, will also participate in the development of local environmental NGOs. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of NGOs involved in advocacy that contacted media/government	9/9(1997)	31/44	40/50	50/60	60/70
Average daily minutes of local news programming	5 (1996)	10	12	14	16
Number of Parliamentary hearings and committee meetings addressing legislative/policy	0 (1994)	2	2	2	5

ACTIVITY DATA SHEET

PROGRAM: Tajikistan
TITLE AND NUMBER: Reduced Human Suffering and Impact of Crisis, 1119-031
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,000,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,500,000 FSA
STATUS: Continuing

FREEDOM Support Act
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2001

Summary: Tajikistan has experienced five years of civil war between regional and ideological factions, a war which left 50,000 dead and 700,000 displaced along with a legacy of animosity and hatred. This objective aims to reduce suffering and the impact of two parallel crises: the civil war, and the economic upheaval of transition from a centrally-planned to a market economy. However, there has been a conscious programmatic shift from strictly humanitarian assistance towards assistance which also promotes economic growth when opportunities for longer-term development emerge. USAID activities in this area support the U.S. Embassy's Mission Performance Plan's goal to ensure local and regional stability.

In June 1997, the Government of Tajikistan and key opposition leaders signed a peace accord and it seemed that the country had at last established the basis for genuine peace. A number of violent incidents combined with setbacks in implementation of the 1997 Peace Accords, however, slowed USAID assistance. The closing of the U.S. Embassy in

Dushanbe and the withdrawal of all U.S. citizens compounded the problem.

Support for the peace and reconciliation process has assumed utmost priority for USAID. Assistance for peacemaking is expected to lead to national reconciliation and reintegration of ex-combatants into society. Three-quarters of the available development resources in 1998 were directed towards this end. This expected result is improved capability to build an environment for peace at both the national and community level. USAID will introduce the communities most impacted by civil unrest to methods of reconciliation and reconstruction, and provide support at the national level to peacemaking initiatives.

Simultaneous support in other areas will provide tools for longer-term development initiatives. These activities will address specific development constraints in areas of income generation. Direct beneficiaries of this assistance are the communities impacted by the civil war, former soldiers who have elected to become engaged in implementing the peace agreements, and those displaced refugees who elect to resettle in designated areas.

Key Results: Two key results deemed critical to achieving this objective are: 1) increased opportunities for citizens to earn incomes, and 2) strengthened community institutions.

Performance and Prospects: Development-oriented humanitarian programs introduced since 1996 have achieved increasingly noteworthy results. The Technical Assistance Social Investment Fund (TASIF) project has enabled the formation of 70, community-based organizations to identify, contract and manage water projects in rural Tajikistan. The treatment, distribution, and maintenance of potable water systems has been one of the results of the TASIF project, thereby improving the health and well-being of villagers once subject to annual water-borne diseases such as typhoid.

A USAID-supported, small loan program for farmers permits loan repayment in kind directly to local institutions such as hospitals and orphanages, thereby benefitting both farmers and vulnerable groups. Repayment rates exceed over 90% in this program. In the agricultural and agro-processing sector, USAID-financed activities have increased crop yields in Gorno-Badakhshan, an autonomous oblast in Eastern Tajikistan with a population of 230,000; and a region that once relied almost exclusively on food aid imports. By 1999, 65% of the staple food needs (potatoes and wheat) were being met from local production as a result of a USAID-financed program. Another example of USAID assistance is a farmer’s association project from which 8,000 farm families of Leninsky District have benefited from modern inputs and basic agricultural services. USAID has provided critically needed funding to the United Nations Mission of Observers in Tajikistan as a key contribution to maintaining personnel and peacekeeping activities at a critical time in the implementation of the peace process.

USAID also provided support for the UN Development Program (UNDP) and UN Operations Support activities (UNOPS); particularly a UNDP rural reconstruction project for war-affected areas. In these areas, over 1000 former combatants are employed in rehabilitating and improving public structures damaged during the civil conflict. In 1998, USAID initiated assistance to a project of the Aga Khan Foundation to support establishment of private farmers in a war-affected area and to promote community-based measures in the Gharm region. This assistance will increase agricultural production by providing technical assistance in modern farming methods.

Other programs have improved access to basic health services for 260,000 people, and established 62 village health committees covering approximately 85,000 beneficiaries. A revolving pharmaceutical fund, established with USAID support, has enabled 17,000 patients to purchase or receive needed medications.

Possible Adjustments: It is expected that assistance through the year 2000 will continue to focus on economic and social development activities which support the peace and reconciliation process.

Other Donor Programs: Donor coordination in Tajikistan is excellent and is regarded as among the most effective in the former Soviet Union. Various donor groups meet weekly to discuss programs and exchange information on important developmental and security issues affecting Tajikistan. Lead organizations include: the United Nations (UNDP, UNOPS, UNICEF, WHO, etc.); the Organizations for Security and Cooperation in Europe; bilateral donors including various European organizations; and a variety of U.S. and international PVOs. Both the World Bank and the UNDP support initiatives that rely largely on local and foreign non-governmental organizations to deliver badly needed goods and services to many areas of Tajikistan.

Principal Contractors, Grantees, or Implementing Agencies: Groups that have received USAID funds to support the peace process, reduce suffering, and prepare for long-term development include Save the Children, Relief International, CARE, World Food Program, Mercy Corps International, Counterpart Consortium, the United Methodist Committee on

Relief and Aga Khan Foundation. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of citizens assisted in income generation	0(1996)	7070	*	*	*
Number of community institutions Strengthened	0(1996)	238	*	*	*
Humanitarian/crises activities**					
Reconciliation/development programs**					

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*New targets are being established as part of an ongoing review.

**During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program. Subsequently, data were not collected on these indicators.

The United States Agency for International Development

Tajikistan

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	11,905	13,049	9,200	12,000
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	4,049	3,782	1,132	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**15,954**	**16,831**	**10,332**	**12,000**
Operating Expenses	0	0	0	0
Trust Funds	0	0	0	0
Total Operating Costs	**0**	**0**	**0**	**0**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	1	0	0	0
Other U.S. Citizen	0	0	0	0
FSN/TCN DH	2	2	2	2

Subtotal	**3**	**2**	**2**	**2**
Program Funded*				
U.S. Citizen	0	0	0	0
FSN/TCN	0	1	1	1
Subtotal	**0**	**1**	**1**	**1**
Total Direct Hire Work Force	**3**	**3**	**3**	**3**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**3**	**3**	**3**	**3**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
119-013 Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	2,000	0	0	0	0	0	2,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
119-021 Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	1,000	0	0	1,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

119-031 Human Suffering and Negative Consequences of Crisis are Reduced							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	1,500	1,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
119-041 Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	3,000	1,500	0	0	0	0	4,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
119-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	3,000	0	0	0	0	0	3,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	8,000	1,500	0	1,000	0	1,500	12,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Glenn Anders

The United States Agency for International Development

TURKMENISTAN

Development Challenge

Other Donors

FY2001 Program / Activity & Budget Information

Summary Tables
- Program Summary
- Work Force Data
- Program/Sector Summary

Introduction

The United States has a strategic and economic interest in Turkmenistan becoming economically viable, politically independent, and well integrated into international political and economic institutions. It has long borders with Iran and Afghanistan, as well as close proximity to the Caucasus, the Middle East, and South Asia. As an energy-importing nation, the United States is interested in ensuring that Turkmenistan's energy production potential is realized. Turkmenistan possesses the world's fourth largest natural gas resources as well as significant oil reserves. It has the potential to become an important player in world energy markets. The USAID program in Turkmenistan supports national policy reform to create favorable conditions for developing an oil industry sector according to international standards.

The Development Challenge

At the break-up of the Soviet Union, Turkmenistan was among the countries least prepared for change. When independence came in October 1991, the country had a very small industrial base and highly centralized political and economic systems. The Turkmen government continues to lag behind the other newly independent states in leading the country into the transition to becoming a plurasitic democracy with a market economy. As a result, USAID confronts numerous challenges in addressing the issues of fostering economic growth and promoting democracy.

While USAID has achieved some of the results identified in its strategic plan, there is little progress overall. USAID has not had the opportunity to become substantively involved in policy reform in Turkmenistan.

There are a number of reasons for the lack of substantial progress toward democracy and a market economy. The Government of Turkmenistan has not yet made a demonstrable commitment to democratic and economic reform. Turkmenistan remains a resolute one-party state with power vested in a communist-turned-nationalist leadership. The current leadership avoids changes that could entail significant loosening of state control over the economy or rapid political liberalization, arguing that such measures will cause instability and the deprivation of livelihoods for the working class. The European Bank for Reconstruction and Development (EBRD) ranks Turkmenistan the lowest of any former Soviet country in economic policy reform.

The general economic situation continues to deteriorate, making change more difficult. Export revenues remain depressed following the March 1997 decision to suspend gas exports through the Russian pipeline system. Oil production and exports have increased and the rise in global oil prices has provided some welcome foreign exchange earnings. The prospect of a Trans-Caspian pipeline to export Turkmen gas to Turkey offers promise for the future, but the near-term outlook continues to be bleak. Turkmenistan receives assistance with energy and environmental challenges through USAID's Central Asia Regional program.

While there have been modest gains in collecting tax revenues, the overall amount received falls well short of the amount required to balance spending. The budget operates increasingly on a non-cash basis. Expenditures have been

reduced, especially in health and education, but the available budget resources are still barely adequate to meet priority-spending categories on a timely basis. Although the official and parallel market foreign exchange rates remained close for much of 1998, the parallel market rose to about three times the official rate and has maintained that ratio throughout much of 1999. Inflation that was held in check throughout much of 1998 rose to an annual rate of 25% by mid-year 1999 and is expected to exceed 30% at year-end. To keep afloat, the Government of Turkmenistan has resorted to international borrowing at commercial rates. Foreign direct investment remains low, although there is considerable interest by foreign investors in the energy sector. There has been very little progress in real structural reform. According to EBRD estimates, the private sector's share of GDP remains a dismal 22%, far lower than the private sector's share of the GDP in all of the neighboring countries.

Turkmenistan has made little progress in moving from a Soviet-era authoritarian style of government to a democratic system. The national leadership exercises firm control over a highly centralized government structure with no freedom of the press, no independent trade unions or public associations, and no tolerance for opposition political parties. Parliamentary elections were not held on the "wide democratic basis" which the Government of Turkmenistan promised. Although there were at least two candidates for each of the 50 deputy seats, they were handpicked from the ranks of the Democratic Party (the former Communist Party), and government-controlled professional unions and social organizations. The new Institute for Democracy and Human Rights (IDHR), which has a mandate to foster democratization of the state and protect human rights, is in full operation. USAID has been assisting IDHR to identify institution building needs. While the number of non-governmental organizations has surprisingly increased four-fold in the last year, both U.S. private voluntary organizations and USAID-assisted, grassroots, community-based organizations have great difficulty in getting registered and gaining acceptance by the central government.

Eight years after independence, the average Turkmen faces hardships caused by unemployment, inflation, poorly funded government services, and a deteriorating physical environment caused in part by the current set of national policies. Many, particularly outside the capital, suffer from poor nutrition and disease, especially water-borne and infectious diseases. This is especially critical for women and children.

Partnerships, training and exchanges remained an important component of U.S. assistance. USAID trained over 330 reform-minded government leaders and professionals in areas directly related to democracy and a free-market economy. Thirty-five percent of the trainees were women. USAID's successful third-country training allows participants to observe positive reform in other Central Asian Republics.

Other Donors

The World Bank has restarted its lending program with projects aimed at improving rural health and incomes. The World Bank and USAID are collaborating in the agricultural sector to expand integrated pest management. The EBRD makes credit available for projects contributing to economic reform, especially for the modernization of agriculture and oil and gas production. The European Union (EU) supports improved agricultural production and processing, energy, and private sector development. The United Nations Development Program supports economic reform and management, the health and education sectors, and environmental protection. The United Nations Children's Fund assists with maternal and childcare. Other donors include the Turkish International Cooperation Agency, the British Know How Fund, and United Nations High Commission for Refugees.

The United States Agency for International Development

Turkmenistan

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID will emphasize developing the oil and gas sector as an engine for future growth by improving the operations of regulatory institutions, establishing international standards and practices, and ensuring greater environmental protection. Ancillary activities addressing the inter-related energy and environmental issues of the five, central Asian republics, including Turkmenistan, are implemented through the CAR Regional program. USAID support for business development will include credit, and business and economic education and training.

USAID assistance will be realistic, and take opportunities for effecting change at the local level; e.g., supporting fledgling NGOs and concentrating on community action; e.g., through water user groups, social partnerships, and professional associations. USAID assistance will stress the importance of the rule of law, and the role of civil society organizations as partners with the state to alleviate social problems and lead local community development. The emphasis in health will be on clinical training and education in infectious disease control and family medical care. USAID will support a demographic health survey to provide important data for decision making. A USAID-sponsored health partnership is training family medicine practitioners and nurses in evidence-based medicine at the primary health care level. USAID is also seeking to expand women's understanding of their own reproductive health needs and family planning choices by strengthening a network of reproductive health units.

Faced with a national leadership unwilling to support reform, USAID will place a large share of program resources into training and educational activities for Turkmen youth and students in hopes that providing the next generation with a better understanding of political and economic realities will increase support for reform among future leaders.

FREEDOM Support Act funds will be provided in FY 2001 under the Administration's Expanded Threat Reduction Initiative (ETRI), for programs designed to enhance border security and export control capabilities in Turkmenistan. ETRI assistance will contribute to the nonproliferation of weapons of mass destruction, and associated delivery systems, materials, technologies and expertise.

ACTIVITY DATA SHEET

PROGRAM: Turkmenistan
TITLE AND NUMBER: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 120-012
PLANNED FY 2000 OBLIGATION AND ACCOUNT: $100,000 FSA
PROPOSED FY 2001 OBLIGATION AND ACCOUNT: $100,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1998 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: The Government of Turkmenistan faces a potentially severe fiscal crisis. The nation's financial conditions have worsened, in large part due to a sharp drop in export revenues when Turkmenistan ceased exporting gas through the Russian pipeline system. Depressed oil and cotton prices have also had a negative effect on the economy.

Achieving this objective would help combat the worsening economic situation by improving budgetary and expenditure

policies and by offering a more rational allocation of scarce government resources. USAID assistance enables the government to make positive changes in budget management procedures.

The pace of change will likely be too gradual to avoid a fiscal crisis, especially in the absence of an IMF macroeconomic program. Turkmenistan has been the slowest country in the region to move toward market liberalization. It has made little progress in privatization and financial sector reform or in liberalization of its trade regime. Slight progress has been made in price liberalization; the government has maintained price controls on energy products and subsidizes some basic consumer goods.

The direct beneficiaries of this objective are the national and local government agencies that need sound budget policies, government employees and all entities with which the government is in arrears. Indirect beneficiaries would include all Turkmen citizens. Sound fiscal policies and management practices contribute to both short- and long-term economic stability and make a significant contribution toward the growth potential of the economy. Thus, achieving this objective contributes to the Mission Performance Plan goal of helping the country become economically viable.

Key Results: Three key results are necessary to achieve this strategic objective: (1) improved budget management; (2) less inflationary government borrowing; and (3) compliance with the conditions of international financial institutions, particularly the World Bank and the IMF.

Performance and Prospects: The national budget in Turkmenistan operates increasingly on a non-cash basis, with mutual offsets, barter and in-kind payments obscuring the government's underlying net position. Cash revenues accounted for only 41% of total revenues in 1998. The central budget deficit on a commitment basis was around 4% of GDP in 1998. This figure excludes deficits of the state funds, i.e., agriculture, cotton, oil and gas. The quasi-fiscal deficit - central budget deficit plus deficits of the state funds - was around 15% in 1998, financed mainly through foreign borrowing, which stood at $1.8 billion (around 120% of GDP) at the middle of 1999. The government has also extended substantial subsidized directed credits to the agricultural sector. The latter are rarely paid back, effectively resulting in money creation by the central bank.

USAID partners provided specialized assistance on the budget process through a resident advisor. The Ministry of Finance has responded positively to USAID's recommendations on fiscal policy. The government incorporated most of the suggestions into its FY 2000 budget documents, all of which were passed by the Parliament. In FY 1998, an estimated 30% of the government's agencies were identified in the budget document. The FY 2000 budget document includes all known spending agencies. The FY 2000 budget document significantly increased the quality and quantity of financial information made available to the Cabinet and the Parliament. In contrast to previous practice, the document was topically organized and specifically separated and presented in volumes: central budgets and expenditures; local government budgets; state funds; and capital investments.

Using models developed during the formulation of the FY 2000 budget, the Government of Turkmenistan plans to introduce performance budgets government-wide in FY 2001. Budget components will include: (1) cost centers; (2) financing plan; (3) performance data; (4) expenditure estimates in economic classification order; and (5) an interpretive commentary. An upgraded computer system, financed by USAID, the World Bank and UNDP, will facilitate and sustain the introduction of recommended reform practices and will permit the introduction of accounting software to support reformed budget procedures.

Possible Adjustments to Plans: The focus of technical assistance is on the design and implementation of a formal budget process to establish modern performance budgeting and analytical methods. As long as the government remains committed to budget reform, USAID will continue to fund a resident budget advisor. The advisor will: (1) support effective implementation of budget reform legislation; (2) train key Ministry of Finance officials in budget analysis and preparation; and (3) introduce new budget formats and procedures consistent with international standards. Such work will complement the privatization or commercialization of state-owned enterprises. USAID is considering additional technical assistance to strengthen the macroeconomic analysis capacity of the Ministry of Economy and Finance.

Other activities that are planned over the course of 2000 and 2001 include expansion of local-level budget reform in the Dashhowuz region, and a linking of this activity with the strategic objective in health in an attempt to rationalize health expenditures.

Other Donor Programs: Although the IMF does not currently have a macroeconomic program, it does provide limited technical assistance to the central bank and the Ministry of Economy and Finance in the area of fiscal policy reform and central bank operations. EU/TACIS, through GTZ, has provided assistance to revise the Tax Code. The World Bank

will restart its technical assistance and training in upgrading the computerized budget capability of the Ministry of Economy and Finance. The UNDP just signed an agreement with this ministry to provide technical assistance and training in the budget reform area.

Principal Contractors, Grantees or Agencies: Management Sciences for Development (Rule of Law) and Chemonics International (Democratic Development and Citizen Participation).USAID provides technical assistance in budget and fiscal reform through the KPMG/Barents Group. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
General government deficit as percent of GDP	1.6%(1995)	3%	1%	0.095%	0.09%
Govt. of Turkmenistan compliance with conditions of international financial institutions*	No(1996)				
Off-budget share of total public sector expenditures	50% (1997)	5%	20%	10%	0%

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*During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program. Subsequently, data were not collected on this indicator.

ACTIVITY DATA SHEET

PROGRAM: Turkmenistan
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises,120-013
PLANNED FY 2000 OBLIGATION AND ACCOUNT: $700,000 FSA
PROPOSED FY 2001 OBLIGATION AND ACCOUNT: $700,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1997 **ESTIMATED COMPLETION DATE**: FY 2001

Summary: Turkmenistan's state-controlled economy is failing to meet the needs of its citizens. The private sector must grow to improve the standard of living. In 1997, when USAID began work on this objective in Turkmenistan, the private sector generated only 20% of GDP. While reliable figures for 1998 are unavailable, most estimates place this indicator at not more than 22% for 1998. Privatiza-tion continues to lag. The government has impeded growth in the private sector by requiring burdensome registration procedures, and by limiting access to credit and foreign exchange.

The commercial and official foreign exchange rates were unified in April 1998, implicitly depreciating the official rate by 25%. The Government of Turkmenistan continues to control imports by screening access to non-cash foreign exchange auctions. In addition, surrender requirements on hard currency export earnings remain in place; thereby aggravating currency nonconvertibil-ity. In late 1998, the IMF failed to reach an agreement with the government on the terms for a stand-by arrange-ment. As the general economic situation continued to deteriorate, donors hoped that the government would recognize the need for systematic, economic reform policies. Unfortunately, this has not yet occurred.

USAID continues to provide assistance to achieve market-oriented reform, especially in improving the legal and regulatory environment for private business. This assistance supports the growth of Turkmenistan's small private sector; the direct beneficiaries are the owners of small and medium enterprises. Achieveing increased growth of small and medium enterprises (SMEs) will substantially contribute to the Mission Performance Plan goal of helping Turkmenistan become an economically viable nation. As the legal and regulatory environment for businesses in Turkmenistan improves, USAID will consider increasing direct financial and technical support for SMEs.

Key Results: Three key results are necessary to achieve this strategic objective: (1) an improved operational environment for private sector growth; (2) improved human resources so as to enhance the functioning of a market

economy; and (3) increased availability of and access to capital and technological resources for the private sector.

Performance and Prospects: The private sector, outside of agriculture, accounts for less than 10% of GDP. All of the large enterprises - including cotton gins, building material plants, and food processing - remain in the public sector. The number of medium-sized and large enterprises awaiting privatization is 280. Privatizing these companies is likely to be difficult, particularly since the Government of Turkmenistan sets unrealistically high reservation prices, and limits land ownership rights. Turkmenistan's government has yet to adopt a coherent privatization program that would set the stage for rapid divestment; and interferes in the running of private companies. Company registration remains problematic, and government regulation unpredictable.

USAID provided assistance in trade and investment reform. USAID helped draft a progressive law on joint-stock companies that was enacted in November 1999. While these bode well, there are also some significant issues that could hinder prospects for success in the future: 1) the existence of competing state entities involved in privatization whose responsibilities overlap; 2) the lack of a clear political commitment to privatization; and 3) an inadequate legislative and regulatory base for privatization.

USAID suspended its assistance to the government's privatization program in 1999. After numerous efforts to revive the flagging privatization program, USAID has concluded that the Government of Turkmenistan has the expertise to carry out current small-scale privatization efforts. USAID also curtailed efforts with the Ministry of Agriculture and Water Resources in implementing agribusiness and land reform privatization after initial collaboration failed to produce mutually acceptable program plans. USAID, in partnership with the U.S. Department of Agriculture (USDA), continues to work with the ministry on pest management and crop protection.

USAID provided exploratory assistance on land titling and registration, but will not proceed without an unequivocal commitment from the Government of Turkmenistan.

USAID assistance has enabled a number of enterprises to expand their operations. USAID has provided business advice to numerous private-sector companies in different sectors, such as bakeries, wool spinners, a poultry farm, a print shop and a private commercial bank. Unfortunately, introduction of the needed macroeconomic reform has been slow. An improved business regulatory environment is required before business can grow and expand.

Possible Adjustments to Plans: Due to the government's continued postponement of a decision to accede to the World Trade Organization (WTO). USAID has suspended WTO training and accession related activities. Instead, USAID efforts will focus on the legal and regulatory reform to improve the trade and investment environment, as well as on the education of government officials and businessmen.

USAID plans to work with the major institutions of higher education in Turkmenistan to improve the next generation's understanding of a market-oriented economy.

Other Donor Programs: Important donor organizations support private sector growth and development. European Union/Technical Assistance for the Commonwealth of Independent States is providing assistance in the areas of privatization, agriculture and private sector development. The European Bank for Reconstruction and Development is beginning to implement an SME loan program. USDA funded a policy advisor to the Ministry of Agriculture and Water Resources. USDA continues to work with the ministry on pest management and crop protection.

Principal Contractors, Grantees, or Agencies: USAID provides assistance with trade and investment reform and corporate privatization through Booz Allen & Hamilton. The Central Asian American Enterprise Fund provides loan and equity investments to Turkmen companies. USAID provides technical assistance directly to small and medium enterprises through volunteers from the International Executive Service Corps. Mercy Corps International and Winrock International also provide technical assistance. The Academy for Educational Development coordinates participant training.

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Share of GDP generated by private Enterprises	20%(1996)	55%	22%	25%	30%
Govt. of Turkmenistan maintains compliance with conditions of international financial institutions	No(1998)	No	No	Yes	Yes

Percentage of total capital invested in the private sector*	8% (1997)
Dollar volume of joint venture funds invested (millions)*	$3 (1997)

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*During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program. Subsequently, data were not collected on these indicators.

The United States Agency for International Development

Turkmenistan

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	5,480	11,257	6,280	8,000
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**5,480**	**11,257**	**6,280**	**8,000**
Operating Expenses	0	0	0	0
Trust Funds	0	0	0	0
Total Operating Costs	**0**	**0**	**0**	**0**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	1	1	1	1
Other U.S. Citizen	0	0	0	0
FSN/TCN DH	2	3	3	3

Subtotal	**3**	**4**	**4**	**4**
Program Funded*				
U.S. Citizen	0	0	0	0
FSN/TCN	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Direct Hire Work Force	**3**	**4**	**4**	**4**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**3**	**4**	**4**	**4**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
120-012 Incr. Soundness of Fiscal Policies & Fiscal Mgmt. Practices							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	100	0	0	0	0	0	100
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
120-013 Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	700	0	0	0	0	0	700
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
120-041 Special Initiatives							

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	5,100	1,800	0	0	0	0	6,900
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
120-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	300	0	0	0	0	0	300
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	6,200	1,800	0	0	0	0	8,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Glenn Anders

The United States Agency for International Development

UKRAINE

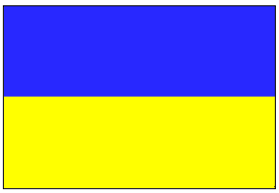
Development Challenge

Other Donors

FY2001 Program / Activity & Budget Information

Summary Tables
- Program Summary
- Work Force Data
- Program/Sector Summary

Introduction



Ukraine's successful transition to a democratic society and market economy continues to be highly important to U.S. national interests. Secretary of State Madeleine Albright recently identified Ukraine as one of the top, four emerging – but fragile – democracies that are critically important for their region and for U.S. foreign policy. A strong, independent, prosperous, and democratic Ukraine could serve as an important strategic partner for the United States. Such a partnership would promote stability and security, expand commercial and economic relations, and address critical cross-border issues such as health and environment in the region. U.S. assistance seeks to enable Ukrainians to build an economically strong, independent, democratic country, and to support Ukrainian plans to associate closely with Europe and forge stronger ties with the West.

The Development Challenge

With the re-election of President Kuchma to a second term, appointment of one of the most reform-minded leaders in Ukraine as Prime Minister, and some prospect for a constructive majority coalition in Parliament, Ukraine's reform program offers new signs of life after a two-year period of election-related deferral. This opportunity represents Ukraine's best chance in years to demonstrate its commitment to advance decisively on fundamental macroeconomic and structural reform measures. Ukraine has a compelling reason to do so. Once again, a financial crisis threatens the country, this time in the form of major debt coming due in early 2000. Ukraine will have to satisfy international financial institution conditions to obtain the financing required for solvency. It remains to be seen whether the political will to implement difficult reforms will wane if Ukraine manages to avert the crisis.

Despite the lack of consistent commitment to comprehensive reform over the past several years, there has been reform progress. USAID's economic reform programs have achieved considerable successes. In the agricultural sector, over 600 farms have been restructured or privatized, and over 4,000 agro-industrial enterprises were privatized. Non-agricultural private enterprise development activities also performed well, with over 90% of all small enterprises in Ukraine now privately owned, providing employment to more than 660,000 people. In addition, more than 9,500 of the approximately 11,000 medium and large enterprises in the country have been privatized. In the area of financial sector reform, USAID supported the formation of the broker-dealer association (PFTSA), which in turn established a nation-wide electronic trading system. In 1999, PFTSA grew to 240 members in 21 cities, and the total volume of trades by the membership amounted to $196 million. In the energy sector, the USAID-supported National Electricity Regulatory Commission firmly committed itself to a competitive, market-based energy sector that issues utility licenses, regulates prices, and sets terms and conditions on producer-consumer relationships.

Finally, in environmental management, the transfer of U.S. Environmental Protection Agency, computerized water system modeling technology, U.S. engineering technologies, and financial management expertise, increased local capacity to provide water services from zero to three hours per day to 24 hours per day in the assisted area. In the industrial sector, USAID projects helped generate $3.4 million in annual savings in ten Donetsk and Dnipropetrovsk

enterprises and improved energy efficiency in 24 enterprises.

USAID democracy and governance activities had mixed results. USAID-supported activities helped to train and deploy over 55,000 election monitors for the 1999 presidential elections and to provide technical assistance for electoral administration. Nevertheless, the Organization for Security and Cooperation in Europe has raised concerns about the conduct of the presidential elections of 1999. USAID efforts to support non-State media suffered setbacks, as 25 of the 64 member stations of the Ukrainian Radio Broadcasters Association reported that they had received anonymous threats or were harassed by tax authorities during the election campaign. The Government of Ukraine exerted pressure on the media to keep the communist opposition off the air.

In the area of rule of law, USAID technical assistance and training achieved the following results. A Constitutional Court was formed. A judicial training center was created. Court administration was computerized. Legal information was widely disseminated, and mechanisms for alternative dispute resolution introduced. Improvements were made in education of legal professionals and citizens' access to legal representation increased. Finally, USAID local governance assistance enabled 40% of cities with populations between 50,000 and 1,000,000 to begin using financial analysis models. Twelve of these cities achieved measurable improvements in municipal services (transportation and water). Seventeen percent of the total began using strategic development planning tools. Fifteen of the cities established citizen task forces and advisory boards. Twenty-two cities held public hearings and "town hall" meetings on a consistent basis, and 11 cities used competitive procurement procedures regularly.

In the social sector, USAID assistance contributed to improved cost recovery for housing and communal services, saving the state budget an estimated $1 billion per year. The USAID-supported, housing subsidy program provided targeted assistance to some four million poor families, using automated caseload management and financial reporting systems. In addition, USAID technical assistance helped create systems for monitoring the social protection needs of the population and for reporting wages and contributions to the State Pension Fund. These new systems improved tax collection, linked pensions to employment history, and could potentially eliminate workbooks. USAID-supported health activities sparked the start of administrative reform within the Ministry of Health and health care reform in the country. Working closely with counterparts at the Ministry of Health and a number of oblasts. USAID catalyzed the Ukrainian government's support for more aggressive health sector restructuring and helped design and implement programs in the sector.

Given the Government of Ukraine's ambivalence about comprehensive reform, the United States has changed its approach to assistance, emphasizing local-level activities that empower people and grassroots organizations to effect change. USAID provides minimal support to central government structures, and then only in areas where the potential for reform is significant. Recognizing that people have to understand and believe in the concepts of reform in order to implement lasting change, a portion of FREEDOM Support Act (FSA) assistance is being redirected towards the next generation of Ukrainian leaders. Should Ukraine follow through on initial encouraging post-election actions, the U.S. will quickly identify the most promising opportunities to support reform and provide assistance in coordination with the International Monetary Fund (IMF), World Bank and the European Union, among others. Given limited resources, USAID will allocate its assistance selectively and in a manner that leverages resources and complements the work of other donors.

USAID will continue to emphasize assistance programs that foster a strong civil society, and private enterprise-led opportunities for employment and economic growth. This approach includes supporting small business development; working with private farmers in selected regions; strengthening citizens' groups, think tanks and other non-governmental organizations; and increasing the capacity of local government to implement reforms and promote economic growth. Greater reliance on partnerships with U.S. organizations will help leverage U.S. assistance dollars further and promote strong ties between groups in the United States and Ukraine. In addition, USAID emphasizes the sharing and the application of lessons learned by other former Eastern Bloc countries further along in their transition, such as Poland. Support for anti-corruption measures will play a more prominent role in U.S. assistance programs, particularly in reducing the potential for corruption by encouraging transparent measures, reducing regulation, and putting in place incentives to reduce corruption.

Other Donors

The United States is one of the largest bilateral donors to Ukraine, having provided $199 million in FY 1999. Major donors include the World Bank, European Union, United Kingdom, Germany, Canada and the European Bank for Reconstruction and Development. USAID works closely with these donors to ensure that U.S. assistance programs are

complementary and mutually reinforcing. Donors meet regularly to exchange views and information on joint activities and key developments. Ukraine’s performance under an IMF Extended Fund Facility totaling $2.6 billion undergoes regular review to gauge progress on a range of macroeconomic and structural reform conditions, with implications for the full range of donor programs.

The United States Agency for International Development

Ukraine

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

The U.S. assistance program will continue to promote economic growth, strengthen democratic institutions, and address critical social issues. Activities to strengthen the economy will emphasize improving the investment environment and facilitating small and medium business development. Should Ukraine move forward with reform of important sectors of the economy such as energy and agriculture, USAID will look for ways to provide support, resources permitting. Assistance with democratic institutions will focus on the development of civil society, rule of law, anti-corruption, and effective local government. Recognizing that people have to understand and believe in the concepts of reform in order to implement lasting change, the U.S. Department of State and USAID will redirect a portion of FSA assistance to work with the next generation of Ukrainian leaders. This Next Generation Initiative will expand exchanges, training and educational programs, along with support for non-governmental organizations. Social issues addressed through U.S. assistance will include reform of the pension system, improvement in health care delivery, prevention and treatment of infectious diseases, addressing women's reproductive health needs, and strengthening the abilities of non-governmental organizations to fill gaps in the social safety net, and to advocate for improved conditions. These objectives are inter-related, and USAID's success in achieving them depends on synergism of their performance. Absent the rule of law, economic growth is unlikely to occur even if other aspects of the investment environment improve. Likewise, without attention to the collapsed social infrastructure that has left many Ukrainians without services and resources, popular support for economic reform will be limited.

In addition to these objectives, several special initiatives are also included in the FY 2001 assistance program for Ukraine. The Poland-America-Ukraine Cooperation Initiative helps Ukraine benefit from Poland's transition successes. The Global Climate Change Initiative will assist Ukraine to develop the human, institutional and technological capacity to reduce greenhouse gas emissions. The Kharkiv Regional Initiative will assist the oblast in accelerating regional economic growth by improving the investment environment, increasing private investment, and developing trade links with the U.S. private sector. The Anti-Trafficking Initiative is a multi-pronged program to stem the sexual trafficking of women, assist the victims, and prosecute those responsible for this crime.

Improved health care service delivery is an important special initiative of the USAID program in Ukraine, emphasizing infectious diseases such as Tuberculosis and HIV/AIDS, women's and children's health, and medical partnerships between U.S. and Ukrainian institutions. The goal of these programs is to reverse the decline in the health status of Ukrainian citizens through prevention and improved, cost-effective health care. USAID is assisting Ukraine to implement a wide range of health care programs and system reforms.

This request includes programs implemented by other U.S. Government agencies. Under the Administration's Expanded Threat Reduction Initiative (ETRI), significant funds will be provided in FY 2000 and FY 2001 for programs designed to enhance border security and export control capabilities. ETRI support will contribute to the nonproliferation of weapons of mass destruction, and associated delivery systems, materials, technologies, and expertise. Other U.S. Government agencies participating in technical cooperation programs with Ukraine through inter-agency transfers from USAID include the Environmental Protection Agency, Nuclear Regulatory Commission, and U.S. Departments of Energy, State, Justice, Commerce and Treasury.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 121-012
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $905,000 FSA
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $2,000,000, FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2004

Summary: Fiscal reform in Ukraine is necessary to ensure that the resources claimed by government are limited and are used efficiently for essential public purposes, such as defense or social safety net, without constraining or distorting private sector growth. This objective also recognizes that fiscal reform must be carried out within a broader framework of informed macroeconomic policy decision-making and implementation of comprehensive reforms to create a supportive environment for economic growth.

Activities under this objective currently focus on: (1) improving tax law, policy, and administration; (2) developing analytic techniques and procedures for budget preparation, adoption and implementation in both executive and legislative branches; (3) strengthening intergovernmental finance; (4) formulating macroeconomic analysis and policy recommendations; and (5) promoting administrative reform in the economic policy arms of the Government of Ukraine (IGOU). The immediate beneficiaries of USAID activities are the Ministry of Finance, the Ministry of Economy, the State Tax Administration, the Deputy Prime Minister for Economic Reform, the Office of the Prime Minister ("Apparat"), the Parliamentary ("Verkhovna Rada") tax and budget committees, and by extension, the taxpayers and voters of Ukraine. Entrepreneurs will benefit as more comprehensible and transparent fiscal systems are established.

Key Results: USAID will consider this objective achieved when Ukraine meets the following criteria. (1) The tax system is sufficiently fair, simple and transparent to encourage greater taxpayer compliance and revenue collection is increased without placing an undue burden on economic growth. (2) The process of budget preparation, adoption and execution is well informed, accurate, transparent and responsible. (3) The division of responsibilities and resources at all levels of government is well defined, and the relevant officials are held accountable. (4) Fiscal policy makes a positive contribution to macroeconomic stability and growth in GDP and personal income.

Performance and Prospects: Progress in this strategic objective has been slow in the past year, largely due to the presidential election, but the foundation has been laid for some significant progress under the new, reform government.

With respect to the tax system, a draft tax code was approved by the Cabinet of Ministers and submitted to the Parliament. The draft incorporates the value-added tax and enterprise profits tax laws previously enacted; and new sections on personal income tax, administrative provisions, property tax and local taxes and fees. Additional work is needed to ensure that the legislation is clear, consistent and "business-friendly." The Ministry of Finance and the parliamentary tax committee have asked for help from USAID advisors, and the new U.S. Treasury advisor, to achieve this objective. This assistance will be provided through the newly established Tax Policy Office in the Ministry of Finance, and the USAID-funded Fiscal Analysis Office of the Verkhovna Rada. In the area of tax administration, USAID advisors have: provided training in international accounting standards (IAS) for tax officials, to complement the introduction of IAS in 2000; expanded taxpayer education and services to promote voluntary rather than coerced compliance; helped refine audit selection and audit techniques; and facilitated the functional reorganization of the tax agency. These efforts are expected to continue and expand in 2000 as the tax administration agency works to qualify for a World Bank computerization loan, and will be complemented by IMF and Treasury advisors working on collection practices.

With assistance from USAID advisors, the 2000 budget presented by the Ministry of Finance was more transparent and understandable. Also, the budget resolution passed by the Parliament was more coherent and realistic, reflecting the efforts of the Fiscal Analysis Office to provide objective and quantitative analysis of proposed budgets and tax laws. Nonetheless, political concerns continue to militate against adoption of a realistic budget, and to delay budget adoption, despite more rigorous analysis in both branches of government and pressure from international donor organizations. Officials from the Ministries of Finance and Economy received intensive training in budget policy analysis over the past year under a USAID program, resulting in stronger awareness of the need for a more analytic and evaluative approach to the budget programs, in light of fiscal constraints. Efforts are underway to provide training to Ministry officials on, and introduce, program evaluation techniques. Work is also continuing on measures to reform intergovernmental finance, although the Ministry of Finance once again decided not to adopt the formula-based system of budget transfers to lower

levels of government recommended by USAID advisors with support from the parliamentary budget committee. USAID expects to further work in this area, and on development of a property tax, in 2000 and 2001.

With assistance from USAID, the Ministries of Finance and Economy have adopted new organizational structures. Recent decrees have sought to shift the Ministry of Economy's focus toward business development, in line with USAID recommendations. The Ministry of Economy's, macroeconomic monitoring group, established with USAID assistance, continues to compile key economic indicators, and provide analysis to help top Ukrainian officials with economic policy making.

Funding for this objective has been reduced considerably for FY2000, causing a re-examination of current activity levels. A USAID-funded evaluation of all macroeconomic and fiscal reform activities in Ukraine is expected to take place in March 2000, and based on the results of the evaluation, plans will be developed for future activities in this area. The possibility of combining all activities under a single contractor is being explored, as well as a longer-term contract that would run through the expected completion date of 2004. However, no decisions on this have yet been made. Priority activities to be continued may include development of the tax policy function, further support to modernization of the tax administration process, increased attention to budget program evaluation, and work on development of local government revenue sources, especially the property tax. Increased effort will be devoted to establishing the Fiscal Analysis Office as a permanent arm of the Parliament, along the lines of the Congressional Budget Office.

Possible Adjustments to Plans: Activities are subject to substantial reduction, to be determined based on results of evaluation plus changes in budget allocation, if any.

Other Donor Programs: USAID fiscal reform programs are closely coordinated with both the International Monetary Fund and World Bank to ensure that technical assistance supports the fulfillment of loan conditions. USAID is providing technical assistance to the tax administration agency on a pending World Bank loan for modernization and computerization; to the Ministries of Finance and Economy on the proposed World Bank, public administration reform structural adjustment loan; and to various entities on a World Bank, local government finance loan. USAID technical assistance in tax administration, budget procedures, intergovernmental finance, and administrative reform are directed toward helping the Government of Ukraine meet IMF program conditions. In all these areas, USAID's work is also coordinated with other U.S. Government-funded organizations, mainly the U.S. Treasury, and with other public and private donors and non-governmental organizations. Joint work related to fiscal reform is being carried out with the European Union, Canada, and the United Kingdom.

Principal Contractors, Grantees or Agencies: KPMG/Barents Group, Harvard Institute for International Development, Center for Social and Economic Research (Warsaw), RAND Corporation, International Center for Policy Studies (Kiev), and U.S. Department of the Treasury.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
GOU meets IMF deficit targets	No(1995)	Yes	Yes	Yes	Yes
Revenues equal or exceed forecast levels	No(1995)	No	Yes	Yes	Yes
Central-to-local government funds transfers are done on a formula basis	No(1995)	No	Yes	Yes	Yes
The number of budget revisions required due to inaccurate budget forecasts is reduced	3(1995)	3	1	1	*
The number of taxpayers included in the taxpayer identification system increases (millions)	0 (1995)	27	32	35	*

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* Reporting to be discontinued.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: Accelerated Growth and Development of Private Enterprises, 121-013
PLANNED FY 2000 OBBLIGATION AND FUNDING SOURCE: $30,425,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCES: $33,000,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2005

121013a: A More Market-Responsive Agriculture Sector

Summary: U.S. assistance to agriculture and agro-industries in Ukraine has been premised on the expectation that fundamental policy reform would take place relatively quickly. USAID assumed that reform would result in an expanding open market and a private sector-driven agricultural economy. Thus, USAID designed programs to spearhead key policy changes nation-wide through activities that would demonstrate the effectiveness of open markets and related private input supply, processing and marketing institutions, as well as private land ownership and farm management.

From 1996 until late 1999, the prospects for fundamental policy reform at the national level did not meet these expectations. The pace of reform was slow and uncertain, and the Government of Ukraine undertook policy measures that resulted in a more adverse environment for private-sector-led, agricultural development. These measures included restrictions on private marketing of grain, and an initiative by the Government to supply agricultural inputs, fertilizer, and machinery. Opposition to private land ownership and private farming remained strong in parliament and in many parts of Ukraine's Government.

However, the potential for fundamental reform by Ukraine's national government may now be growing as evidenced by the December 1999 issuance of a presidential decree to privatize all collective agriculture enterprises, and all land within these farms. USAID also believes that regional and local governments are increasingly amenable to greater private sector participation in the agricultural sector.

Should the Government of Ukraine continue to demonstrate serious commitment to agriculture reform, USAID's agricultural sector assistance program will build on these positive developments by focusing assistance at the regional level, resources permitting. Activities will emphasize direct benefits to private farmers and households through improved marketing, input supply, credit, and extension service availability. Efforts will be concentrated in two to three geographic locations where prospects for private farmer and household production and marketing improvements appear good. Farm restructuring and agricultural land privatization will be central to this approach as will the provision of agriculture inputs through the creation of private dealerships, promotion of trade and the development of cooperatives.

Given the absence of the traditional sources of credit to private farmers, USAID is also exploring a range of alternative institutional approaches to address the credit constraint, including credit unions, cooperatives and suppliers' credit. USAID will work to strengthen cooperatives and farmers' associations to directly link individual farmers with markets and to encourage private farmers, restructured farms and plot holders to trade on open markets. USAID will also address the constraints faced by private farmers, restructured farms, and plot holders in dealing with elements of the agricultural production-marketing-processing chain through approaches that reflect the diversified nature of their production.

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USAID will strengthen private professional and trade associations' capacity for analysis and advocacy for policy reform. In addition, USAID will work with interested national and local government officials to create the enabling environment necessary for the regional agricultural initiatives to operate effectively. These associations will channel their efforts' progress and articulate their agenda to national agricultural policy decision-makers. USAID will continue to provide limited assistance to the National Private Farmers Association, the National Commodity Exchange Association, the League of Entrepreneurs, and the Ukrainian Cooperative Foundation so that these organizations articulate and promote a unified policy reform agenda more effectively.

Key Results: USAID will consider this objective met when sustainable nation-wide agricultural policy reforms are implemented; and private farmers in selected regions have access to increased supply of the support services, and inputs necessary to increase their production and marketing of agricultural commodities.

Performance and Prospects: USAID activities have achieved significant results since 1993, although these achievements have fallen short of the fundamental agricultural reform anticipated. First, land ownership has been transferred from the state to collective agricultural enterprises (CAEs). About 6.5 million land shares have been issued for CAE land with land titles issued to 220,000 people. Over 600 farms have been restructured or privatized through USAID-supported activities. The number of private farmers rose from under 2,000 in 1992 to 36,000 in 1997, accounting for over 900,000 hectares. Second, the USAID-supported process of mass privatization resulted in the privatization of over 4,000 agro-industrial enterprises. Despite delays, the process of privatization of grain elevators has resulted in 371 elevators privatized to 70% and 42 fully privatized.

Third, the private sector has become active in input supply and agricultural marketing and processing. Private, U.S. agri-businesses in partnership with Ukrainian entities have expanded the provision of inputs, processing facilities, and marketing outlets. Private independent commodity exchanges, with functioning, spot and forward contract mechanisms, have operated at an increasing level with active government procurement being done through the exchanges. In addition, USAID established the Commodity Exchanges Information System under the National Commodity Exchange Association to provide weekly information on Ukrainian and world prices. Price information has been disseminated to over 1,100 direct recipients, including newsletters, news agencies, oblast administrations, agricultural producers, processors, and distributors. Finally, private industries, private farmers and cooperatives, as well as commodity exchanges have established, with USAID support, independent associations to defend their interests and lobby for policy change.

A framework has been established, through the Presidential Commission for Agrarian Reform, under which the Government of Ukraine, and international donors have collaborated to reform the agriculture sector. The USAID and World Bank-funded Agricultural Secretariat and the Policy Analysis Group have led this agriculture reform effort. In late 1999 the Government of Ukraine issued a very positive land reform decree that will privatize all CAE farms in the country and provide land titles to over 6 million people. The Government of Ukraine has initiated steps to create a new, Agriculture Policy Ministry to replace the Ministry for the Agro-Industrial Complex. The Government of Ukraine expressed its intent to transform its role in the agricultural sector from one of control to one of support. USAID sees these events as the first major steps of the reform process.

Possible Adjustments to Plans: The entire USAID agricultural portfolio and strategy is now under review because of major reductions in the USAID-managed assistance budget for Ukraine, and the nascent policy reform measures being undertaken in the agricultural sector. USAID is assessing how it can be responsive by helping the Government implement the recent land reform decree, and provide other support to a more reform-minded government resources permitting.

Other Donor Programs: The World Bank, the British Know How Fund and USAID have cooperated closely in their policy reform and project activities, and are jointly funding internal Ukrainian agricultural policy analysis, and agricultural reform efforts through the Agriculture Secretariat. The IMF recently included agriculture reform as one of the major elements for future policy conditionality and continuation of its Extended Fund Facility. Preliminary discussions between the IMF and the Government of Ukraine appear poised to finally bring about major policy reform in the agriculture sector. USAID has actively participated with the IMF on the agriculture reform agenda. The World Bank had put its programs on hold until several pieces of legislation were passed, and USAID saw concrete evidence of the Government of Ukraine's intent to proceed with major agriculture reform. The World Bank now plans to reassess whether to restart a full program of adjustment loans and other projects in early 2000, though it has yet to plan for additional, policy-related, sector adjustment loans because of the same policy reform problems faced by USAID. Nevertheless, the World Bank has plans to include policy-related issues in various projects that are under development, as well as a small effort with the Presidential Commission. The World Bank also has developed several new projects to include land title registration, rural finance (credit), agribusiness, and possibly co-financing of farm restructuring. Finally, the World Bank has linked many of these projects to existing, USAID initiatives, enhancing the impact and sustainability of USAID's program activities.

Principal Contractors, Grantees or Agencies: RONCO, Louisiana State University, Iowa State University, Citizens Network for Foreign Affairs, Land O' Lakes and ACDI/VOCA.

Selected Performance Measures:

	Baseline	Actual (1998)	Target (1999)	Target (2000)	Target (2001)
Government issued land titles, including those by RONCO, (thousands)	25(1997)	220 (incl. 173 by Ronco)	325	1000*	3000
State-owned grain elevators privatized ● privatized to 70%	161(1998)	161	353	27	0
● totally privatized to 100%	15(1998)	15	81	442*	469
Private joint venture partnerships establishing private farm-service centers, processing facilities and other agribusiness in Ukraine (under AP-II Program)	24(1998)	24	332	332	**
More effective Presidential Commission (legislation, regulations and decrees prepared by working units and approved by COM, President and/or Rada)	5 (1998)	5	6, plus notes on 30 draft laws	15	25
Individuals registered as private farmers (thousands)	36 (1998)	36	40	45	50
Restructured farms (RONCO farms)	500 (390) (1998)	500 (390)	1000 (690)	3000	6500
Land area under private farms	908(1998)	908	1080	1350	1750
Private sector contribution to agricultural production***	60% (1998)	60%	62%	65%	68%

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*Target increased

**Indicator to be discontinued.

***Reporting to be discontinued.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: Accelerated Growth and Development of Private Enterprises, 121-013
PLANNED FY 2000 OBBLIGATION AND FUNDING SOURCE: $30,425,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCES: $33,000,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2005

121013b: Privatized Enterprises are More Competitive and Efficient

Summary: With completion of USAID's mass privatization program, the Government of Ukraine has privatized the vast majority of state-owned enterprises. Following on the success of that program, USAID has focused its support for the development of privatized enterprises on providing essential business skills, removing external constraints and creating an enabling environment for private sector growth. In particular, USAID has focused on the area of reducing financial constraints to growth by promoting private ownership of urban land under enterprises and land markets in Ukraine.

USAID identified access to credit as the most critical ingredient for growth of all private enterprise. USAID targeted this problem directly through the West NIS Enterprise Fund and indirectly through collateral law, capital markets, banking, and tax system reform that facilitate the flow of private investment. Training and certification efforts under the

accounting reform activities – and the training program under the enterprise-restructuring program – ensure access to business skills and information. In addition, the USAID program has provided support to organizations within the Government of Ukraine to promote reforms to the business, legal and regulatory environment because the legal and regulatory environment has prevented these privatized enterprises from restructuring. These activities will directly benefit the business community of Ukraine and those they would employ through the introduction of training and restructuring methods and the jobs created by new and growing businesses.

Key Results: USAID will consider this objective achieved when the economic environment both encourages and supports efforts by privatized enterprises to undergo restructuring in order to become more efficient and competitive. Principal results leading to this outcome include: (1) laws implemented to reduce or eliminate the numerous legal and regulatory constraints to growth and restructuring; (2) business and commerce regime established that encourages restructuring, involves greater outside ownership and control over privatized enterprises, and stimulates the demand for more restructuring; (3) prospects for additional investment for restructured firms improved and privatized enterprises motivated to undergo restructuring; and (4) business skills and training made accessible to entrepreneurs.

Performance and Prospects: Over 45,000 small enterprises have been privatized, 15,500 with direct USAID assistance, in over 70 cities in 23 oblasts throughout Ukraine. As a result, over 90% of all small enterprises in Ukraine are privately owned, providing employment to more than 660,000 people. By the end of 1999, over 7,000 unfinished construction sites were privatized, with over 1,500 privatized with direct USAID assistance via 300 auctions. This privatization resulted in the creation of about 6,700 new jobs in the new firms; the transfer of unproductive, state-owned resources to productive employment by new private owners; and additional revenue for the budgets of local governments. By the end of 1999, more than 9,500 medium and large enterprises were privatized out of a universe of approximately 11,000. Of these, nearly 6,000 were 100% privately owned. In 2000, plans are to facilitate the privatization of another 7,000 unfinished constructions and to continue supporting the improvement of the regulatory framework to speed up the privatization.

Through the Land Privatization program, there has been considerable success working at the level of oblast and municipal government to privatize enterprise land. Privatization of land under enterprises started only in October 1997, but has been highly successful with more than 1,500 land privatizations completed by the end of FY 1999. The additional benefit from these sales has amounted to over 44,000,000 Hryvnia in revenue generated for local budgets. One of the sustainable elements of the project has been the establishment of successful local offices in every region of Ukraine except Kiev. An ultimate goal is commercializing these offices and leaving behind profitable entities in every region of Ukraine. In addition, advisors have assisted with the drafting and passage of legislation on Mortgage Law to assist with the issue of the inability of many potential businesses and people to obtain credit. In the third year of the program, activities are planned to initiate a secondary market, and improve capabilities of real estate services.

Considerable progress has also been made in the Accounting Reform Project. 1999 saw a significant change in this area. The Accounting Law that established a new accounting system was passed in August 1999. The system was compliant with international accounting standards (IAS) and came into effect on January 1, 2000. In co-operation with the Ukrainian Federation of Professional Accountants and Auditors (UFPAA), an association established with the USAID assistance, IAS training was provided to accountants and auditors. Fifteen pilot enterprises have been assisted in transforming their accounting to IAS, which helped to improve the management of enterprises, and to make their accounts more transparent to investors. In 2000, USAID will continue to support the accounting reform framework, and assistance will be extended to at least 700 enterprises to convert to the new IAS-based system. In addition, the UFPAA training and certification program will be further developed and implemented. Finally, USAID will provide assistance in developing and implementing a new university accounting and auditing curriculum, and in establishing three, U.S.-Ukrainian, university partnerships.

At the enterprise level, a program to convert Ukraine's small, medium and large enterprises carried out restructuring activities at ten enterprises in a variety of industries, including milk processing, ship building, retail, light manufacturing, and metallurgical industries. All project work was done through the auspices of the investment intermediaries that have controlling interest in the selected enterprises, thereby ensuring co-operation of the enterprise employees and the board of directors. Eleven additional enterprises are slated for participation in this program by spring, 2000. The second year of the program will focus on the creation and dissemination of informational and training materials based on practical experience and successful results achieved. Finally, the West NIS Enterprise Fund continues a program of debt and equity investments in medium and large enterprises in Ukraine, for a total of over $46 million in completed transactions.

Possible Adjustments to Plans: These programs recently underwent strategic review, and no adjustments are planned

for the present.

Other Donor Programs: USAID has worked closely with international financial institutions in providing technical assistance to meet their lending conditionalities. Regarding enterprise restructuring, USAID recently initiated a donor coordination group for assistance to privatized enterprises. In addition, USAID has coordinated closely with the World Bank regarding the pending Private Sector Development loan.

Principal Contractors, Grantees or Agencies: International Finance Corporation, The Recovery Group, Barents Group, London Business School, Price-Waterhouse-Coopers, International Business & Technical Consultants Inc, East European Real Property Foundation, and the West NIS Enterprise Fund.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of construction sites privatized	5,000(1998)	5000	10000	15000	*
Enterprises using international accounting standards**	0(1998)	0	300	600	900
Number of sales of land under privatized enterprises (activity ends)	30(1997)	265	1,500	2000	*

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*Indicator discontinued given planned end of activity.

** Planned targets have been revised. Because of the SSMSC's inability to enforce the regulation requiring International Accounting Standard reporting by enterprises except on a voluntary basis through 1999. The revised targets more accurately reflect the anticipated growth of IAS by enterprises not publicly traded.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: Accelerated Growth and Development of Private Enterprises, 121-013
PLANNED FY 2000 OBBLIGATION AND FUNDING SOURCE: $30,425,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCES: $33,000,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2005

121013c: Expanded Role of Small and Medium Enterprises in National Economy,

Summary: Small and medium enterprise (SME) development is an essential element of Ukraine's transition to a market economy. SME development can make a positive difference in peoples' lives through its impact on the labor market. In the long term, SMEs are likely to become the largest source of employment for the people of Ukraine. In Western Europe, for example, approximately 50% to 70% of the workforce are employed by SMEs. According to official figures, only about 10% of the labor force in Ukraine are employed by SMEs. In Russia, the figure is 20%. In Eastern Europe generally, SME employment is between 45% and 50% of the labor force. A large part of SME activity in Ukraine currently exists in the informal economy as reflected in an extensive SME Baseline Survey conducted with USAID financing in 1999. Creating an environment that encourages SME growth will promote movement of SMEs from the informal sector to the formal sector, which will lead to additional benefits to the state in the form of increased revenues generated by greater tax compliance.

The USAID program has concentrated on removing constraints and creating an enabling environment for private sector growth. Up until 1997 USAID focussed principally on improving access to business skills but in 1998 USAID began to assist business associations and the GOU in promoting reforms in the legal and regulatory environment, a critical constraint to the development of SMEs. Access to credit has been another important ingredient for SME growth, and USAID has targeted this problem directly through support for the West NIS Enterprise Fund, the Eurasia Small Lending

Program, the European Bank for Reconstruction and Development (EBRD) Micro-credit Program, credit union development and other micro-enterprise credit initiatives.

Beneficiaries include proprietors and employees of micro-, small- and medium-sized businesses via various firm-level assistance activities and policy/regulatory reforms.

Key Results: USAID will consider this objective achieved when: (1) the high tax and regulatory burden on private enterprise is reduced: (2) the weak financial system is improved to permit SMEs greater access to credit and investment; and (3) the level of business skills in enterprises is improved.

Performance and Prospects: A total of 15, USAID-funded, business service centers have been created to date to ensure that SMEs have access to business skills. Over the past four years, more than 20,000 clients have received services through the eight NewBizNet Centers in regional centers, and seven IFC business centers located in smaller cities. Sustainability of these business centers has been a goal since their creation, and has been achieved substantially in almost all of the centers. USAID has also provided modest support to business schools in Lviv, Kiev, and Donetsk; and trained over 1,000 Ukrainian accountants and auditors in international accounting standards, reporting, and managerial accounting. Work under the Alliance Consortium over the past three years resulted in specialized technical assistance through business volunteers to more than 450 companies.

In November 1999, USAID conducted a national conference on business association development. This conference highlighted the work of the network of over 100 business associations established under the NewBizNet Project. An international conference on SME development was held in November 1998, with international speakers and roundtable discussions on key topics, presentations by existing SME support programs; and an interactive information fair with participation by various SME support programs available in Ukraine. The conference highlighted the Government of Ukraine success in reducing the number of days required to register businesses from 35 to less than four, and reducing business registration costs by almost 50%. The State Committee for Entrepreneurship Development, with USAID assistance, has demonstrated its capacity to analyze and challenge regulations that are found to be unfavorable to business development.

USAID's program to create and ensure the sustainability of credit unions succeeded in setting up eleven model credit unions in various regions of Ukraine; and has trained more than 800 credit union managers, board members, and initiative group representatives. In addition, USAID has assisted the Ukrainian National Association of Savings and Credit Unions (UNASCU) to improve its services to member credit unions and to develop new legislation that more appropriately reflects credit union activity in Ukraine. Although the original grant ended in September 1999, USAID has planned to continue work through a new grant beginning in FY 2000. USAID has financed technical assistance to private banks participating in an EBRD, Micro-credit Program that began in December 1998. As of October 31, 1999, this program had an outstanding portfolio of 97 loans averaging $6,607 per loan. Simultaneously, the EBRD's Small Loan Fund had a portfolio of 65 loans, averaging $28,261 per loan. The German KFW Micro Credit program's outstanding portfolio was 354 loans averaging DM14,45.

The USAID-financed, Business Management Education Program began in early 1999 to strengthen the capacity of Ukraine to provide business management education by establishing partnerships between U.S., Polish and Ukrainian faculties and institutions. This program was initiated to strengthen the capacity of Ukrainian universities and polytechnics to develop the business management curriculum, and achieve financial sustainability of their business education programs. Memorandums of Understanding have been signed between managers of the USAID program and 35 Ukrainian institutions. University administrators visited the United States and Poland in August 1999 to meet with their counterparts, and exchange information and ideas on how universities and business schools should be structured, managed and funded. Individual institutional implementation plans were developed at the end of the tour. A National Business Education Conference was conducted in December 1999 in Odessa that incorporated the results and feedback of training and study tour programs. Another outcome of the conference was a blueprint for reforming business education in Ukraine.

A new initiative was undertaken to address gender concerns in the SME portfolio during 1999 with the appointment of a Women-in-Development Fellow to the Business Development Division. Strategies and action plans to address the needs of women were developed by all implementers of business skills development activities and an extensive SME baseline survey revealed that over 30% of all SMEs in Ukraine were either owned or operated by women. Another USAID project, Women's Economic Empowerment, has increased opportunities for women entrepreneurs through the development of programs of support to women-run enterprises.

The prospects for effective SME reform in Ukraine are good. The Government generally looks on SME development as a win-win situation. Even among those in the government who oppose other reforms, development of small enterprises represents a political "good" which both provides jobs and increases tax revenues, while resulting in very few negative side effects. While officials may balk at specific deregulation aspects or some other important steps in private sector development, a mandate to push such changes through the system is often easy to establish under the flag of small enterprise development. A very powerful and persuasive argument in favor of reforms to support SME development is that these changes are not costly to the government, either in terms of finance or political capital (i.e., impact on voters is only either positive or neutral, but never negative). Finally, recent changes in government following the re-election of President Kuchma portend strong potential for improvement in the SME policy and regulatory environment. The selection of a strong proponent of small business development in the First Deputy Prime Minister position is viewed as a positive development for improving the environment for SMEs in the upcoming months. USAID will provide support to the First Deputy Prime Minister's Office – and other governmental agencies at the national, regional and local levels – over the next three years. The object of this assistance is to pave the way for reforms to the enabling environment for, and removal of constraints to SME growth.

Possible Adjustments to Plans: A number of SME development activities have either reached their end or will come to a close in FY2000. A new SME development project ("BIZPRO") will begin in FY2000. This activity will move USAID's SME development program in Ukraine into the next generation, based on lessons learned in other countries in the region and on the recently adopted SME development strategy of the Europe and Eurasia Bureau of USAID. This new project will consolidate a number of activities in the current SME development portfolio, reducing the management burden and capitalizing on linkages among a number of activities dealing with SME development. Several existing activities, which for practical reasons will not be included in "BIZPRO", will continue as well.

Other Donor Programs: Other development partners are active in promoting the growth of SMEs, through such means as loan funds to support micro-enterprise development, technical assistance, and loan conditionality that requires the Government of Ukraine to continue to work toward creating a positive enabling environment for SMEs. Germany, Canada, and Great Britain, as well as the European Union, United Nations Development Program and the World Bank, all provide funds for programs to promote SME development. Representatives of USAID and these agencies meet on a regular basis to coordinate their assistance programs for SME development.

Principal Contractors, Grantees or Agencies: Development Alternatives, The Alliance, International Finance Corporation, Junior Achievement, Winrock International, and the University of Minnesota are key implementers of existing projects. The implementer of BIZPRO will be determined in FY2000.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Clients at business service centers and business incubators	6500(1997)	10000	12000	TBD*	TBD*
Increased number of loans to SMEs from banks**	0(1997)	50	200	500	1000
Number of days completing business licensing	35(1997)	35	25	15	10
and registration process	30(1997)	10	7	5	3
Business associations Conduct roundtables and workshops on policy and regulatory reform	0(1997)	2	5	10	15

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*Targets after 1999 will be determined in consultation with the implementing partner for the new "BIZPRO" project when that party is selected.

**This indicator is replacing "Institutions providing micro-credit" from last year's Congressional Presentation as a more direct measure of financing in the hands of entrepreneurs.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: A More Competitive and Market-Responsive Private Financial Sector,

121-014
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $6,736,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $5,000,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2004

Summary: Financial sector reform in Ukraine will transform a mechanistic, bookkeeping system into a service-oriented sector based on market principles, and capable of providing financial support to consumers and to small and large businesses. The Government's role in the transformation is to develop an infrastructure that promotes safe, sound and responsive financial services, and to provide the legal and regulatory framework that will allow the sector to operate effectively and responsibly. Such a system critically depends upon several factors: (1) an economic environment of growth and private initiative, supported by government stabilization policies that promote efficient resource allocation; (2) a legal environment that specifies transparent "rules of the game"; (3) government regulatory authorities who are able to enforce the "rules of the game" in an evenhanded way; (4) a culture and incentive structure that encourage financial market players to carefully analyze the risks of their activities and conduct their business in a manner consistent with western "best practice"; and (5) a steady upgrading of human capital stock to provide the sector with needed management and decision-making capacity.

During the past six years, USAID’s technical assistance has been developed with these objectives in mind. Emphasis has been placed on developing the fundamentals: financial infrastructure, human capital, and a supportive legal, policy and institutional environment. USAID plans to continue this approach, along with careful attention to the sequencing of technical assistance to concentrate on the fundamental building blocks of a functional financial system. Beneficiaries of these activities include all those involved in the private financial sector, including enterprises and households that need access to finance.

Key Results: USAID will have achieved its objective of a more competitive and market responsive, private financial sector when the following results attain. (1) Fundamental financial infrastructure is developed that will increase public confidence in the banking sector, create a level playing field in which all banks can compete, and strengthen the National Bank of Ukraine’s (NBU) supervisory authority. (2) Institutions and practices are established for an open, transparent and safe equity market that will provide savings vehicles for homeowners and businesses, and, in turn, supply capital to industry, commerce and the Government. (3) A market-oriented legal and regulatory infrastructure is in place that provides both the financial institutions and the entities they serve with an effective and transparent framework in which to operate.

Performance and Prospects: USAID has provided strong support for the development of the Ukrainian fixed-income market, encompassing banking and government securities. This effort has included critical support to the National Bank Ukraine’s regulatory authority and capacity, putting into place regulations that include classifying and provisioning for bad loans; setting higher minimum capital requirements; and lending to one borrower and related parties. Supervisors have been trained in both Western-based inspection techniques, off-site risk analysis, and rehabilitation techniques for problem banks. In collaboration with other donors, USAID has helped convert the banking system to international accounting standards (IAS). An initial pilot program of banks tested the new chart of accounts. Subsequently, IAS was introduced throughout the banking system in January 1998.

Since that time, USAID has been working with commercial banks to deepen the usage of IAS-based financial reporting, and develop back office functions such as internal auditing. Work has continued on the creation of a self-sustaining banking school. To date, over 3,000 bankers from all over Ukraine have received short-term training. In addition, USAID has worked with the leading Ukrainian business school, the International Management Institute, in implementing a one-year intensive training course leading to an Master in Business Administration (MBA) in banking. Approximately 100 banking professionals have received MBAs under this program. Thirty are currently enrolled in the program, and have been paying partial tuition costs. A number of graduates have been team-teaching with foreign advisors at the banking school.

USAID assisted the IMF in completing diagnostics of the seven largest banks that were identified as presenting the greatest risk for systemic failure of the banking system. As a consequence, each bank agreed with the National Bank of Ukraine in a Commitment Letter to increase loan loss provisioning, augment capital and adopt stringent credit policies. While TACIS has been assisting three to four of these banks, USAID agreed to assist another one of the banks in its restructuring.

Much of the work in the banking sector will be coming to a planned closure in 2000. Focussed assistance will continue in training, bank restructuring, and with bank rehabilitation in the National Bank of Ukraine Problem Bank Resolution Department.

During 1996 and 1997, USAID's activities led to the formation of the Securities and Stock Market State Commission (SSMSC) and its authorization to regulate the corporate securities market. USAID provided assistance to the SSMSC in conducting enforcement activities and surveillance inspections; analyzing disclosure filings and financial statements; and conducting training and education programs covering all areas of securities markets, especially corporate governance. USAID also spearheaded legislative coalition building and assistance in the drafting of laws and regulations in the areas of securities and the stock exchange, business association, joint stock companies, and self-regulatory organizations. USAID supported the formation of the broker-dealer association (PFTSA), which in turn established a nation-wide, electronic trading system (PFTS). By the end of 1999, PFTSA membership reached 240 in twenty-one cities, and the total volume of trades by the membership grew to $196 million.

In addition, USAID assisted in the establishment of the All-Ukrainian Clearing Depository that will settle all securities transactions for publicly traded companies starting in 2000. USAID projects created trade associations for registrars and depositories (PARD), for investment funds (UAIB), and for accountants and auditors (UFPAA). By the end of 1999, PARD membership surpassed 270 in all principal cities. UFPAA and the Ministry of Finance adopted fourteen National Accounting Standards in compliance with IAS.

In addition to providing assistance for legal reform in banking and capital markets, USAID assistance contributed to the passage of the amendment to the Law on Pledges to establish the State Pledge Registry of Movable Property. The Registry will promote secured lending by establishing priority rights for pledges and tax liens. The Registry went into operation on March 1, 1999, making it the first nationwide electronic pledge registry in the former Soviet Union. In addition, a modern bankruptcy law was passed in August 1999 and became effective January 1, 2000. USAID has provided extensive training for judges of the Highest Arbitration Court and other legal and financial professionals; and has established pilot centers where trained bankruptcy practitioners will assist enterprises to undertake financial restructuring under the new law.

Current development of the Ukrainian financial sector occurs against a backdrop of turmoil in international financial markets. The difficult situation in Russia is of particular importance to Ukraine because of the close trade and financial ties between the two countries. Compounding this situation, macroeconomic policies are dampening private sector development, and resulting in highly restrictive monetary policies leading to liquidity problems for banks and enterprises. While USAID's basic, financial sector objectives and programs will not change, particular care will be exercised in this environment to ensure that efforts do not destabilize an already fragile financial system.

Possible Adjustments to Plans: The banking program will be phasing down as planned; the capital markets program is being severely constricted by budget cuts; the legal reform program will continue as planned.

Other Donor Programs: USAID's work in the banking sector is supportive of both the World Bank Financial Sector Adjustment Loan (FSAL) and the IMF Extended Fund Facility (EFF), twenty-five conditionalities of which concern the banking sector. Upgrading National Bank of Ukraine (NBU) bank supervision, developing NBU capacity to deal with problem banks, passage of banking laws, deepening the conversion to international accounting standards are all examples of USAID activities that feature prominently in both FSAL and the EFF. Joint programs exist with the European Unions technical assistance program for Eurasia (EU-TACIS) and the British Know How Fund in bank accounting; with EU-TACIS in problem bank restructuring; and with the Swiss government in bank training. USAID's efforts in strengthening the capital markets are reinforced by the World Bank's activities through its Enterprise Development and Adjustment Loan II. In addition, the European Union has initiated corporate disclosure and custodian development programs that also support the achievement of USAID's financial sector objective. The World Bank and EU-TACIS implement complementary programs in bankruptcy.

Principal Contractors, Grantees or Agencies: Financial Markets International, Price-Waterhouse-Coopers,

Barents/KPMG, International Business and Trade Consultants, Inc., Financial Service Volunteer Corps, Gavin Anderson, International Reform and the Informal Sector/University Research Corporation International, Deloitte and Touche, and Associates in Rural Development/Checchi.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Commercial banks meeting minimal capital requirements	89 (1995)	97%	99%	100%	*
Bank examinations focusing on asset quality and management	0(1995)	50%	50%	60%	*
Securities enforcement/compliance activities	0(1995)	**	6	10	20
Securities market capitalization ($ millions)	0 (1995)	1300	10000	15000	20000
Pledges/tax liens registered as collateral	0 (1998)	0	35000	50000	70000
Enterprises completing financial restructuring	0 (1998)	0	0	20	100

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*No plans at this time to report on indicator beyond 2000.

** Not available.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE: A More Economically Sustainable and Environmentally Sound Energy Sector, 121-015
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE $952,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: The Ukraine energy program has three primary activity areas: (a) power sector privatization and reform; (b) training and utility partnerships; and (c) energy efficiency and conservation. The power sector privatization program, by far, has the greatest short-term potential, and involves numerous donor organizations and top level Ukrainian government officials. Increasingly, the training and utility partnerships are being re-oriented to support privatization, and the energy efficiency programs are shifting more towards support of municipalities and global climate change concerns.

As a legacy of the former Soviet economy, Ukraine's energy sector has continued to be centrally controlled and inefficient. Energy production has been cut in half since independence, and the physical infrastructure has deteriorated greatly. The sector has accumulated very large debts, mostly owed to Russia. The Government of Ukraine has used over half of Ukraine's hard currency to pay for imported fuel; and has heavily subsidized energy production and consumption. Fuel suppliers have been unable to collect even meager payment in cash from customers and they have often lacked the ability to cut off service for non-payment.

Ukraine began the process of power sector restructuring in the 1990's to address apparent financial and managerial problems and to develop a financially sustainable power sector. First steps included the break-up of eight, regional energy production and distribution monopolies, and the establishment of a regulatory institution. The industry now consists of four thermal, one nuclear, and two hydroelectric generating companies (GENCOs), and 27 local distribution companies (LECs). Additionally, a mandatory central dispatch pool, based on an early version of the United Kingdom's pool, was formed in Ukraine.

Privatization of energy companies and legislative, regulatory and market reform is now essential. Strategic investors are necessary to bring capital, technology, competitive fuel procurement techniques and management expertise in order to put the energy sector on a sound commercial footing. The ability of strategic investors to achieve critical mass and, thereby, withstand political pressure from entrenched interests is essential to success.

In early 1999, a Power Sector Task Force with representatives of the Government of Ukraine, the European Bank for Reconstruction and Development (EBRD), World Bank, G-7 countries, and European Commission was formed. Agreement was reached to simultaneously concentrate efforts on improving laws and regulations governing the wholesale and retail electricity market operation and on privatizing the electricity distribution companies. Hence, USAID's technical assistance on privatization and reform has been provided under the auspices of this implementing Task Force.

In December 1999, the U.S. Government and the Government of Ukraine signed a Memorandum of Understanding (MoU) on reforming the electric power sector of Ukraine in support of the goals of this Task Force. In the MoU, USAID has obligated itself to assist the State Property Fund, the National Electricity Regulatory Commission, the Ministry of Energy, the Alternative Fuels Center, the Kommunar Company in Kharkiv, municipalities (district heating and energy efficiency), newly created Energy Service Companies and NGOs. If the Government of Ukraine privatizes approximately seven of the remaining 20 distribution companies, it will meet the major outstanding EBRD loan condition for funding completion of construction of two nuclear generating units and the corresponding closure of the remaining operational unit at Chernobyl.

Key Results: USAID's primary objectives for the Ukraine energy program are (1) to properly establish the legal, regulatory and market rules to enable strategic private investment; (2) to initially privatize the electricity distribution companies and subsequently a majority of the power plants; (3) to increase utility payments made in cash significantly; (4) to improve efficiency in energy utilization by establishing a network of municipalities focused on energy efficiency technologies and implementation; and (5) to have Ukraine make a positive contribution to the fight against global climate warming.

Performance and Prospects: In 1995, the integrated power system was broken up into generation, distribution and transmission companies, totaling 35 companies. In addition, Ukraine set up a countrywide power pool. USAID has been the lead provider of technical assistance to the National Electricity Regulatory Commission (NERC). The NERC has now firmly established itself as the institution issuing utility licenses and regulator of prices and terms and conditions of producer-consumer relationships. Its efforts to raise tariffs have been thwarted by the Parliament. The NERC has strongly committed itself to a competitive, market-based system, while the Ministry of Energy has wanted to maintain Government control and ownership of the power sector, in spite of deteriorating conditions. Many in the Parliament, central government and local government have continued to see power as a service that should be provided at nominal cost, or free if possible, and likewise have expected that fuel, equipment and labor costs of the industry would nevertheless be financed.

USAID's training and partnership programs have resulted in a significant shift of thinking and awareness and transfer of western practices for thousands of employees of the state-owned Ukrainian energy sector. Many trainees have advanced to positions of authority and are poised to make a real difference in the long-term.

In the coal sector, USAID has promoted health and safety awareness and practices regarding methane gas risks. Specifically, USAID has encouraged the development of coal-bed methane (CBM) as a commercially viable alternative source of energy. To that end, USAID's contractor has identified the key legislative and regulatory issues and assisted in creation of the draft law "On Alternative Liquid and Gaseous Fuels" and "Production Sharing Agreements" affecting commercial exploitation of CBM. USAID collaborated with the Government of Ukraine in the creation of the Alternative Fuel Center to coordinate CBM activities.

As regards energy efficiency, USAID activities stimulated demand for energy audits provided by newly created energy service companies, developing linkages with energy efficiency industry of western countries. USAID collaboration with heating companies in the city of Lviv led to the installation by private sector companies of building-level heat delivery systems through condominium and cooperative associations. USAID has planned to continue its support to Ukrainian NGOs to extend this experience to five cities of Ukraine.

Through a continuing grant to the Department of Energy, USAID will provide business development assistance in industrial energy efficiency. In the framework of the Kharkiv Initiative, USAID will support development of a market for energy metering and conservation equipment. Energy efficiency and control of methane emissions can substantially reduce Ukraine's impact on global warming. USAID supports the Ukrainian–U.S. Initiative on Climate Change, and USAID grantee -- Alliance to Save Energy -- will serve as the Secretariat for the Climate Change Initiative Work Group in Ukraine.

Possible Adjustments to Plans: In 1999, a comprehensive review of the Ukraine energy program was conducted. This

review contributed to re-orienting the programs on privatization and to extending training programs. The review indicated that the influence of the Ministry of Energy is pervasive in the electricity market, and the only real solution is to diminish its authority and control.

Other Donor Programs: The primary donor program is the aforementioned Task Force. The World Bank is concentrating on policy reform. After suspending its Electricity Market Development Project (EMDP) last year, the World Bank is now close to approving a lending program for the Kiev City Administrative Buildings project, and has an on-going loan for hydro power plant upgrades and coal mine closures. The EBRD is another major donor in the energy sector, with several projects underway. EBRD has offered to be the lead financier for the completion of two nuclear generating units at Khmelnitsky and Rivne. Neither the World Bank nor the EBRD can provide significant technical assistance, although both can bring hundreds of millions of dollars in loan funds, as well as creative short-term financing (EBRD). Other donors include the Government of Japan, the European Union, the British Know How Fund, and Canadian Government.

Principal Contractors, Grantees or Agencies: Deloitte Touche Tohmatsu**,** Hagler Bailly, Alliance to Save Energy, Partners in Economic Reform, International Institute of Education and the United States Energy Association.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of electric distribution companies majority owned or managed by strategic investors	0 (1999)	0	0	7	20
Electricity revenue cash collection (%)	(%) Negligible (1995)	7.1	12	20	35
Commercial wells drilled for coal bed methane	0(1998)	0	0	1	2
Number of municipalities meaningfully involved in energy efficiency regional network	0 (1996)	0	1	4	9
Cumulative number of student days of training	0 (1996)	16170	32390	45310	51000
NERC functioning independently of political forces	No (1998)	No	No	Yes	Yes
Number of energy companies privatized by strategic investors*	0 (1996)	0	2	15	20
Reduction in industrial, residential and commercial consumption of energy	0(1998)	0	0	2%	5%

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* Reporting on indicator will be discontinued.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: Increased Environmental Management Capacity for

Sustainable Development, 121-016
PLANNED OBLIGATION AND FUNDING SOURCE: $1,440,000 FSA
PROPOSED OBLIGATION AND FUNDING SOURCE: $1, 400,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: USAID programs in support of this objective aim to increase public and private capacity to address critical environmental constraints to Ukraine's sustainable development. By and large, program activities are carried out at the local level, where the majority of decisions affecting Ukraine's economy and environment are taken by enterprises, utilities, schools, hospitals, local administrations, and citizens. USAID helps to create the necessary conditions and incentives for a greater private sector role in environmental technology transfer; and to increase and improve the technological environmental management capabilities of communities, and to increase environmental investment. Activities will promote citizen involvement in environmental decision making to ensure that both public and private

entities balance environmental concerns with the need for economic growth and employment creation; and advance the understanding that improving local infrastructure, reducing pollution and minimizing waste increase economic efficiency and productivity.

USAID activities also support policy and regulatory reform with the goal of helping Ukrainians develop environmental policies that are both effective, and consistent with international agreements to which Ukraine is a signatory party. These policy-related activities are aimed at integrating environmental concerns into Ukraine's strategy for economic reform at national and local levels.

USAID activities under this objective will strengthen linkages among environmental professionals in the region, and between Ukraine and U.S. counterparts; particularly with a view to promoting environmentally sound technology transfer and public participation. Finally, USAID activities will assist Ukraine in meeting its obligations under international treaties, especially the UN Framework Convention on Climate Change and the UNECE Convention on Public Participation in Decision-making, Access to Information and Justice in Environmental Matters (Aarhus Convention). Activities under other objectives will assist in achieving environmental goals; i.e., USAID's energy efficiency, private sector development, local government, democracy/rule of law, and health programs complement and reinforce the program to improve environmental management capacity.

The primary beneficiaries of these activities are the citizens of the areas in which USAID is implementing environmental activities – Crimea, Dnipropetrovsk, Donetsk, Ivano-Frankivsk, Kharkiv, Khmelnytskyi, Kyiv, Lviv, Mariupol, Odesa, Slavutych, and Zakarpattia.

Key Results: USAID will consider this objective met when Ukraine has (1) increased the integration of environmental and economic policies; (2) increased capacity to uphold commitments to international agreements; (3) improved environmental management practices at public and private facilities; (4) developed sustainable regional and U.S. environmental partnerships; and (5) increased involvement of citizens and environmental NGOs in the decision-making process affecting human health and the environment at the local level.

Performance and Prospects: Despite the critical state of Ukraine's environment and economy, USAID has made significant progress under its environment program, and has established a solid foundation for further progress. Since 1996, the core of USAID's environmental program has been the U.S.-Ukraine Council and Work Group Program to Promote Sustainable Development. This program initiated efforts to integrate economic and environmental development objectives. Field demonstration projects in urban water, agriculture, industry, energy efficiency, environmentally sound business development, and international treaties were linked to work groups that proposed legislative and policy solutions to barriers to sustainable development. USAID's environmentally sound technology transfer activities have progressed in both the municipal and industrial sectors. In one case, USAID provided technology for the Lviv Urban Water Program. Elsewhere, local capacity to provide water services was increased from 0-3 hours per day to 24 hours per day in one area through the transfer of U.S. Environmental Protection Agency, computerized water system modeling technology, U.S. engineering technologies, and financial management and efficiency know-how in the industrial sector. USAID projects helped to generate $3.4 million in annual savings in ten Donetsk and Dnipropetrovsk enterprises, and improved energy efficiency in 24 enterprises.

The number of viable, environmental, non-government organizations (NGOs) in Ukraine increased as well. The NGO network has grown from a membership of approximately 150 in 1994 to 619 in 1999, an increase of 413%. The focus will now shift to building institutional capacity within these organizations and to coordinating these efforts with the establishment of the new Regional Environmental Center (REC).

In FY1999, the Mission and the Government of Ukraine agreed to work with UN Development Program to sustain the Work Group Program with increased Ukrainian leadership, greater involvement of other donors, and reduced support from USAID.

As noted below, the Urban Water Program is now implemented under the objective to improve local government. USAID plans to replicate this program in other municipalities. USAID does not provide direct funding for activities in waste minimization; but provides Ukrainian municipalities and businesses access to such funding through the Europe and Eurasia Bureau's regional EcoLinks program. Energy efficiency activities under will be addressed in the context of reducing greenhouse gas emissions under the Climate Change Initiative.

USAID's support for environmental NGOs and for citizen participation will continue under the Climate Change Initiative and under a new activity: the Local Environmental Action Program (LEAP). The LEAP will assist

communities in addressing local environmental problems, and increasing public participation in environmental decision-making. The Climate Change Initiative and the LEAP will be the Mission's principal activities under this environmental management objective FY 2001.

Possible Adjustments to Plans: Activities under this objective were reviewed in the first and second quarters of FY1999, resulting in the decision to pursue two environmental management goals under two other strategic objectives. Municipal infrastructure activities are now deployed as part of the overall strategy for improving local government management and services delivery. Energy efficiency activities aimed at reducing harmful emissions are now being implemented as part of the overall energy program.

Other Donor Programs: USAID works closely with The World Bank, European Bank for Reconstruction and Development, and other donors, especially with the Government of Canada in the area of global climate change. In implementing the LEAP, the Mission expects to cooperate closely with the Environment for Europe Environment Action Plan Task Force and its Secretariat at the Organization for Economic Cooperation and Development. Increased cooperation with the European Union is likely now that the REC has been established in Kiev.

Principal Contractors, Grantees or Agencies: UN Development Program (UNDP), U.S. Environmental Protection Agency, Environmental Research Institute of Michigan (ERIM), Hagler Bailly, UNECE, and Institute on Soviet-American Relations.

Selected Performance Measures

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of projects prepared for environmental investments	0 (1997)	0	NA	2	3
Number of local environmental action plans adopted	0 (1997)	0	NA	1	6
Number of actions taken by Ukraine to implement the UNFCC and/or Aarhus Convention	0 (1997)	5	NA	7	8
Number of private and public entities that have adopted environmental management plans*	19 (1997)	31	53	65	80
Number of laws and regulations adopted that strengthen the policy, legal and regulatory framework for environmentally sustainable development	0 (1998)	0	**	**	**
Number of private and public entities innovative financing mechanisms	0 (1998)	0	**	**	**

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* Formerly "… improved environmental management."

** Reporting to be discontinued.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: Increased Better-Informed Citizen Participation in Political and Economic Decision Making, 121-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $6,319,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $6,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: This program advances democracy and the emergence of a market economy in Ukraine by stimulating effective citizen participation. After eight years of independence, the enabling environment for democracy in Ukraine remains weak. Political will among government leaders for reform is tentative. Many fundamental changes are needed in laws, institutions, attitudes and practices. USAID supports active, grassroots NGOs that assert citizen rights, aggregate and advocate popular interests, and contribute to broad debates on public policy. In addition, this program encourages an independent and unrestricted press that can provide citizens with unbiased information and a broad range

of ideas. Programs activities include those that help Ukrainians build expectations and mechanisms of accountability and transparency in government. Other activities train citizens to become more politically active. Finally, through USAID assistance, political parties receive training to increase their capacity to build and maintain links between citizens and their representatives at all levels of government.

Key Results: Achievement of this objective is contingent on success in effecting: (1) increased public confidence in the political process as a result of the improved ability of NGOs and other civil society groups to advocate citizens' interests, and improved citizens' representation in government through free and fair elections; and (2) more unbiased, public information available to citizens as the result of increased transparency of government operations and more professional and independent media reporting.

Performance and Prospects: Participation in NGOs is increasing. Due to USAID's support for NGOs working for free and fair elections in 1999 (primarily the Freedom of Choice Coalition), supporters of democracy are better organized and working more closely with each other. Efforts by these NGOs help explain a significant increase in youth voter turnout for the 1999 elections (compared with the parliamentary elections of 1998). Elections were free and fair. USAID-funded, International Foundation for Electoral Systems (IFES) technical assistance is a major reason that the administration of these elections was basically free and fair. Data confirm that training and technical assistance to help independent media outlets become more financially independent is working, and citizens have better access to more sources of information. However, heavy-handed harassment of the media and state interference in the election compromised these successes. It is disappointing, although not surprising in view of the slowness of reform, prevalence of corruption, and poor reputation of national leaders, that nationwide polling data show Ukrainian citizens continue to lack confidence in the political process.

Ukraine has made some progress in its democratic transition. A number of reform-oriented public policy NGOs have become significant actors, impacting debates about legislation and the reform agenda. Advocacy to enforce citizen rights under environmental legislation continues to make gains. In Odessa, the city government fixed broken sewer pipes and promised a clean up when faced with a lawsuit demanding monetary damages for flouting the law. The highest courts continue to demonstrate willingness to rule against the Government, and the number of active non-governmental organizations continues to grow. The administration of elections, as seen in the presidential elections of 1999, has improved dramatically under the guidance of USAID-supported, IFES specialists. Those elections were judged generally free and fair, and the President, re-elected against a Communist challenger, has promised "resolute reforms," and has appointed a reform-minded banker as his new Prime Minister.

The enabling environment for democratic and economic reform in Ukraine appears to be more positive now – due to Ukraine's own democratic forces, as well as pressures and support from international donors. The program is at a critical juncture: the prospects for continued reform are uncertain, and the role of USAID assistance extremely important. Despite setbacks and remaining challenges, there has been both an opportunity and a danger in the lack of political consensus for reform in either the Government or the Parliament. In the Parliament, anti-reform forces have remained strong, and while they have not commanded a majority they have blocked many pro-reform projects. Reformist political forces in parliament have been fragmented and have yet to pass some key progressive legislation, such as measures to protect free speech through caps on libel suits brought against journalists or through acceptance of a "public figure" doctrine. In addition, reformist forces failed to block some backward steps, such as a new law that constitutes the de facto end of a national free trade union movement.

Legislator coalitions and strategies could become more sensitive to citizen lobbying and pressures for reform, which will increase steadily as the country prepares for parliamentary elections in 2002. Predilections for control among current elites continue to intimidate those who want change, or who would make demands on Government. The experience of State pressures on the media during the 1999 presidential election campaign as well as widespread use of State employees to promote the incumbent bear out these feelings of intimidation.

The situation with the media has remained especially serious. Non-State media faced increasing difficulties in providing unbiased information to the public and operating free of governmental and financial pressure in the pre-election period. Harassment, buy-outs, and personal attacks on journalists all combined to coerce the media – especially those with a national reach -- into a subdued role. According to both domestic and foreign monitors of media performance, programming was lopsidedly partisan in favor of the incumbent; some television stations were shut down or bought out. Twenty-five of the 64 member stations of the Ukrainian Radio Broadcasters Association reported that they received anonymous threats or were harassed by tax authorities during the campaign. While some independent media outlets in the regions escaped such pressures, on balance this year was a sobering one for defenders of free speech in Ukraine. These election year constraints detracted from the successes of USAID programs to support free media – a

three-pronged effort that not only promoted financially independent media and technically skillful journalists but also responsible and ethical journalism.

The task of democracy promotion has continued to pose challenges, and gauging success is has not always been easy. For example, USAID at one time used "legality of domestic election monitoring" as an indicator of free and fair elections. In the 1999 elections, domestic monitoring by citizen groups was technically illegal, yet extensive citizen monitoring in fact occurred and marked a high point in pro-democracy activism in Ukraine. Altogether over two rounds of voting, USAID-supported programs helped to train and deploy over 55,000 election monitors. The Presidential Election Law in fact did not provide for civilian monitors, nor would Parliament amend the law to do so, despite some heavy lobbying. But the law did provide for monitors from political parties, candidates, and journalists. So, in what may be a peculiarly "Ukrainian" solution, the Committee of Voters of Ukraine (CVU) recruited about 15,000 non-partisan civilian monitors, and gave them all cards accrediting them as "journalists" from the CVU's own newspaper – all with full prior knowledge of sympathetic election authorities.

One good sign has been that citizen interest in fair and democratic procedures is stronger than ever. USAID supported the efforts of an impressive, nation-wide, non-partisan coalition of 268 Ukrainian NGOs that was formed in 1999 to support free and fair elections. Their work was at least partly responsible for the astonishing turnout among young voters – up from about 35% in the 1998 parliamentary elections, to over 65% in the 1999 presidential elections. Member groups of this coalition found their cooperative experience very satisfying, and many of them have resolved to continue civic work in the future with a new focus – perhaps, anti-corruption. The success of the coalition energized public policy NGOs and think tanks that have now planned to intensify their efforts to encourage policy-makers to adopt badly needed reforms. Such efforts made sense in the aftermath of elections that the Ukrainian president himself says gave him a mandate to move more quickly.

Plenty of evidence exists that political activists – especially at the local level – are eager to do more to promote democratization and to involve citizens in governance. Some of this impetus is related to the tension created by acute social need and impatience with the current pace of government action. Other reasons are demographic: of over 240,000 elected officials below the national level, less than 5% have a formal party affiliation, while about 20% are under 30 years of age. USAID-funded programs in political party building, legislative development, and municipal governance successfully engage many of these people through workshops for locally elected officials and issues seminars, as well as through training in lobbying, constituency relations, and leadership. Requests for training from these locally elected officials are increasing – a demand for help USAID cannot ignore.

Programs to press for democracy from below – and through elected representatives -- can become politically critical over the next few years as Ukraine's leadership weighs the domestic benefits and risks of a more robust reform agenda. Not funding new efforts to support civil society NGOs would risk losing the momentum of civic activism generated during the elections, and the organizational gains of the many participants all over Ukraine.

Over the next four years, USAID will attempt to respond to the increased demand for assistance from civil society NGOs that want to assert, defend, and advocate the rights of citizens. USAID will support workers and journalists to help them mobilize their membership and general public, respectively to lobby for reforms. Finally, USAID will work with individuals and groups eager to take an active part in political life. An assessment of political party-building activities will take place early in 2000. Conclusions and recommendations from this assessment will help guide plans for continued political process activities leading up to the 2002 parliamentary elections and beyond. Building on the evaluation of the American Center for International Labor Solidarity, labor union support program that ended in October 1999, and on the experiences of election-period civic activism, USAID intends to introduce a new program for civil society NGOs and advocacy in mid-2000. This program will ensure that the momentum of democratic activism experienced in 1999 will not be lost. It will help civil society organizations identify pressure points for reform in all sectors and then enable them to sustain momentum for reform from the grassroots.

Possible Adjustments to Plans: No strategic changes identified at this time.

Other Donor Programs: Several other donors work to promote civil society, and support activities to democratize the political process. The major contributors to the 1999 election effort include the European Union; the International Renaissance Foundation; Netherlands, Canada, and Great Britain; and the United Nations Development Program. The European Union and the British Know How Fund intend to expand their existing programs of assistance to civil society activities over the next few years. USAID leads the ad hoc meeting of donors that coordinates assistance during elections, and participates in donor coordination groups for other sectors, including NGOs and independent media.

Principal Contractors, Grantees or Agencies: International Foundation for Electoral Systems, International Republican Institute, National Democratic Institute, Freedom House, Internews, International Research and Exchange Board, Counterpart Alliance for Partnership, Eurasia, and the NIS-U.S. Women's Consortium

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Citizens understand the political process	17% (1996)	30%	28%	30%	35%
Citizens who believe they can do something about an infringement of their rights by the government	6% (1995)	4%	15%	17%	19%
Citizens participate in NGOs	16% (1996)	14%	25%	28%	30%
Draft national legislative initiatives introduced by legislative branch in which there was citizen participation in the deliberative process*	0 (1995)	6	3	20	30
Medium and large cities with coverage of daily national news by non-government TV stations	16% (1996)	23%	23%	24%	24%

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*Formerly "Draft national legislation introduced…"

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: Legal Systems that Better Support Democratic Processes and Market Reforms, 121-022
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2.320,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $3,000,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: This program supports efforts to create an entirely new, Western-oriented legal system, and transform the existing political-legal culture. Activities have included direct assistance to: parts of the judicial system itself; members and staff of Parliament; judges and lawyers in their individual professional roles; juridical associations, law schools and legal educational institutes; and to NGOs engaged in legal advocacy.

In the past, USAID supported activities to strengthen the institutional capacity of the courts and the Parliament, assisting these branches of government to fulfill their constitutionally established roles. These activities cultivated legislative professionalism, working with those in Parliament willing to improve the Parliament's commitment to and skill with its representational and oversight functions. Activities to bolster the effectiveness of the court system, through training of judges, technical assistance and limited equipment purchases (e.g. computerization and access to legal databases) were key components of USAID's broader effort to reform Ukraine's legal system (a program that ended in September 1999). In addition, USAID supported legal advocacy groups that lobby for adherence to the rule of law. This activity includes legal assistance to journalists, aid to pro-bono clinics at law schools, and an active program to encourage professional education among lawyers.

The absence of a coherent statutory framework is a significant obstacle to legal reform. Therefore, USAID's future legal reform strategy will consolidate and build on the gains of past activities while trying to achieve more discrete objectives in the following areas: anti-corruption; the adoption of select laws, codes and other essential legislation; and legal advocacy in support of human and environmental rights and media freedom. USAID's success in these areas will impact legal systems more comprehensively.

Key Results: USAID's mission under this objective will be achieved when: (1) courts carry out their role as ascribed to them by law; (2) the constitution, civil and criminal codes, and supporting legislation meeting international standards, are enacted; and (3) citizens hold government accountable to the laws.

Performance and Prospects: The foundation for a Western-based legal system was laid with the adoption in 1996 of Ukraine's new post-Soviet constitution, a generally progressive document that guarantees citizens an impressive set of rights and establishes the structures of national government. USAID has acknowledged that transforming institutions and mindsets represents a long-term undertaking and that work has just begun to put in place a legal system suited to the needs of a modern democratic, free-market system. Ukraine must meet the next challenge: to design and adopt new codes and laws to replace the old Soviet-era statutes that continue to regulate almost every aspect of Ukrainian life.

But progress in discrete activities does not provide a full picture of the changes, some admittedly difficult to measure, that have begun to take hold in constructing a legal system more supportive of democratic processes and market reforms. Though the Constitution establishes an independent judiciary, judges at the local level are only now beginning to see themselves as part of an independent, co-equal branch of government. The same can be said for members of the Parliament. Despite the inefficiency of its internal procedures and its lukewarm support for economic reform, the Parliament is also emerging as a prominent actor in national policy making. In both cases, USAID and other donor-supported programs to bolster the institutional capacity of the courts and the Parliament are contributing to an emerging sense that these bodies should be co-equal partners in the governing process.

Efforts to improve legislative procedures in Ukraine have produced some results; e.g., in the increasing use of committee hearings that involve representatives of the public, and in greater involvement of parliamentary committees and their expert staff in drafting important legislation such as the budget. Provision of pro-bono legal services continues to increase the public's access to competent counsel while it offers practical training to new young jurists. The specialized, pro-bono assistance offered in matters of environmental law continues to expand its reach. Community-based programs to promote government integrity and to fight corruption have been established in two cities, and will soon begin in a third. As for the court system, the continued independence of the higher courts is very positive. For example, the Constitutional, Supreme, and High Arbitration Courts are on record for having all issued decisions against the executive branch that by most accounts demonstrate a high degree of independence from the executive or legislative branches.

Unfortunately, USAID's expectations for further modernization of the legal system have been frustrated by the lack of fundamental legislation essential for economic and democratic reform. In addition, Ukraine has yet to pass certain legislation needed to satisfy Council of Europe membership requirements. Despite pressure from supporters of reform both inside and outside the country, Ukraine has yet to adopt the Law on the Judiciary and several codes – a new civil code and code of civil procedure, administrative code and code of administrative procedure, a revised criminal code and code of criminal procedure, and the law on the procuracy.

The change that may have the most profound long-term consequences is the increasing ability of citizens, primarily through NGOs, to use the court system to hold government authorities, particularly at the local level, accountable for observing the rule of law. For example, one USAID project supports a coalition of environmental NGOs that attempts to hold government accountable to environmental and public participation laws. The resulting efforts by citizens and NGOs to use their rights under the law are highly successful, advancing an issue of primary concern to citizens while increasing their confidence in the political process and legal system. Similar projects that provide legal and advocacy support to journalists, members of independent trade unions, and special interest groups such as consumer and business associations, have impressive, albeit limited success. This trend is greatly abetted by growing awareness on the part of citizens about the law, and by the increased access to competent legal representation and increased citizen access, in part through USAID-supported, pro-bono legal clinics. Increasingly, consumer rights, human rights, environment, and small business NGOs are engaged in legal advocacy.

Possible Adjustments to Plans: USAID carried out a rule of law assessment in 1999, and has been redesigning its rule of law programs to fit the central recommendations of this assessment and build on lessons learned. Under current funding projections, resources available to support rule of law programs will fall to less than half previous levels. From FY 1996-FY 1999, the budget for the rule of law program averaged approximately $4.8 million per year. For FY 2000, the proposed budget for the rule of law program is a little more than $2 million. From this total, $1 million will be budgeted to expand anti-corruption activities, based on the positive results of the two, well-established, community-based integrity partnerships in Donetsk and Lviv. USAID plans to fund a newly established, nation-wide, anti-corruption NGO coalition. This coalition will coordinate the efforts of the public, media, and local governments to fight corruption at the local level. The coalition is expected to make a valuable contribution to these efforts and advance networking among civic organizations.

Other Donor Programs: USAID continues to coordinate with the World Bank, the European Union technical assistance program for Eurasia, the Organization for Security and Cooperation in Europe, and other donors on legal

reform issues. Most notably, USAID's programs are designed to complement the proposed World Bank Legal Reform loan, which has been under negotiation for several years. USAID organizes and participates in donor meetings to coordinate assistance to the courts, parliament, and specific legislative drafting initiatives. Coordination meetings often include Ukrainian government counterparts as well as NGO development partners such as the Ukrainian Legal Foundation.

Principal Contractors, Grantees or Agencies: American Bar Association/Central and East European Law Institute, Indiana University, and Management Systems International.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of target laws:					
Drafted	6 (1998)	6	8	9	9
Introduced	3 (1998)	3	7	9	9
Enacted	1 (1998)	1	5	9	9
Constitutional Court functioning independent of other branches - ruling against the Executive	No (1995)	Yes	Yes	Yes	Yes
Citizens aware of basic human and civil rights	25% (1997)	15%	31%	43%	TBD
Number of operational Pro-Bono legal clinics	1 (1997)	7	8	11	15
Number of clients of EPACs receiving pro-bono consultations	134(1998)	134	300	330	370

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: More Effective, Responsive and Accountable Local Government, 121-023
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,800,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $3,500,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: Improved capacity of local governments to manage resources and provide service is crucial to sustaining Ukraine's overall reform effort. Assistance at the local level not only has visible impact on people's lives, but also improves public perceptions of and experience with democracy and economic reform. In cities, towns and villages, the interaction between citizens and government is most vigorous. There is evidence that local governments with the capacity to exercise well-informed choices -- in partnership with citizens and civil society -- can solve problems, identify and maximize opportunities, narrow the gap between resources and responsibilities, and engage the central government on policies that encourage local initiative.

Many of USAID/Kiev's programs that support democratization, housing, finance, privatization and private enterprise, environment, health, and training have taken place in or directly benefited cities or towns. In over 395 Ukrainian communities, USAID/Kiev is working at the grassroots level with citizens, NGOs and local governments to bring about positive change.More than1,000 community-based activities help to build responsive, well-run communities and increase public confidence not only in local government but also in the transition to a free-market economy and democratic society. These efforts help bring about tangible improvements in people's lives. Strengthening local government capacity and encouraging citizen participation at the community level is the key to the sustainability of these efforts.

The strength of USAID's approach lies in the fact that U.S. programs produce tangible evidence that priority community concerns can be addressed more effectively through local government initiative and citizen participation. USAID will continue to build upon experience to date in promoting, at the local level: (1) democratic governance that is transparent,

accountable, responsive, effective and engages citizen participation; (2) improved fiscal and financial management, including the development of operating and capital budgets, financial planning, business and investment plans, and economic development plans; (3) improved management capacity and administrative practices; (4) improved municipal services delivery and tariff reform, including improvement in the quality of service and the efficiency of service provision, particularly in the areas of heating and water/sewer; and (5) continued strengthening of the Association of Ukrainian Cities as the advocate and professional association for local governments.

These programs are mutually supportive of programs under other strategic objectives that increase citizen participation, build citizen confidence in political processes, and strengthen the rule of law. In addition, the restructuring of the intergovernmental finance system through the fiscal reform objective will make an essential contribution to the achievement of improved, local government administration. Finally, as municipal development is truly a cross-cutting area, objectives and special initiatives in economic growth, small- and medium-business development, environment, and health that promote development, or address citizen needs and concerns at the local level, reinforce the efforts of activities under this objective.

The principle beneficiaries of these programs are mayors, city administrators, local government officials and policy makers through increased local authority and improved management. The citizens of these communities benefit through improved services, greater transparency of government operations, and more involvement in local planning, decision-making processes and implementation.

Key Results: USAID will consider progress towards the achievement of this objectiveon track when targeted local governments and citizens begin to work together to solve priority community problems, and identify opportunities for future development. These efforts will help bring about tangible improvements in municipal planning and administration, and in service delivery. Sharing positive experience and lessons learned with other local governments in Ukraine and in the region will facilitate the duplication of effective approaches in other localities, enabling a broader impact of USAID programming.

Performance and Prospects: While local governments in Ukraine continue to face significant challenges, USAID has made progress that will serve as a foundation for continued development of local government. USAID-sponsored activities have promoted more open and responsive city government operations, public accountability of local officials, improved municipal services, open and competitive procurement procedures, and increased citizen participation. USAID has provided local governments with training and technical assistance in management, financial and strategic planning, municipal operations and services, budgeting and citizen participation through in-country and cross-border exchanges with public and private organizations.

As verified recently by an evaluation of two major activities, dramatic improvements in ten communities' transportation services resulted in significantly improved public perception of local government, and nine cities also adopted financial and budgetary analysis methods to help exercise their new authority to raise revenue and plan expenditures. Forty percent of cities (in the population range of 50,000 to one million) are using financial analysis models developed with USAID support. Twelve cities have achieved measurable improvements in municipal services (transportation and water). Seventeen percent of the cities (in the same population range) are using strategic development planning tools. Fifteen cities have established citizen task forces and advisory boards. Twenty-two cities have held public hearings and "town hall" meetings on a consistent basis, with a total of 37 communities improving their citizen participatory mechanisms by creating and utilizing task forces, advisory boards, etc. as well as holding public hearings. Eleven cities are using competitive procurement on a regular basis. USAID assistance also improved the computer literacy among city and trolley bus company employees in 31 cities.

Eighteen Ukrainian cities are paired with U.S. partner communities for technical assistance, education and training exchanges, supported by four regional training centers. The focus areas of the partnerships include economic development, citizen participation, transportation, housing/communal services and budget. To date, we have seen some progress in the adoption of financial analysis models and in the holding of public hearings. Other accomplishments include 31 local government officials interning in 12 American communities; post-internship follow-up trips by 31 U.S. trainers in eight Ukrainian cities; and 40 seminars at the training centers which provided training for 750 local government officials from more than 125 communities.

Laws on local, self-government and local state administrations were passed in 1997 and 1999 respectively. The USAID-supported, Association of Ukrainian Cities (AUC) assisted in drafting the local self-government bill and continues to assist in the development of and lobbying for bills regarding local taxes and fees, communal property rights, the State budget and budget system. AUC's membership continues to grow (from 79 in 1996 to 270 at present),

and it has become more effective in its advocacy for local government issues and concerns at the national government level. USAID is also working with AUC to develop and disseminate lessons on best practices in Ukrainian local government.

The Urban Water Improvement Project in Lviv introduced a successful model for financially viable and sustainable water utilities which was rolled out to two other cities. Some of the results included a significant improvement in the Lviv water supply for about 50,000 citizens, and increased the energy efficiency of its potable water supply. USAID also is assisting the Lviv water utilities to apply for a World Bank loan. The successes of the Lviv Urban Water and the Effective Local Government activities are being implemented in a new Municipal Water activity which will assist eight water utilities to improve their technical, financial and management capacity, while involving the community and local government in this process.

The Municipal Development Loan Fund activity recently resulted in two communities, with the assistance of citizen task forces, developing economic development strategies, followed by two business plans and two major infrastructure project proposals for each community. These communities are now better positioned to apply for loans from major financial institutions, such as the European Bank for Reconstruction and Development (EBRD), or from the future World Bank Municipal Development Loan Fund.

These activities have demonstrated that increasing local government capacity to manage and promote democratic processes and transparency can bring about tangible improvements that build citizen support for local government and for reform. The interest in replicating USAID models and approaches in other cities confirms not only the success of these programs, but also the opportunity to make a significantly broader impact. In addition, a Work Group is finalizing an activity design for tariff reform (focusing primarily on the national level) and the restructuring of communal service enterprises (focusing on local water and district heating).

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: Many donors and international organizations are working to strengthen local government, but USAID has the most comprehensive and geographically diverse program. The World Bank, other than the pending loan for the Lviv water utilities, is implementing the Kyiv Public Building Energy Efficiency and Sevastopol Heat Supply Improvement projects. Several other donor organizations, including EBRD, the European Union (EU), the British Know How Fund and the United Kingdom’s Department for International Development (with the Organization for Economic Cooperation and Development), have projects to improve the water and wastewater companies’ financial and operational performance. The UN Development Program will also be looking at municipal water tariff setting and collection in Ukraine. In addition, International Renaissance Foundation and the EU award small grants to NGOs and others to strengthen local governments and civil society. Twinning programs are sponsored by British Know How Fund and EU as well. Lastly, British Know How Fund is beginning a local and regional government institutional strengthening project to help improve delivery of local services.

A Municipal Development Working Group has been established and meets regularly to discuss donor coordination. Participants include representatives from the organizations noted above, as well as representatives from the German, Swedish and Dutch embassies and several foundations (such as Eurasia).

Principal Contractors, Grantees or Agencies: USAID implements activities through U.S.organizations, including theU.S.-Ukraine Foundation, Research Triangle Institute, CH2MHill and International City/County Management Association

Selected Performance Measures

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Cities with municipal business plan	0 (1998)	0	2	4	6
Cities using financial analysis models	0 (1995)	32%	40%	45%	50%
Cities with improvements in specific Services	12 (1998)	12	14	16*	18
Cities with institutionalized participatory mechanisms	1 (1995)	6	15	17**	19
Citizen's access to decision-making fora ensured	0 (1998)	11	22	25	30

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* Source data and 2000 target revised.

** Target revised in September 1999.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: Improved Sustainability of Social Benefits and Services, 121-032
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $9,262,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $10,000,000 FSA
STATUS: Continuing

INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2005

121032a: Pension Reform and Social Services

Summary: Ukraine's transition from Soviet-era, central planning and authoritarian rule has imposed substantial hardship on the vast majority of the population. As price controls were lifted, food, housing, energy and other basic goods and services were no longer affordable to people dependent on either government pensions and invalid benefits or fixed wages. The Government of Ukraine printed money to cover budget deficits, igniting explosive bouts of inflation, and wiping out savings families had accumulated over many decades. As a result, many of the elderly were left without a cushion to protect themselves from new economic realities. The abrupt end of the arms race placed millions of manufacturing employees on indefinite lay-offs, or in part-time employment. With economic growth still elusive, few people have had access to proper jobs. The absence of a financial sector to redirect investment funds stifled the growth of new opportunities. Endemic corruption, punitive taxes, intrusive regulations, and xenophobia reduced the level of foreign investment. Worsening budget deficits froze pensions and other government benefits far below subsistence levels. Shrinking State support in the health sector compromised historically free health care, reducing its quality and eliminating its "free" price. Increasing morbidity and mortality, and declining life expectancy reflect th starkest results of these developments.

Improving the sustainability of social benefits and services would help strengthen political support for economic reform in Ukraine. With over half of Ukraine’s population living below the poverty line, such support, already dwindling, will soon evaporate if measures are not taken to shelter the most vulnerable groups in society. Ukrainian citizens cannot be expected to envision and aspire to a more promising future when their immediate welfare is in such a precarious position. The new poor resent the bewildering "reforms" that have destroyed their living standards. They are turning to political parties calling for a "return to the normalcy" of socialism. These parties are effectively slowing or even blocking reform. further exacerbating social and economic problems and discouraging foreign assistance.

USAID assistance is aimed at: (1) building a firm, rational and consistent legal, regulatory and administrative framework to support the three-pillar pension system, including the solidarity system, the beginning of a mandatory funded system and safe, voluntary, private pension plans; (2) developing sound actuarial pension models to allow accurate evaluation of alternative pension reform scenarios and better management of the state pension system; (3) assisting in the creation of a national database of all pensioners to allow automated pension calculations, auditing of pension expenditures, and reduced administrative costs; (4) creating a nationwide database of all working Ukrainians to improve collection of payroll contributions, eliminate workbooks, improve labor mobility, and allow auditing of all social protection programs; (5) creating a nationwide unified social safety net program; and (6) improving the infrastructure, management capacity, organizational government structures of indigenous NGOs providing social services to vulnerable groups in society, and improving the legal and regulatory environment in which they operate.

Because the social welfare of the population is so closely tied to many spheres of life, activities in practically every other USAID objective contribute to the achievement of this one; particularly private sector development, increased citizens’ participation and government responsiveness, and health sector reform activities.

USAID will help the Government of Ukraine (GOU) to replace the present fragmented system of targeted assistance programs with a unified social safety net program for the people of Ukraine, using the Mykolaiv oblast model of social

protection services delivery. All benefits will be targeted to the most needy families and individuals. Efforts are expected to yield such benefits as budget savings of between 200 million and 400 million hryvnia by FY 2003, depending on the extent to which benefits are increased to the poorest families. Beneficiaries of these programs include low-income, Ukrainian children and adults, especially pensioners and single women with children. Ukrainian NGOs and charity organizations, hospitals, orphanages, boarding houses, invalids, the elderly, and most other vulnerable groups also benefit from USAID assistance under this objective.

Key Results: USAID will consider this objective achieved when the following conditions attain. (1) There is increased efficiency in public sector delivery of services. (2) The public pension system is reformed and its infrastructure capacity strengthened. (3) Private pension insurance is implemented. (4) A nationwide social safety net program has been created. (5) NGOs and other private organizations provide needed services to vulnerable groups. (6) There is effective delivery of emergency and humanitarian assistance.

Performance and Prospects: Despite a number of formidable obstacles, Ukraine, with the help of foreign donors and international financial institutions, has made some headway in creating more sustainable social benefits and services in selected areas. Working closely with GOU counterparts in key ministries, USAID has helped to design and implement a number of social sector reform programs and more generally has catalyzed Government support of social sector restructuring. Since 1995, USAID has contributed to important social sector reform achievements, including improved cost recovery for housing and communal services, saving the state budget an estimated $1 billion per year.

USAID was also instrumental in a successful housing subsidy program, including the introduction of automated caseload management and financial reporting systems, which provides targeted assistance to some four million poor families. USAID technical assistance helped create the models to forecast unemployment insurance and employment fund revenues and expenditures as well as the training for relevant staff to use the model. USAID helped pilot a quarterly household labor force survey, coordinated with the IMF/World Bank's revised household budget and expenditure survey. In addition, USAID assisted in creating a system for monitoring the social protection needs of the population – specifically one for reporting wages and contributions to the State Pension Fund – which improved tax collections, related pensions to employment history, and could lead to the eventual elimination of work books.

Overall, USAID technical assistance produced fiscal models for accurate budgeting of social assistance programs. Finally, USAID has provided grants and training to social service NGOs, which have helped increase the efficacy in strategic program planning and implementation, cross-sectoral cooperation with government and business, fund-raising, advocacy. As a result, NGOs experienced a nearly tenfold increase in client base and diversified their funding sources.

USAID’s social sector reform strategy will build on these achievements to create an efficient and effective social benefits and services system that will include reform of the state pension system and the introduction of viable private pension funds. In addition, USAID will facilitate the creation of an NGO network, which will in turn provide humanitarian assistance to address problems of acute human suffering during the transitional period. For the foreseeable future, USAID will support efforts to build a sustainable network of public, private and non-governmental Ukrainian institutions, whose mission is to alleviate the privations of the most vulnerable Ukrainian citizens, imposed on them by the economic and political reform process.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: Other donors recognize the importance of social sector reform in Ukraine as well. International Monetary Fund conditionality includes requirements for better targeting of social assistance, the elimination of general entitlement programs, as well as improvement of state pension system administration. The World Bank continues to explore the possibility of providing credits to support pension reform, having expressed a willingness to collaborate with USAID on phasing in some elements included in USAID’s pension reform strategy. The European Union's technical assistance program for Eurasia (EU TACIS) provides training and policy assistance in the area of pension reform and is currently collaborating with USAID contractors in developing the social safety net. The British Know-How Fund is also developing a scope of work for a modest program to support targeted assistance.

Bilateral donors --- including regional German Governments, the Government of Canada and the British Know-How Fund -- are also engaged in pilot projects related to improvements in the state pension system and active labor programs to create jobs and retrain workers. USAID works closely with other donor organizations in NGO development, particularly through a Donor Working Group, which includes EU-TACIS, UNDP, the Netherlands Embassy, British Council, the Mott Foundation and the International Renaissance Foundation (Soros). One of the projects the donor

group has developed is a database to track all NGOs that apply for or receive assistance from any member of the donor community. This information will provide background on the NGO for purposes of coordinating efforts and checking on the NGO's history and reliability. A separate database, on which the British Council has taken the lead, provides information on the different donors and programs. The public will be able to access this information on the Internet throughout the NGO Resource Center network.

Principal Contractors, Grantees or Agencies: PADCO, Gavin Anderson and Counterpart (CAP and CHAP)

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Law on mandatory state pension insurance enacted	No (1997)	Drafted	Drafted	Yes	Yes
System for delivery of social protection services has been replicated nationwide based on Mykolaiv oblast experience (% completed)	0 (1997)	0	30	70	100
Percent NGOs that increased Number of beneficiaries	60 (1998)	160	85	*	*
Share of social assistance spending which is targeted (percent)	5% (1995)	50	40	45	65
Law on non-state pension funds enacted	No (1997)	No	No	Yes	Yes
Private pension funds regulatory agency established	No (1997)	No	No	No	Yes

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Reporting on this indicator to be discontinued once 85% target achieved.

ACTIVITY DATA SHEET

PROGRAM: Ukraine
TITLE AND NUMBER: Improved Sustainability of Social Benefits and Services, 121-032
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $9,262,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $10,000,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2005

121032b: Improved Health Care Service Delivery

Summary: Since the collapse of the Former Soviet Union, much of the old government and social structure supporting health care has become increasingly dysfunctional, while the overall risk to the health of the Ukrainian population has continued to rise. One alarming statistic which is indicative of the worsening health situation is the decline in life expectancy for the Ukrainian population, from 69.7 in 1991 to 67.1 in 1996, with the reduction for females being from 74.3 to 72.8 during that period, and for males from 64.7 to 61.6. Much of the decline in health and increased risk can be attributed to lack of preventive care, lack of disease management (infectious, degenerative, cardio-vascular, circulatory, cancers and congenital and peri-natal), poor lifestyle choices, adverse environmental and occupational health conditions, and accidents. Birth rates are below replacement levels. However, the infant mortality rate remains high, and abortion is still the most common method of fertility control in Ukraine.

USAID began working in the health sector in Ukraine in 1993, and has provided technical assistance and training in seven priority areas: reproductive health, infectious diseases, pharmaceutical management, hospital technical assistance, breast cancer, Chornobyl-related childhood illnesses and health care financing. Reflecting on this effort and looking forward to the opportunities for greatest impact in the future, USAID has developed a comprehensive health care strategy to support improvement in the quality of health (health status) and the quality of health care (health care system) for the population of Ukraine. Elements of that strategy include assessment of: individuals' health status and modalities needed to improve it; and, the health care system and the modalities needed to make it more efficient, effective, and sustainable. Opportunity for international technical assistance is employed to leverage significant change.

The health care problem remains daunting.Effectiveness is hampered by the ingrained culture of health care funding and allotments based on hospital bed occupancy. Weak financial management perpetuated by both a lack of adequate

funding and a lack of a well-trained cadre disciplined in modern managerial science is also an impediment. Additional weaknesses include emphasis on a large number of specialists and not a reasonable proportion of General Practitioners for robust primary health care. The majority of health care is being provided at the tertiary level. Insufficient attention is given to preventive medicine, health promotion, and/or early detection and treatment or medical problems by a less costly community-based primary health care approach. Finally, lack of, and/or outdated, materials and information is perpetuated by a lingering system of medical education and postgraduate medical studies based on out-dated didactics and not on more recent evidence-based medicine.

The situation has been complicated by Article 49 of the Ukrainian Constitution, which states that all Ukrainian citizens will have access to free health care. The Ministry of Health, with the support of the Council of Ministers, has attemped to select about 50 procedures for which hospitals could charge fees. In support of this, a decree was issued by the Council; the Ukrainian Constitutional Court ruled, however, that this decree was unconstitutional. It should be noted that the issue of «free» health care is an illusion. Recent figures from the Ministry of Health show that individuals pay about 50% of their health care costs.

Further efforts are critically needed to: establish expanded, broad-based primary health care services; increase access to wellness and first echelon treatment; develop or revise existing policies that will be more responsive to the health needs of the country; provide specialized training in specific fields; and reform the entire health care system. This would include developing a financial basis for asset pooling, for viability, for sustainability; and for the development of the necessary expertise and leadership for a sound, well-focused management structure. One specific area for the development of primary health care is reproductive health services for women.

The issue of incorporating and empowering ancillary health care workers to increase efficiencies requires a proactive training program for non-physicians such as nurses, midwives and medical technicians. It will require substantially more attention than it has been given in the past, including a change in the mindsets of those in power who have relegated these co-workers to more menial roles. Efforts will be undertaken to raise the competency levels of all health care providers, not just physicians. This will be achieved through developing the health care team concept. Ukrainian standards of care often lag far behind those of western levels, partially due to the lack of clinical training. Health care planning is needed to rationalize the health care system and adequately meet the needs of Ukraine's population. In this instance we look to the role of privatization.

Although a small private health care market has begun to develop in Ukraine, there is full consensus among international health experts familiar with Ukraine that, at least over the next five to ten years, a national health care system is necessary to provide the vast majority of health services required. The existing private sector has less than one percent of Ukrainian physicians participating. Among the many challenges is overcoming the reluctance on the part of State-employed physicians to lose such entitlements as apartments, children’s day care, and pensions. In addition, there are legislative impediments against establishing private practices.

In the specific area of health legislation, there is serious concern on the need for capacity building at the Ministry of Health on health care legislation. In 1992, the Government of Ukraine passed a primary health legislation bill, "*Basics of the Legislation of Ukraine on Health Care"*. This was to serve as a basic matrix for additional supporting health legislation that would address in more specific detail a multitude of health care issues. This basic matrix for health care would then lead to the development for a number of specific laws that would be sent to the Parliament. In the ensuing years there were no more significant pieces of legislation that were presented to or passed by the Parliament.

Of paramount importance has been the need for drafting legislation for "operational" needs, such as the provision of health care; the development of laws for social and health insurance; laws concerning the use of blood products, etc. There have been, however, a constant number of decrees passed by various governmental entities: Presidential Decrees, Council of Minister’s Decrees, and Ministry of Health Decrees. In other instances there have only been "instructions" from the Ministry of Health. In this turbulent atmosphere, with a number of governmental bodies working on similar selected topics, confusion has been created through a number of contradictory instructions. Programmatically, we anticipate offering technical assistance in drafting legislation related to restructuring, capacity building, health care financing, and privatization to improve the capacity of the Ministry of Health.

Through implementation of this strategy, USAID is promoting a fundamental shift in Ukraine's paradigm for its health delivery systems: one that shifts from an inordinate reliance on tertiary programs, towards one with a greater emphasis on cost-effective and cost-benefit approaches referred to as "primary care." Primary care emphasizes wellness, prevention and first echelon care, improving health and reducing the necessity for the more expensive specialized health care at tertiary care facilities. The latter requires more costly professionals, more expensive equipment and procedures,

and more lengthy hospital stays. This primary care approach is the overarching theme of each of the following elements identified by the strategy as crucial for health system reform in Ukraine:

- Health Care Delivery
- Promotion of Healthy Lifestyles
- Professional Education and Training
- Reducing Environmental/Occupational Risk to the Public Health
- Reproductive Health
- Financing
- Legal/Policy Environment

There is a growing sentiment among economists that health can be a driving force for economic revitialization – a somewhat different view from the more traditional one that says that first you have a strong economy and that this economy can then support a more robust health care system. A healthy workforce is a key economic indicator, one that leads to increased productivity with less inefficiencies such as lost production time and less consumption of health care resources.

Key Results: USAID will consider this objective achieved when the following conditions are met. (1) There is increased efficiency in public sector delivery of health care services through greater utilization of primary health care services. (2) The general health status of the Ukrainian people has stabilized, with increasing signs of greater longevity. (3) The infrastructure and capacity for a viable, sustainable health care financing mechanism has been implemented. (4) The ability to draft coherent health legislation and policies is present and effectively lobbied for passage by the Parliament. (5) NGOs and other private organizations are successful advocates in a civil society. (6) Privatization of service delivery is occurring.

Performance and Prospects: Despite a number of formidable obstacles, Ukraine, with the proposed help of foreign donors and international financial institutions, is prepared to address the areas and agenda of reform. There has been a start with the administrative reform at the Ministry of Health, as well as health care reform. Working closely with Government of Ukraine counterparts at the Ministry of Health and in the *Oblasts*, USAID has helped to design and implement a number of health sector reform programs and has been a catalyst in influencing the Government to support more aggressive health sector restructuring.

USAID's health sector reform strategy will build on some of these earlier achievements to create a more efficient and effective health delivery services system. Increasingly, we anticipate building on a proactive NGO network for advocacy to allow enlightened citizens more active participation in the decision-making process concerning their health, their health care system, and its responsiveness. Throughout these initiatives there would be ongoing networking and soliciting of other health donor organizations.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: Other donors have also recognized the importance of health sector reform in Ukraine. The World Bank has assisted in some moderate ministerial restructuring and has conditionally proposed a $120 milion loan to address tuberculosis and HIV/AIDS. Inherent in this is the strengthening of the public health infrastructure. USAID and the European Union have planned to implement a joint HIV/AIDS prevention program. Informal discussions have been held with the Soros Foundation concerning efforts at revitalizing the School of Health Care Management in Kiev. The Soros Foundation has also considered linking its Ukraine health care reform activities with those in Budapest.

Principal Contractors, Grantees or Agencies: U.S. Department of Health and Human Services, American International Health Alliance, Counterpart, JHPIEGO (a Johns Hopkins program that provides reproductive health information and education), and Johns Hopkins University/Population Communication Services.

Selected Performance Measures:

	Baseline	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)

Percent of clinics focused on primary health/family medicine	0 (1998)	0	6	12	24
Percent of cancer screening programs that operate on a regular basis	1 (1998)	1	6	12	18

The United States Agency for International Development

Ukraine

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	225,212	203,574	160,000	171,300
SEED Act Funds	0	0	0	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**225,212**	**203,574**	**160,000**	**171,300**
Operating Expenses	5,855	5,353	5,400	5,500
Trust Funds	0	0	0	0
Total Operating Costs	**5,855**	**5,353**	**5,400**	**5,500**

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	10	15	17	16
Other U.S. Citizen	8	6	7	7
FSN/TCN DH	55	58	66	66

Subtotal	**73**	**79**	**90**	**89**
Program Funded*				
U.S. Citizen	20	20	20	20
FSN/TCN	33	49	53	53
Subtotal	**53**	**69**	**73**	**73**
Total Direct Hire Work Force	**126**	**148**	**163**	**162**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**126**	**148**	**163**	**162**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

(In Thousands of Dollars)

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
121-012 Incr. Soundness of Fiscal Policies & Fiscal Mgmt. Practices							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	2,000	0	0	0	0	0	2,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-013 Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	33,000	0	0	0	0	0	33,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-014 A More Competitive and Mkt.-Responsive Priv. Fin. Sector							

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	5,000	0	0	0	0	0	5,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-015 A More Econ. Sustainable and Environ. Sound Energy Sector							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	2,000	0	0	0	2,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-016 Improve capacity for Envir mgt to promote sustainable econ growth							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	1,400	0	0	0	1,400
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-021 Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	6,000	0	0	6,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-022 Legal Systems that Better Support Dem. Processes and Mkt. Reform							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	3,000	0	0	3,000

- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-023 More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	3,500	0	0	3,500
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-032 Improve the Sustainability of Social Benefits and Services							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	10,000	0	0	0	0	10,000
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-041 Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	93,300	0	0	0	0	0	93,300
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
121-042 Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	10,100	0	0	0	2,000	0	12,100
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	143,400	10,000	3,400	12,500	2,000	0	171,300
- SEED	0	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Chris Crowley

The United States Agency for International Development

UZBEKISTAN

Development Challenge

Other Donors

FY2001 Program / Activity & Budget Information

Introduction

U.S. national interests in Uzbekistan reflect a combination of commercial and strategic concerns. As the largest country and market in Central Asia, Uzbekistan offers trade and investment opportunities through a diverse economic base which includes agricultural, industrial and energy resources. Its oil and gas reserves also provide opportunities for U.S. investors. A prosperous Uzbekistan would be central to the commercial expansion of the region. Uzbekistan aspires to regional leadership, and is increasingly seen as a key player in maintaining stability in Central Asia. It has played a mediating role in the crises in Afghanistan and is a guarantor in the Tajik peace plan. Uzbekistan can contribute to the U.S. national security interest in ensuring that the region remains stable. This is echoed in the U.S. Embassy's Mission Performance Plan's strategic goals: the development of a civil society, an efficient and effective health care system, sustainable environmental management, accession to the World Trade Organization (WTO), and increased regional stability.

The Development Challenge

The reluctance of the Government of Uzbekistan to introduce market-oriented reforms in the financial sector has constrained economic recovery. After a significant movement in the mid-1990's toward free market reforms through pricing and trade liberalization measures and tightened short-term fiscal and monetary management policies, the Government of Uzbekistan retreated in the late 1990's by restricting convertibility and access to foreign currency. This resulted in suspension of its International Monetary Fund (IMF) Standby Arrangement. The lack of convertibility, minimal progress toward privatization, and a near halt in other economic or fiscal reform are having a serious debilitating effect on the Uzbekistan economy, as well as a chilling effect on the international donor community. This led to a termination of USAID's Fiscal Reform Project in early 2000. Recent IMF consultations revealed deepening financial imbalances. The investment climate continues to suffer from onerous bureaucratic obstacles in registration, licensing, and inspection areas, which increase the cost and unpredictability of private business operations. Uzbekistan receives assistance with energy sector and environmental challenges through USAID's Central Asia Regional program.

Citizens are poorly informed and their participation in economic and political life is limited. Political opposition to the regime is not tolerated. Anticipating that the 1999 parliamentary elections would not meet international standards, USAID halted election-related assistance. The media is increasingly constrained. Several TV stations were closed, and the broadcast of a USAID-sponsored, biweekly TV news exchange was temporarily disrupted. Despite this restrictive environment, USAID was able to help the government pass a new NGO law, and improve sections of the criminal and commercial codes.

Currently, government social services critical to maintaining a social safety net are not financially sustainable. However, the Government of Uzbekistan is committed to providing good health services. This is an area in which USAID technical assistance could be effective. The World Bank (IBRD) negotiated a $30 million loan to reform the primary health system in three pilot oblasts. USAID is developing the pilot model for these reforms. The USAID model focuses on new management and payment systems for improved health service delivery and financing. The initial results have

been impressive, with 13 primary health care sites already established. Community groups have been organized to improve awareness and participation in health services. Responding to a resurgence of tuberculosis (TB), USAID continues to introduce the new, more effective World Health Organization protocols for TB treatment. USAID programs have significantly improved health for Uzbeks. They have contributed to the eradication of polio, a 50% reduction in abortions, and the training of more than 1,000 health care providers in family planning. A five-year health partnership concentrates on emergency care, the government's second priority in health care.

Partnerships, training and exchanges remained an important component of USAID assistance. USAID trained over 1,520 reform-minded government leaders and professionals, of whom 31% were women, in areas directly related to democracy and a free-market economy. USAID's successful third country training allows participants to observe, first-hand, positive reform in other Central Asian Republics.

Other Donors

USAID works closely and coordinates with other donors. The IMF continues to monitor the macroeconomic policies of the Government of Uzbekistan, even though the Standby Arrangement has lapsed. The IBRD is working on privatization and health, and plans to launch a financial sector reform project. The European Union (EU) has the largest program of assistance to the country, after the IBRD. The EU's program focuses on technical assistance in agriculture, private business development, and energy, and includes support for accounting reform. The United Nations, the Adenauer Foundation, and the Organization for Security and Cooperation in Europe fund training to improve civil society. The European Bank for Reconstruction and Development has made loans for textile plants, energy, and small enterprise development.

The United States Agency for International Development

Uzbekistan

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID's assistance will continue to focus on those areas where it can be most effective, such as health and local community development. Other important priorities are targeted activities in education and training, micro-credit, civil society, and water management. USAID will assist those regions where host-country counterparts have shared priorities and potential as development partners. Within the economic area, the emphasis will be on job creation, increased access to and use of credit, including micro-credit, reduced constraints to business, economic and business education, and the empowerment of women.

In health, USAID's focus will be on quality of care, informed citizenry, allocation of health care resources, and the legislative and policy framework. USAID will seek to reach critical populations by working at the rural primary health care level. In coordination with the IBRD health loan, USAID will continue to provide technical assistance to expand USAID's successful cost-effective model. In the area of infectious disease, USAID will continue to introduce cost-effective ways to treat TB and strengthen the ability of NGO's, including traditional groups such as community councils, to deliver social services.

Involving Uzbekistan citizens in public affairs through an active, effective NGO community represents the most viable means of promoting a more participatory political process closely complemented by a strong, independent media. USAID is increasing support for civic education, women's legal rights, NGO activity, rule of law, and grassroots community issues. It is also working with the more mature NGOs on policy advocacy skills, coalition building, and community development. USAID assistance to commercial non-state media outlets will help address equipment, finance, and management deficiencies and subsequently improve the quality of information.

A significant amount of FREEDOM Support Act resources for Uzbekistan in FY 2000 and FY 2001 will be provided, under the Administration's Expanded Threat Reduction Initiative (ETRI), for programs designed to enhance border security and export control capabilities. ETRI assistance will contribute to the nonproliferation of weapons of mass destruction, and associated delivery systems, materials, technologies, and expertise.

ACTIVITY DATA SHEET

PROGRAM: Uzbekistan
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 122-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $1,200,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $1,500,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1998 **ESTIMATED COMPLETION DATE**: FY 2004

Summary: Private enterprise is dying in Uzbekistan. Much work is necessary to help resuscitate it. A stable, robust market economy is critical to the development of democracy and civil society in the Central Asia region. Furthermore, the country's integration into the regional and global economies could provide trade and investment that would benefit all. Unfortunately, this growth has been minimal in the past few years. Growth has been impeded by both a slow rate of

privatization and by flawed governmental policies; e.g., a non-convertible currency, and non-tariff trade restrictions that give the state wide-ranging control over international trade. As a consequence, the conditions for private sector development in Uzbekistan are extremely bleak.

The direct beneficiaries of USAID's activities in this area will be the owners of the small and medium enterprises.

Key Results: Three key results are necessary to achieve this objective: (1) an improved operating environment for private sector growth; (2) improved human resources for the functioning of a market economy; and (3) increased availability and accessibility of capital and technological resources for the private sector.

Performance and Prospects: Despite negative economic factors, Uzbekistan has made some progress on reforms. Legislation to encourage foreign direct investment was adopted, and went into effect in May 1998. The Cabinet of Ministers proposed a strategy to reduce bureaucratic procedures faced by small- and medium-sized enterprises (SMEs) in creating, registering, and operating their business activities. Nevertheless, foreign investors continue to face formidable bureaucratic hurdles such as import contract registration, business registration and licensing, and customs delays. The new SME legislation has done little to energize activity in the private sector which is hamstrung by dysfunctional macroeconomic policies.

Continued depreciation in the black-market exchange rate contributed to the decline of Uzbekistan's currency, the *som*. The government's highly disruptive multiple exchange rate regime was institutionalized at the beginning of 1997. This regime supports the activities and investments of the government's priority sectors, and serves to strengthen the near stranglehold that the government maintains over the economy. The widely used, although illegal, black-market exchange rates are consistently much higher than the official rate.

Restrictive trade practices introduced in 1997 remain in place, including registration and prepayment requirements for imports and high average import tariffs. The state trading monopoly for the export of cotton and gold – which generated over 40% of the country's foreign exchange earnings in 1998 – also remains in place. Following the Russian crisis, Uzbekistan imposed high import duties on selected items from Kyrgyzstan and Kazakhstan (the latter partly in retaliation against Kazakhstani measures); and introduced barriers to shuttle trade, such as a $300 duty for vehicles entering Uzbek territory from these two countries (except those in transit). Against this background, Uzbekistan's accession to the World Trade Organization (WTO) is a distant prospect.

The Government of Uzbekistan has recently committed to build a vibrant SME sector. Financing for initiatives supporting the development of private-sector, SMEs is being prepared by the European Bank for Reconstruction and Development (EBRD) and Asian Development Bank (ADB). Additionally, in early 1999, the German Bank for Reconstruction extended a $15.3 million credit line to the Central Bank of Uzbekistan to support SMEs. The most serious impediments to the emergence of a new private sector still remain in place in the form of limited access to foreign exchange, discretionary government intervention, and an unreliable judicial system.

USAID assistance to the Government of Uzbekistan has been instrumental in the drafting of decrees issued to protect SMEs. These decrees limited the inspection authority of government officials. USAID assistance was also instrumental in establishing a "one-stop" business registration process. With USAID assistance, Uzbekistan has made very slow, but positive, progress toward WTO accession. Uzbekistan submitted its Memorandum of Foreign Trade Regime in 1998. More recently, USAID advisors assisted in the development of an Intergovernmental Working Group, consisting of 18 state agencies, charged primarily with the preparation of all necessary materials for accession to the WTO. USAID helped enact three laws that enhance the investment climate: the Law on Investment Activity, the Law on Entrepreneurs, and the Law on Non-Governmental Organizations.

By December 1998, the Government of Uzbekistan had replaced its Soviet style accounting standards with international accounting standards. USAID is assisting the Government of Uzbekistan to introduce a corresponding Chart of Accounts; and now supports enterprise conversion to international accounting standards and practices, accountant training, and accounting curriculum reform.

To date, the private enterprise development work of USAID has had some success despite the difficult business environment. SMEs continue to want and need assistance and credit, as offered by the International Executive Service Corps (IESC) and the Central Asian-American Enterprise Fund (CAAEF). Unfortunately, since August 1998, CAAEF has been unable to make any new loans due to the problem of currency convertibility.

Possible Adjustments to Plans: Given the inability to affect significant reform at the macroeconomic level, USAID

activities will focus on the local level in FY 2001. In FY 2000, USAID will begin new micro-credit activities and work with business associations. Also, new activities in economic and business education are envisaged for FY 2000 and 2001.

Other Donor Programs: The World Bank, EBRD and European Union (EU) are all engaged in activities aimed at improving the business climate and promoting private sector growth in Uzbekistan. The German Bank for Reconstruction extended a $15.3 million credit line to the Central Bank of Uzbekistan to support SMEs. The EU has worked with USAID in the early stages of accounting reform. USAID's own technical assistance and training in this area is coordinated closely with these organizations.

Principal Contractors, Grantees, and Implementing Agencies: USAID uses U.S. commercial contractors. Booz Allen & Hamilton works on trade and investment reform and Carana Corporation does accounting conversion and training. IESC provides technical, managerial, and business-planning assistance to private and privatizing enterprises. CAAEF provides equity and credit to the nascent private sector. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1996)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Percentage share of GDP generated by private enterprises	26%	45%	50%	60%	65%
Dollar volume of joint venture funds invested (millions)	$13	$18	$20	$25	*
Percentage of total capital Investments in private sector	17.3%	25%	30%	*	*
Govt. of Uzbekistan maintains compliance with conditionality of international financial institutions**	No				

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*Targets have not been determined.

**During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program and therefore data were not collected on these indicators.

ACTIVITY DATA SHEET

PROGRAM: Uzbekistan
TITLE AND NUMBER: Increased Citizens' Participation in Political and Economic Decision-making, 122-O21
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,000,000 FSA
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $2,100,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2006

Summary: Increased citizen participation is critical in Uzbekistan where democratic reform is challenged by the government’s centralized structure and its lack of political will to reform. The government has displayed no intention to hold elections that meet international standards. Likewise, the independent media continues to face obstructions from the government. These obstructions increase the already apparent self-censorship in the country. Given these restrictions, USAID is devoting much of its democracy assistance to longer-term training and encouragement of local level community development led by non-governmental organizations (NGOs). USAID continues to assist local independent television and radio broadcasters to improve the professionalism and viability of independent media. This support helps to disseminate the quality information on domestic politics and economic policies. USAID’s activities in this sector provide strong support to the Embassy’s Mission Performance Plans’ strategic goal of developing a civil society.

Key Results: Three key results are necessary to achieve the objective. (1) NGO participation in civil society is

strengthened. (2) Information on domestic economic policies and politics becomes more widely available. (3) The government becomes more responsive and accountable to citizens and citizens' organizations.

Performance and Prospects: As a result of USAID-funded training, many NGOs continue to become stronger and more assertive local advocates. A new NGO law provides a legal framework for charitable and civil society organizations. USAID is assisting the development of civil society through the growth of NGOs, especially in areas outside the capital.

With the assistance of USAID-funded Internews, 26 non-state television stations are being strengthened through training and equipment donations. However, some of these non-state, TV stations have recently been subjected to increasing government pressure. In particular, the Government of Uzbekistan ordered two stations to shut down their operations. With USAID support, the stations are compiling documentation for an appeal to this order. Given these restrictions, USAID is focusing much of its democracy assistance over the next year on local level, community development by NGOs to increase citizen participation. Furthermore, USAID will begin its women's legal rights initiative in three focus regions.

Openings at the local level with traditional leaders have presented increased opportunities to work on civil society participation in community development. Continued programming in Nukus, Bukhara, and Kokand is expected. In independent media, USAID intends to refocus its efforts on supporting journalists associations and discussions of their legal rights to help defend journalists from increasing government harassment.

Possible Adjustments to Plans: No strategic changes identified at this time.

Other Donor Programs: The United States is a major donor working in democracy. The Konrad Adenaur Foundation, the Soros Foundation, Organization for Security and Cooperation in Europe/Office for Democratic Institutions and Human Rights, and the UN Development Program also provide assistance. In addition, the United Nations High Commission for Refugees is co-funding NGO resource centers in conjunction with USAID-financed Counterpart Consortium.

Principal Contractors, Grantees, Implementing Agencies: Several USAID-funded, U.S. private voluntary organizations such as the American Bar Association/Central and East European Law Institute, Internews, and the International Foundation for Electoral Systems are playing a role in promoting democracy and freedom of information in Uzbekistan. The Counterpart International and the International Center for Not-for-Profit Law, which together form the Counterpart Consortium, and Winrock International also participate in local NGO development in Uzbekistan. The Initiative for Social Action and Renewal in Eurasia will also participate in the development of local environmental NGOs. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1994)	**Actual** (1998)	**Target** (1999)	**Target** (2000)	**Target** (2001)
Number of NGOs involved in advocacy (media/govt.)	70/52 (1996)	220/60	240/70	250/75	75/80
Average daily minutes of local news programming	2	5*	9	10	12
Number of Parliamentary Hearings and committee meetings addressing legislative/policy issues	0	0	4	2	4

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*The number reported is low for 1998, because when the data were collected, many of the stations were still in the re-registration process. The stations were not able to broadcast while awaiting the decision from the licensing committee.

ACTIVITY DATA SHEET

PROGRAM: Uzbekistan
TITLE AND NUMBER: Improve the sustainability of social benefits and services, 122-032
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,300,000 FSA

PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $6,400,000 FSA
STATUS: Continuing
INITIAL OBLIGATION: FY 1998 **ESTIMATED COMPLETION DATE**: FY 2004

Summary: In Uzbekistan, as in most parts of the former Soviet Union, the government invests far greater resources in curative health care than for primary health care. While Kyrgyzstan and Kazakhstan moved relatively quickly to reform their health sectors, progress in Uzbekistan has been slow until recently.

The government is now interested in health care reform. At the government's request, USAID initiated health reform activities, modeled on demonstration projects in Kazakhstan and Kyrgyzstan, in 1998. With USAID assistance, the government is training rural primary health care doctors. Rural clinics are introducing new, market-based payment systems to increase efficiency and quality. The government has negotiated a loan with the World Bank to reform the health care infrastructure in three oblasts: Ferghana, Syr Darya and Navoi. The primary health care model and the financing systems introduced by USAID will be replicated elsewhere under the World Bank loan. The health care reform will benefit the entire citizenry, especially the vulnerable populations.

Key Results: The two results are: (1) cost-effective health care services demonstrated in selected oblasts; and (2) cost-effective health sector reforms adopted nationally.

Performance and Prospects: Performance in the USAID demonstration sites, which encompass the rural health care clinics of three rayons in Ferghana Oblast, is on target. The legal basis has been created for the implementation of the reforms in the pilot region, including the development of legal entities for 13 new Family Group Practices (FGPs) and 32 facilities that are being converted into FGPs. Incentive-based payment systems have been designed and are being implemented in 45 primary health care facilities. The health care system is showing early, positive results, and increased efficiency and accountability.

Indigenous NGOs have been supported to increase community awareness and participation in health services. Ten NGOs, linked with primary health care facilities in USAID's pilot region, received small grants to educate and improve the health of their communities. The focus of the grants, identified by a community assessment, included topics such as reproductive health, nutrition, childhood infectious diseases, and clean water supply.

Training in country and in the United States has been provided to counterparts. Training for family medicine practitioners is continuously being developed and implemented in addition to training for policymakers and local counterparts.

There is a Memorandum of Understanding between the Government of Uzbekistan and the Government of the United States to promote and support the health care reform project. In late 1998, the President issued a Decree that provided the legal basis for implementation of the Health Care Reform Project until the year 2005, making this project a priority for future years. The World Bank loan has been approved for approximately $30 million. Planned collaboration with the World Bank in its model oblasts, however, has been delayed due to the slow rate of loan disbursements.

In addition to the World Bank loan and the Governmental Decree, prospects for expansion are good in Uzbekistan. The government has taken the initiative to create or improve primary health care facilities in rural areas throughout the country. Funds are being made available from the governmental budget for this purpose.

Possible Adjustments to Plans: Integration of vertical health programs (i.e., infectious diseases and reproductive health) into the Family Group Practice health delivery structure will become a key focus.

Other Donor Programs: The Ministry of Health at the national level and local health officials at the implementation level are the primary counterparts. However, various other Government of Uzbekistan entities, such as the Ministries of Finance and Justice, the Cabinet of Ministers and the Presidential Office, are also involved. In addition to the close, collaborative relations with the World Bank, USAID's work is coordinated with the British Department for International Development and the European Union's Technical Assistance Commonwealth of Independent States.

Principal Contractors, Grantees, or Implementing Agencies: Abt Associates is the principal contractor implementing this activity. The Academy for Educational Development coordinates participant training.

Selected Performance Measures:

	Baseline (1998)	Actual (1998)	Target (1999)	Target (2000)	Target (2001)
Increased number of independent primary care practices - family group practices (FGPs)	0(1997)	13	20	30	50
Percentage of the population openly enrolled in FGPs in pilot sites	0	0	*	25%	60%
Percentage of health care providers reimbursed by market-oriented payment systems**	0				

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*****The population enrollment process is only beginning in Uzbekistan this year, and information on 1999 target was not available.

**During FY 1998, USAID programs were being consolidated and a new strategy was being developed. Decisions were made about the relevance of the indicators for the program . Subsequently, data were not collected on these indicators.

The United States Agency for International Development

FEDERAL REPUBLIC OF YUGOSLAVIA

Budget Justification: Kosovo

Budget Justification: Montenegro

Budget Justification: Serbia

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Kosovo, Montenegro and Serbia are constituent parts of the Federal Republic of Yugoslavia. Because of significant differences in U.S. objectives, development challenges and ability to operate within these three very different environments, USAID presents justifications for the three assistance programs separately.

- Budget Justification: Kosovo
- Budget Justification: Montenegro
- Budget Justification: Serbia

The United States Agency for International Development

KOSOVO

Development Challenge

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Introduction

Stability and security in Southeast Europe is a key U.S. foreign policy objective. The past decade of conflict in this region has resulted in significant U.S. military and civilian involvement in bringing about and maintaining peace. North Atlantic Treaty Organization (NATO) intervention and the adoption of United Nations Security Council Resolution (UNSCR) 1244 on June 10, 1999, ended a decade of Serbian suppression of ethnic Albanians in Kosovo. International donors subsequently pledged over $3 billion for humanitarian relief, and a large multi-year assistance program of reconstruction and economic recovery for Kosovo in which the European Union is expected to assume a lead, funding role. Donors moved quickly to respond to emergency needs in Kosovo's post-conflict environment. USAID's disaster assistance has been critical in this regard, helping with priority needs such as shelter winterization, and community stabilization.

U.S. foreign assistance is an integral component of the Stability Pact, designed to foster geopolitical stability and economic prosperity in Southeast Europe, and will be critical in promoting rapid economic, political, and social stability in post-conflict Kosovo. USAID is providing Support for East European Democracy (SEED) assistance to help Kosovo restart its economy, and establish a sound macroeconomic framework and basic institutions of a market economy; strengthen democratic institutions such as independent media, civil society, and the rule of law; and restructure its social sector. U.S. support is part of broad-based international efforts, led by the United Nations Mission to Kosovo (UNMIK) and NATO's Kosovo Implementation Force (KFOR), to allow Kosovo to enjoy substantial autonomy and meaningful self-administration within the Federal Republic of Yugoslavia (FRY).

The Development Challenge

After autonomous political structures were dismantled in 1989, Serbia assumed control over Kosovo's police and economic policies. Ethnic Serbs replaced ethnic Albanians in many public sector jobs, and Albanian-owned companies were taken over through joint ventures with Serb-owned companies. The instability, conflict, and massive refugee movements of the past year have exacerbated the adverse impact of this process.

By the end of the conflict in June 1999, approximately 65% of the province's total population of two million had fled to neighboring countries (800,000 people) or were internally displaced (500,000 people). Serb forces killed an estimated 10,000 Kosovar Albanians. Over 100,000 Kosovar Serbs also fled Kosovo during and after the hostilities, leaving many institutions and enterprises without staff and management. By September 1999, most Albanian refugees had returned, but Kosovar Serbs continued to leave fearing retaliation. Refugees and internally displaced persons returned to damaged homes (nearly 60% of the existing housing stock had been damaged or destroyed), limited utility services, and an economy that had all but collapsed.

The immediate priority for many people in Kosovo is to restore normalcy to their lives and survive the winter in 1999-2000. To the end, USAID-funded, winterization assistance in 1999 has already benefited an estimated 300,000

people. U.S. assistance also is helping to restart agricultural production, provide emergency and non-emergency food distribution, and provide health care to about 40% of the conflict-affected population. USAID is working through Community Improvement Councils to facilitate the refugee return process, stabilize communities, and help prioritize reconstruction needs. Fifty percent of the conflict-affected population is benefiting from disaster assistance to improve water and sanitation systems.

An estimated $18 million in USAID disaster assistance funding will be needed in FY 2000 alone to continue work on restarting agricultural production; and improving health care services, water and sanitation, and shelter. Looking beyond this winter, Kosovo must overcome a decade of economic and political exploitation, repair infrastructure damaged during the conflict or from the lack of maintenance and investment, and make the transition to a market economy with democratic institutions.

Rebuilding economic infrastructure and institutions, and putting the economy on a sound growth trajectory are major challenges. Current donor estimates are that GDP has fallen by more than 50% and per capita income to less than $400 since the beginning of Milosevic's campaign against ethnic Albanians. Unemployment has increased to over 50%. By June 1999, the manufacturing sector had essentially shut down, the banking system had collapsed, the 1999 crop season was lost, and much of the livestock had been killed. Kosovo needs to establish new market linkages to replace those to the Serbian market. Agriculture production and agro-processing, which contributed significantly to pre-conflict GDP and employment levels, require inputs to restart operations. Rural infrastructure needs repair – including utility services, waste management facilities and access roads.

In 1999, USAID provided direct assistance for economic stabilization and recovery. Before substantial inroads can be made to improve the economy, however, the few existing institutions must be strengthened, and new economic management institutions and policies put into place. While progress has been made in laying out the legal and regulatory framework for fiscal policy and administration, considerable work remains in areas such as revamping the commercial code to create a business-friendly market environment. Significant human resource development and professional capacity building is also required so that these institutions and systems can be turned over to Kosovars.

While accepting the need for a temporary UN administration, the populace is anxious to see a representative government formed. The transition from UNMIK to Kosovar authority will take place against the backdrop of not only the legacy of Yugoslav-style planning and social ownership, but also the constitutional peculiarities and political uncertainties of the province's current situation. The transition requires full participation on the part of the Kosovars, but is handicapped by the tradition of parallel institutions and informal ways of operating which emerged during the long period of Albanian Kosovar exclusion from civic participation.

UNMIK is attempting to initiate Kosovar participation through the recent establishment of Interim Administrative Councils. It remains to be seen if they will serve as adequate mechanisms for representation. Political parties have to be strengthened, electoral processes and institutions need to be established, and free and fair municipal and provincial elections must be held. Kosovars need a functioning, civil society, a professional and objective media, and a better understanding of the principles and responsibilities of democracy. Reestablishing the rule of law is also a critical step in building public confidence and allaying security concerns. Facilitating Kosovo's transition to democracy will remain a priority for USAID in FY 2001 and beyond.

FY 1999 Kosovo Supplemental

FY 1999 SEED Supplemental funds totaling $70.1 million have been allocated to assist in Kosovo's stabilization and economic recovery efforts. Of these funds, $9 million is being managed by USAID to implement programs providing: loans to micro-enterprises and inputs for the agriculture sector; technical assistance to UNMIK to establish a basic institutional structure for the economy; and support for election preparations and establishing rule of law. About $61.1 million was transferred to the Department of State to support such efforts as civilian de-mining, police training, demobilization of the Kosovo Liberation Army, and UNMIK's civil service salaries. In addition to the SEED supplemental, about $5.2 million in International Disaster Assistance was provided in FY 1999 for an umbrella grant through which non-government organizations provide services to conflict-affected populations. In FY 1999, Child Survival Funds totaling $500,000 was obligated for the needs of displaced children and orphans. An estimated $2.9 million in Economic Support Funds was allocated to support war crimes documentation, and the search for missing persons.

Humanitarian Assistance

USAID has provided about $67,000,000 in food assistance since March 1998, through the Office of Food for Peace for emergency feeding requirements of Kosovar refugees in the Balkan region. Of this about, about $11,890,000,000 went for the needs of Kosovars in Albania. USAID's Office of Disaster Assistance (OFDA) provided $33.4 million in FY 1999 for the winterization program in Kosovo, benefiting over 30,000 people; $10.9 million in agricultural assistance to allow local farmers to restart production; $5.9 million to improve water and sanitation systems; $4.2 million for provision of health care, and $3.5 million for emergency food and non-food distribution. USAID's Office of Transitions Initiatives (OTI) provided $12.466 million for Kosovo in FY 1999, and began working with Kosovar community leaders through Community Improvement Councils to facilitate the return process, stabilize communities, and prioritize reconstruction needs. USAID plans to obligate additional humanitarian assistance for Kosovo in FY 2000: about $7 million from OTI, and about $22 million from OFDA.

Other Donors

The international community is strongly committed to helping Kosovo. The United States is the leading bilateral donor to Kosovo's recovery process, and has pledged to meet 15% of the costs of recovery and reconstruction. However, the European Union and other multilateral organizations have pledged to bear the lion's share of the burden for reconstruction. USAID works closely with other donors to ensure that U.S. assistance activities complement and leverage other donor programs. The United Nations has assumed the leadership role for post-conflict efforts aimed at building a peaceful and prosperous Kosovo through UNMIK, as well as through the UN High Commission for Refugees. The European Union is responsible for managing the reconstruction, recovery, and economic development arm of UNMIK and has been involved in humanitarian support through its European Commission Humanitarian Office. The Organization for Security and Cooperation in Europe is responsible for the conduct of elections, and for building democratic institutions. Other multilateral organizations, including the European Bank for Reconstruction and Development, the European Investment Bank, and the World Bank, have formulated support strategies. Many bilateral donors have made contributions to the humanitarian effort and are now developing longer-term reconstruction programs. In addition, there are over 250 non-governmental organizations and relief agencies providing humanitarian aid.

FY 2000 Supplemental Request

An Administration request for a supplemental, FY 2000, SEED appropriation, including $92.8 million for Kosovo, is pending before Congress. Supplemental funding for Kosovo is being sought in FY 2000 because the stability of the province and the region is dependent on a quick, targeted response to the many outstanding needs in Kosovo. At the time the FY 2000 appropriation level for SEED was established by Congress, it was already clear that the Kosovo conflict had resulted in the need for substantial resources for governance, administration, public security and human rights programs as well as to begin essential economic and democratic reform programs. Congress accordingly provided total SEED funding above the President's original, FY 2000, request level; and $150 million was allocated to Kosovo.

During the past few months, it has become apparent that significantly greater resources are required to stabilize and transform Kosovo into an economically viable, democratically self-governing territory. While European and other donors will provide the lion's share of reconstruction assistance, it is now clear that the base FY 2000 appropriation must be used principally to fund U.S. contributions to international police, police training, human rights, war crimes investigations, budget support and other governance costs. About $55.5 million of the $150 million Kosovo allocation is available to begin democratic and economic reform programs, and to respond to community needs for small scale infrastructure repairs and other humanitarian requirements. These initial programs need more robust funding now, and in FY 2001, if the underpinnings of a viable economy and a local governance capability are to develop in the near to medium term.

The FY 2000 supplemental request would meet assistance requirements in areas where no FY 2000 budget was available previously; i.e., credit guarantee support, accounting reform (including public, corporate, and banking sectors), business development support, agribusiness support, commercial bank development , and local financial reform. Planned support for the following initiatives would be augmented: privatization, budget reform, commercial law infrastructure development, micro credit financing, elections, judicial reform, infrastructure rehabilitation, community development activities and NGO strengthening.

This would permit expansion of assistance in budget and fiscal management capabilities so that local revenue generation and governance capabilities can begin, at the provincial and municipal levels. Banking reform and commercial law development would accelerate creation of a market-oriented framework. Agribusiness support and micro-credit could be extended to many more villages. Small-scale community-level infrastructure repairs will bring electricity, water, sanitation, and other essential services to more communities. Support to democracy through judicial reform, including legal training and professionalization can be accelerated. Independent media and local governance require more assistance to become viable.

In addition to economic and democratic reform programs, the supplemental request would provide additional support for police costs and budget support for immediate security and governance needs of the UN administration in Kosovo.

The United States Agency for International Development

MONTENEGRO

Development Challenge

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Introduction

Regional stability and the possibility for exerting a strong positive influence in the region constitute the rationale for U.S. support of Montenegro's efforts. Montenegro occupies a unique position in efforts to foster peace and stability in Southeast Europe, serving as a platform for positive change in the Former Republic of Yugoslavia (FRY). Since coming to power through free and fair elections, the government of President Milo Djukanovic has actively criticized the government of Slobodan Milosevic, including Serbia's military action in Kosovo, identifying with U.S. goals for peace, democracy and economic prosperity in the region. President Djukanovic has moved rapidly to adopt critical economic reforms, and introduce democratic institutions in Montenegro even though reform policies and an independent stance on Kosovo have resulted in rising tension with Serbia.

The direction and speed with which Montenegro pursues reform objectives will influence political and economic development in Southeast Europe. However, Montenegro's capacity to implement reform is extremely limited, and it will depend on the international community for support. USAID – through the provision of urgently needed technical assistance, budget support, PL 480 Title II and Economic Support Funds – is helping to bolster President Djukanovic's efforts to align Montenegro with western nations and institutions by implementing reforms in the face of Serbia's actions to subvert them.

The Development Challenge

Montenegro, under the leadership of President Djukanovic, appears to be committed to reform. However, the continued presence of 10,000 FRY military personnel, 5,000 to 10,000 former military personnel, and thousands of Serbian sympathizers in Montenegro allows the FRY to flex its muscles whenever the Montenegrin government pushes the reform agenda too hard. Serbia is actively taking steps to isolate Montenegro and disrupt its economy: closing its borders with Croatia and Bosnia, flooding the province with FRY dinars to spark inflation, charging excessive customs duties on food and other commodity shipments, and finally, severing all payments transactions with Montenegro. Milosevic's economic assault on Montenegro has driven up unemployment, created hyperinflation and contributed to other economic hardships that are sure to raise social tensions if not addressed immediately.

Montenegro escaped wide-scale, North Atlantic Treaty Organizations (NATO), air strikes during the Kosovo campaign. Nevertheless, it is suffering consequences of that engagement. Montenegro's neutrality, and its willingness to host refugees during the bombing campaign is the crux of Montenegro's troubles with the Milosevic government. The conflict caused a tremendous influx of refugees from Kosovo, causing the total population, at one point, to swell by some 20%. More significantly, the arrival of Serb refugees from Kosovo, who have remained in Montenegro, in addition to the 20,000 Bosnian and Croatian refugees already there, has altered the ethnic balance in the province, (population: 650,000) and weakened President Djukanovic's ability to advance his reform agenda.

Montenegro 's ability to advance a reform agenda is hampered also by the lack of experienced and trained personnel to

develop and carry out democratic and economic reforms. As a dependent republic of the FRY, most of Montenegro's economic and government institutions have been subject to control by Belgrade. Many skilled and capable Montenegrin technocrats resided in Belgrade. Montenegro's leadership is committed to continuing reform efforts; but, will require significant support from the international community to overcome challenges to its successful transition to a democratic, market economy.

The impact of FRY tactics on Montenegro's transition progress has prompted reflection on the parameters of a USAID strategy for Montenegro: one that can help Montenegro achieve economic self-sufficiency with the level of resources and influence that donors can bring to bear on the challenges facing Montenegro. In this context, USAID's activities in Montenegro have been flexible and responsive to windows of opportunity.

Although halted briefly in FY 1999 during the Kosovo conflict. USAID assistance to Montenegro has resumed. While, USAID does not currently have a permanent presence in Montenegro due to continued security concerns, USAID is implementing activities largely through the aegis of implementing partners, including grantees and contractors. Seven grantee organizations were quickly in place to implement judicial reform, political party strengthening, micro enterprise lending, business and dairy development, industrial restructuring, and local government strengthening activities. Privatization and macro economic reform programs are underway as well.

USAID management and oversight responsibilities are being carried out by U.S., direct-hire staff and foreign service nationals from a primary, field office located in Pristina, Kosovo. USAID hopes to strengthen its management capacity by establishing an office closer to Montenegro under the direction of the USAID field office in Kosoovo. The office would be located in Dubrovnik, Croatia, with full time staff to manage activities and coordinate with implementing partners on the ground in Montenegro.

USAID plans to gradually adjust the strategic plan for Montenegro from one that provides immediate, urgent technical assistance to address the continuously evolving threats posed by Serbian policies. Security and political conditions permitting, USAID plans to implement a traditional program of transition assistance –- supporting *inter alia* macro-economic stabilization, economic restructuring, creation and strengthening of democratic institutions, and improved public administration. A new strategy would focus on systematic overhaul of Montenegro's fiscal and commerce regimes, addressing taxing and public expenditures; reform of banking and financial systems; privatization of large, state-owned holdings such infrastructure and other "strategic" assets; and creation of a market-friendly climate for local and foreign investors. In the area of democracy and in light of the shifting of authority to municipal governments, USAID intends to place greater emphasis on strengthening the capacity of local governments to provide services and respond to their constituencies.

FY 1999 Supplemental

FY 1999 Support for East European Democracy (SEED) funds were budgeted to Montenegro to alleviate the immediate repercussions of the conflict in Kosovo. Economic Support Funds provided $15 million in FY 1999, including $12 million for emergency balance-of-payments support and $3 million for technical assistance to help the Government of Montenegro to manage its economy in the face of Serbian policies and tactics intended to cripple it. Another $5 million in SEED resources provided funding for micro lending and dairy development, and the initiation of business development and local government strengthening in crisis-impacted communities.

External Debt

The Government of Montenegro debt is treated as part of the debt of the Federal Republic of Yugoslavia.

Humanitarian Assistance

The refugee population is now estimated to be about 10% of Montenegro's population, or 65,000 people. The international communityis providing for shelter, food, clothing medical and related services. USAID through its Office of Food For Peace (FFP) responded quickly obligating a total of $7.2 million in FY 1998 and 1999 resources, $4.2 million of which has been provided since the cessation of hostilities in Kosovo. The U.S. Department of Agriculture has provided another $10 million in food support. The USAID Office of Transition Initiatives (OTI) implemented a $1.2 million local government support program which provided resources to refurbish buses, dump trucks, ambulances and other vehicles to local governments impacted by the crisis.

Other Donors

Other bilateral donors in the region have very limited assistance programs in Montenegro. The multilateral, humanitarian aid organizations -- United Nations High Commissioner for Refugees, World Food Program, World Health Organization, and UNICEF – continue their commitments. The European Union (EU) has a modest program supporting humanitarian assistance, non-governmental organization strengthening, media development, small and micro enterprise development, and technical assistance for tax administration. The Organization for Security and Cooperation in Europe also has a small program that supports rule of law. The multilateral development banks are not operating in Montenegro.Hard data on assistance levels provided by the EU and other major donors, to Montenegro and the democratic opposition of Serbia, are not available at this time. The situations in these two sub-national units are still evolving and donor commitments constrained to windows of opportunity.

FY 2000 Supplemental Request

The Administration has a supplemental appropriation request of $34 million for Montenegro pending before Congress. Yugoslav troops in Montenegro – and continuous political and economic efforts, and threatened military action, by the Milosevic regime to undermine the democratic Djukanovic regime -- make Montenegro the hottest flash point in the Balkans. Montenegro has stood as a bulwark against the repressive Serbian government and serves as a model to Serbians that they can stand up to these forces. Additional funds are vital to maintain the economic viability of the fragile Montenegrin economy, which suffers trade blockades, inadequate revenue to maintain basic services, and struggles against political pressure to implement basic democratic and market reforms.

Supplemental funds will principally provide needed budget support so that governmental responsibilities for public services, payment of pensions and support to other vulnerable groups may be met. This will strengthen, economically and politically, the ability of Montenegro to continue on its democratic path.

Montenegro has also initiated an effective economic reform program, and additional funds would permit greater support to fiscal management and financial sector strengthening, legal reform and local governance development.

The United States Agency for International Development

FEDERAL REPUBLIC OF SERBIA

Development Challenge

External Debt and US Debt Assistance

Humanitarian Assistance

Other Donors

FY2000 Supplemental Request

FY2001 Program / Activity & Budget Information

Summary Tables
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Introduction

The past decade of violence and instability in Southeast Europe has its roots in the authoritarian, Serbian leadership of the Federal Republic of Yugoslavia (Yugoslavia or FRY). Despite the recent emergence of an increasingly viable opposition movement, President Milosevic's leadership continues to represent a significant obstacle to developing Southeast Europe into a stable, democratic, and economically vibrant region that can be integrated into Europe. The direction taken by the Serbian, republic of Yugoslavia over the next several years will be a major determinant of future political and economic development in Southeast Europe, particularly in regions – such as Montenegro, Bosnia, and Kosovo – where Serbia has regularly exercised its influence.

The importance of Serbia to maintaining regional stability, and the realistic potential for exerting a strong positive influence in favor of systemic change constitute the rationale for U.S. engagement to address key democratic transition issues. Prospects for long-term peace and stability in the region require the successful establishment in Serbia of an open, democratic society governed by the rule of law, and respect for human and civil rights. Towards this goal, USAID activities in Serbia are focused on accelerating democratic reform by supporting local government effectiveness, independent media, civil society development, and political pluralism.

The Development Challenge

USAID's assistance program has been developed and is implemented in an environment created by the sanctions imposed on the FRY for non-compliance with key provisions of the Dayton Agreement. The rules of engagement are conditioned by the "outer wall" sanctions that impose broad constraints on Serbia's economic access to the international community. Sanctions prevent international financial organizations such as the International Monetary Fund (IMF) from providing debt assistance. USAID's foreign assistance activities in Serbia are also governed by the "Lautenberg Amendment" in the FY 2000 Foreign Assistance Act which limits assistance to countries or entities not cooperating with the International War Crimes Tribunal.

Isolated from international markets, the Serbian economy is severely constrained. Reliable data is not available, but unemployment is estimated to be high, economic growth stagnant, and corruption and political cronyism prevalent. The value of the national currency (dinar) continues to spiral downward. Damage associated with the North Atlantic Treaty Organization's (NATO's) bombing campaign has set the economy back even further by reducing production capacity, disrupting agricultural operations, and hampering distribution channels.

The autocratic rule of President Milosevic has severely limited political diversity, civil society growth, the protection of citizen's rights, and access to independent and objective information for Serbia's citizens. Three evacuations of U.S. Government personnel during FY 1999 severely curtailed USAID operations in Serbia and hampered efforts to support and empower change agents in the media, indigenous non-governmental organizations (NGOs) and other local organizations. Moreover, the Milosevic government used the threat of international intervention to implement a number

of repressive laws in the name of national security, significantly impeding efforts to encourage the development of independent media and democracy. All USAID non-humanitarian assistance programs in Serbia were suspended during the NATO military action, although our program partners managed to maintain contact with their counterparts.

In July 1999, President Clinton announced that the United States would resume and expand its program of support for emerging pro-democracy forces in Serbia. USAID moved quickly to restart democracy-building activities, and designed new activities structured to provide appropriate assistance to organizations active in democratic and political reform.

USAID's current assistance program in Serbia works through its NGO partners to promote the establishment of more democratic institutions and practices. As structured, the program is pre-transitional in that many of the elements necessary for full transition to democracy and a market economy cannot be implemented until a collaborative, democratic government emerges at the national level. USAID is currently providing technical assistance and direct material support to empower leaders of NGOs, citizen and professional associations, as well as labor unions engaged in civic action, legal defense and other activities that advocate for change and democratization in Serbia.

USAID is supporting the establishment of a more open and fair political process by providing technical assistance, training and direct material support to alliances and coalitions and other progressive political elements that are in active opposition to the current regime. USAID’s support for independent media is helping build viable media outlets that offer objective news and information to the general public. Our local government initiatives focus on helping opposition-led municipalities improve the delivery of essential services, increase citizen participation and transparency in local government decision-making, encourage legal and financial sustainability, and strengthen local government’s relationship with and influence at the national level.

External Debt and U.S. Debt Assistance

The Federal Republic of Yugoslavia's total external debt, estimated at $15 billion in 1998, is not being paid. U.S. debt assistance to Serbia is prohibited under current law.

Humanitarian Assistance

USAID's Office of Transition Initiatives has been an active participant in activities for democratic and political reform, particularly in working with selected civic organizations and supporting independent media. USAID also provided humanitarian assistance in Serbia, largely in the form of food aid, as part of its overall assistance program for the FRY in 1999. Food distributions in Serbia focused on "old caseload" refugees from Bosnia and Croatia, particularly elderly and invalid refugees, and on "social cases" among the general Serbian population. Total FY 1999 food aid commitments in Serbia amounted to approximately 9,900 metric tons valued at $6.6 million. These commodities were distributed to an estimated 135,000 beneficiaries by the World Food Program (WFP), Catholic Relief Services (CRS) and the American Red Cross (ARC). Following procedures required by FRY authorities, all three implementing agencies worked through the Yugoslav and Serbian Red Cross societies in managing actual commodity distribution to targeted beneficiaries. During the NATO air campaign, the CRS program continued uninterrupted and the ARC turned its food stocks over to the International Committee of the Red Cross for distribution through its programs. The WFP program was suspended in March 1999 and has not been restarted, pending resolution of concerns regarding the role of the Yugoslav Red Cross.

Other Donors

The United States is playing a lead role in supporting democratic reform in Serbia. At this time, other donors such as the European Union and the Soros Foundation have limited non-humanitarian assistance programs in Serbia. In late 1999, the European Union launched a program to provide heating oil to opposition cities in Serbia this winter. The World Bank and IMF do not have an active relationship with Serbia due to sanctions.

FY 2000 Supplemental Request

The Administration has pending before Congress a FY 2000, Support for East European Democracy (SEED) Act, supplemental appropriation request of $15 million for U.S. priorities in Serbia. One of the highest U.S. priorities is support for the opposition to the regime of Slobodan Milosevic, and to independent media in Serbia, to bolster those forces seeking a change of regime and move to a democratic system. From the base FY 2000 appropriation, $25 million

has been allocated to these efforts; but additional support could hasten political changes within Serbia.

Additional resources would allow greater levels of technical assistance and material support to non-governmental organizations, labor unions and other pro-democracy organizations to improve their capabilities in effective advocacy and civic action. Greater support would be possible for the democratic opposition, including the Alliance for Change, political parties and other active opponents to the current regime, extending their ability to engage Serbians at large in political action. Technical and material support to independent broadcast and print media can be accelerated. Reform-minded municipalities will be assisted in strengthening their service-delivery capabilities, meeting the humanitarian and other needs of their citizens.

The United States Agency for International Development

Federal Republic of Yugoslavia

Summary Tables (Consolidated)

Program Summary Work Force Data Program/Sector Summary

Program Summary

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	500	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	15,300	109,500	199,000	271,500
SEED Act Supplemental Funds Request [a]	0	0	0	0
Economic Support funds	0	17,900	21,139	0
P.L. 480 Title II	9,853	45,196 [1]	50,505	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**25,653**	**172,596**	**270,644**	**271,500**
Operating Expenses	1,074	3,893 [2]	7,101	6,300
Trust Funds	0	0	0	0
Total Operating Costs	**1,074**	**3,893**	**7,101**	**6,300**

[a] The Administration has a request for supplemental FY 2000 SEED funds for Kosovo, Montenegro and Serbia pending before Congress

[1] Excludes $11.89M shown in Albania.

[2] Previously reported under Serbia.

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	2	1	8	8

Other U.S. Citizen	0	0	1	0
FSN/TCN DH	0	0	39	37
Subtotal	**2**	**1**	**48**	**45**
Program Funded*				
U.S. Citizen	1	1	3	1
FSN/TCN	0	0	4	2
Subtotal	**1**	**1**	**7**	**3**
Total Direct Hire Work Force	**3**	**2**	**55**	**48**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**3**	**2**	**55**	**48**

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
013 - Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	42,700	0	0	0	0	0	42,700
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
021 - Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	41,300	0	0	41,300
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

023 - More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	15,000	0	0	15,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
031 - Human Suffering and Negative Consequences of Crisis are Reduced							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	11,000	11,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
041 - Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	120,000	0	0	0	0	0	120,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
042 - Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	41,500	0	0	0	0	0	41,500
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0

- FSA	0	0	0	0	0	0	0
- SEED	204,200	0	0	56,300	0	11,000	271,500
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

* The Federal Republic of Yugoslavia program consists of programs in Serbia, Kosovo and Montenegro.

Mission Directors,
Craig Buck
Richard Hough

The United States Agency for International Development

Kosovo

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

As emergency, humanitarian needs subside, USAID interventions in FY 2001 will focus on areas where USAID can achieve significant impact in advancing economic growth, democracy building, and social sector restructuring. USAID will continue to address the urgent need for restoring basic infrastructure and community services, repairing small-scale community infrastructure throughout the province. Community participation in funding and maintaining local facilities such as schools and health centers will be encouraged. Efforts will be undertaken to strengthen utility companies by improving cost recovery systems and developing management and accounting skills. USAID's Kosovo Assistance Program (KAP), an umbrella grant implemented through NGOs, will continue to support priority activities which stabilize communities such as income generation, the restoration of community services, and women's issues. Activities under the KAP will be closely linked to our infrastructure rehabilitation activities at the community level.

USAID's economic restructuring program will continue to support the creation of a stable macro-economic environment that is market friendly and encourages foreign and domestic investment. One of the most important challenges is to empower the Kosovars during the transition from UNMIK and international community control. We anticipate that the role of USAID advisors in UNMIK will shift from writing laws and functioning as the de facto government to serving as mentors and institution builders as the Kosovars take over much more responsibility for government administration. Significant resources will be required in FY 2001 to help the Kosovars implement and enforce the legal and institutional structures established with USAID assistance in FY 2000, in areas such as privatization, and tax and budget administration. As the banking system matures, USAID expects to increase its intervention in this critical sector. Similarly, assistance to the private sector, particularly agribusiness, will increase in FY 2001 as the business environment improves.

The transition to democracy will remain a priority area for USAID in FY 2001. USAID will continue to work on political party development, particularly important given that elections are expected in 2000. Support for independent and professional media, the rule of law, as well as the promotion of grass roots activities that encourage participation in decision-making and governance will continue to be emphasized. Participant training, using USAID and public diplomacy training programs and budget support, will also support the U.S. Government's democracy and institutional development agenda in Kosovo.

Most SEED resources being requested will be transferred to the Department of State to address the need for police and other basic security and governance costs of the interim administration, and for war-crimes documentation and other human rights needs. USAID-managed programs, as described above, are estimated at less than one-third of the SEED funds requested.

ACTIVITY DATA SHEET

PROGRAM: Kosovo
TITLE AND NUMBER: Economic Restructuring, 167-013
STATUS: Continuing

PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $21,500,000 SEED
PROPOSED FY 2001 OBLIGATIONS AND FUNDING SOURCE: $28,700,000 SEED
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: The USAID economic restructuring portfolio in Kosovo focuses on strategic policy and institutional support efforts to foster: (1) a stable macro-economic environment and market-friendly investment climate; and (2) a dynamic private business sector. The program is geared towards the institutionalization of fiscal policy and administration and financial regulatory reforms; and the systematic development of appropriate procedural and institutional reforms which promote open trade flows, facilitate business formation and operation, protect market rights, and stimulate private investment. At the same time, the program will help the private sector take advantage of improved macro-economic conditions through targeted technology transfers, creation of new market linkages, and provision of capital financing support in sectors with strong growth potential and significant linkage effects on other market segments.

Key Results: Principal performance benchmarks and measures for this new objective have not been developed or approved at this time. However, USAID activities will promote the institutionalization of sound macroeconomic policies and the formulation and full implementation of market-friendly, sectoral policy frameworks. These activities will promote cost-efficient expenditure planning based on performance indicators in major expenditure areas (including each of the vital social service provision areas). USAID will support increased transparency in government through the establishment of a comprehensive procurement system for all public purchases of goods, services, and equipment. Budget tracking and reporting systems will be developed in order to ensure proper control over aggregate expenditure levels and consistency between actual expenditures and planned budgetary allocations. Improved local government budget planning will complement fiscal management reforms at the provincial level.

USAID assistance will help establish an efficient and transparent tax regime capable of raising income tax revenues from the enterprise sector and collecting payroll taxes for social insurance payments. USAID will support the effective implementation of contract, property, and corporate law reforms necessary to protect the rights of parties in economic transactions, as well as the development of basic institutional enforcement capability. USAID will promote the transparent and competitive privatization of state-owned enterprises in Kosovo to increase the level and efficiency of productive investment. USAID will provide business development advisory and financial support that will create vibrant private markets in key agribusiness and other small/medium-scale enterprise (SME) sectors, and increase employment and income growth in the Kosovar economy.

Performance and Prospects: Significant progress toward a sound basic macroeconomic and structural policy framework has been made since the startup of support activities in October 1999. As a result of USAID assistance in the development of the legal and regulatory framework for the operation of the fiscal policy and administration system, the Central Fiscal Agency (CFA) was established in late October 1999. It is now functioning as a full-fledged Ministry of Finance with competencies in the areas of budget, treasury, and taxation. USAID support enabled UNMIK to prepare and pass the 1999 budget in late October and work on a detailed 2000 budget. In addition, USAID has supported development of a systematic regulatory framework for public procurement, and a comprehensive set of forms and procedures to promote competitive procurement actions.

The Revenue Authority under the CFA has started the difficult task of designing and implementing an efficient tax policy and administration system. Priority emphasis has been placed on drafting key tax policy regulations and tax administration guidelines, including a wage withholding tax, a presumptive business income tax, and a service establishment sales tax (all slated for implementation in early 2000). In addition, USAID advisory support has contributed significantly to the development of sales and excise tax and customs implementation guidelines, and detailed planning for the establishment of a taxpayer identification system.

In the financial regulatory area, USAID helped establish the Banking and Payments Authority (BPK)and is now focused on finalizing operational regulations and developing bank licensing and supervision provisions. Most notably, the BPK and commercial banking regulations put into effect will promote financial sector stability by establishing a rigorous bank licensing system and tight financial reporting and performance requirements. This includes a strong regulatory framework for micro-finance institutions.

In the privatization area, the outline of a strategy for encouraging private sector investment in and management of public enterprises, based on the application of intermediate steps towards privatization, such as concessions/leasing agreements and management contracts, has been developed. In addition, the establishment of the Kosovo Public Property Agency to deal with ownership issues has been agreed upon and preliminary steps taken to define its future activities. At the same time, USAID legal specialists are working with UNMIK on legal strategies and justification for full privatization of

selected state enterprises within the framework established by UNSCR 1244 and subsequent implementation guidelines. UN headquarters in New York continues to hold to the view that UNMIK administration of state-owned assets does not include disposal rights. Dialogue on this core issue between UNMIK legal and economic policy officials and UN, New York continues.

USAID commercial law specialists have developed a prioritized set of business, legal, and regulatory reforms required for private sector development, including laws on the company, contracts, secured transactions, land use and ownership, and bankruptcy. A draft concession regulation has been developed for discussion within UNMIK and draft regulations covering contractual rights and company formation are being finalized.

USAID is providing business development support designed to improve the operation of key agricultural input supply markets and improve investment and operating efficiency in selected agro-processing sectors. USAID also launched a targeted micro-finance program in late 1999 to provide crucially needed financing to micro-entrepreneurs. The program will also have a small- and medium-enterprise financing component.

Possible Adjustments to Plans: USAID economic reform support programs in Kosovo are being developed and implemented within the context of extremely fluid and challenging geo-political and institutional circumstances. The program is designed to take this situation into account. As conditions in Kosovo permit, the program will shift increasingly towards full institutionalization of economic policy formulation and management reforms by locally-elected and national governments, and support for the implementation of major public administration reforms at the municipal level. In addition, the program will become more heavily weighted towards targeted business development and finance initiatives designed to facilitate the expansion and more efficient channeling of private investment.

Other Donor Programs: The United States is playing a leading role in supporting economic restructuring in Kosovo. The European Union and a large number of bilateral donors are providing support to Kosovo in the business development and micro-credit areas. The IMF and World Bank have provided short-term support to UNMIK in the design and implementation of macroeconomic and sectoral reform policies. USAID programs complement the work of other donors working in this area.

Principal Contractors, Grantees or Agencies: USAID implements its economic recovery and reform activities primarily through U.S.-based NGO's and contractors, including the Barents Group, the International Fertilizer Development Corporation, and the Foundation for International Community Assistance.

Major Results Indicators: Appropriate results and performance measures are under development.

ACTIVITY DATA SHEET

PROGRAM: Kosovo
TITLE and Number: Democratic Transition, 167-021
STATUS: Continuing
PLANNED FY 2000 OBLIGATIONS AND FUNDING SOURCE: $14,300,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $11,300,000 SEED
INITIAL OBLIIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY 2005

Summary: USAID's democracy building activities are designed to respond to the demands for rapid change and results, as Kosovo begins to recover from the past decade of suppression and the recent military conflict. The people of Kosovo have passed through a violent period of upheaval and readjustment, and are now poised at the threshold of a new beginning with the promise of democratic self-governance and economic growth. While the future holds promise, there are serious obstacles which could delay Kosovo's transition to democracy, and undermine the recovery process. Many of these obstacles are tied to the political realities of the time, including the uncertainty regarding the future status of the province within the Federal Republic of Yugoslavia (FRY), while others are more fundamentally tied to the lack of basic democratic institutions and experience. USAID is addressing both the political and systemic constraints to democratic reform through a portfolio of programs focused on supporting free and fair elections, establishing the rule of law, strengthening independent media, and engaging grass root organizations in democratic governance.

Key Results: Principal performance benchmarks and measures for this new objective have not been developed or

approved at this time. However, USAID seeks to build the capacity of civil society institutions in Kosovo to better support democratic transition. USAID will work to develop the capacity of independent media to provide the public with access to more objective, professionally produced information. USAID is supporting the process of holding free and fair elections, including the establishment of necessary electoral institutions, political party development, and increased citizen participation. Once municipal elections are held in 2000, USAID will begin to improve the capacity of newly elected officials to govern. USAID is helping develop the judicial system by training judges and lawyers, and creating professional legal associations.

Performance and Prospects: Kosovo is starting its democratization process from ground zero under the provisional administration of the UN Mission in Kosovo (UNMIK). UNMIK has defined a new administrative structure for the province – including legislative, judicial, and executive functions based upon democratic principles, many of which are alien to, or not clearly understood by the majority of the population. Progress in democratization will depend on a number of critical factors: the ability of UNMIK to complete work on civil administration codes in a timely manner; Organization for Security and Cooperation in Europe's (OSCE's) ability to complete voter registration and organize municipal elections; political support for the new government structure; and local participation in the process. The importance of the UNMIK civil administration structure must be underscored. Without a government, meaningful elections are questionable. Aside from known personalities, citizens will not know what they are voting for; and candidates will not understand their responsibilities.

The media will play a major role in educating the public about important issues as well as more abstract concepts associated with democratic governance. USAID plans to devote considerable resources to the professional development of journalists and their professional associations. Initially, media programs will provide necessary production equipment while increasing emphasis will be on resolving legal issues impeding the free press and the sustainability of media outlets.

Transparent, well-managed elections are critical to generate public support for the new government and for holding newly elected leadership accountable. USAID's election support activities include completing operational plans for the upcoming municipal and provincial elections in 2000 and 2001, working on the civil and voter registration process, and capacity building for the Central Elections Commission as well as the Joint Registration Task Force. USAID provides assistance for the election administration process through the International Foundation for Electoral Systems (IFES), in partnership with the Organization for Security and Cooperation in Europe (OSCE). USAID funding has also allowed the National Democratic Institute to place a political party development advisor in Kosovo to help parties prepare for the upcoming elections.

Following municipal elections in 2000, USAID will implement a program aimed at providing assistance to municipal administration, developing the capacity of local authorities to plan and manage in the areas of municipal finance, taxation, capital planning and budgeting, acquisition, and income generation. This program will give local authorities the ability to develop capital improvements programs, raise money to pay maintenance and reoccurring costs, and manage infrastructure rehabilitated by USAID and other donors.

USAID will continue to identify opportunities to support selected civil society organizations and programs that encourage citizen participation. Funding will focus on those non-government organizations (NGOs) and Community Improvement Councils (CICs), created by USAID's Office of Transition Initiatives (OTI), which demonstrate the capacity to play a leading advocacy role in areas such as human rights, economic development, the environment, and social welfare. The level of effort and type of support will be defined following an NGO assessment early in 2000. Technical assistance and training will focus on organizational capacity building, financial sustainability, grants, network building, and NGO associations. As the OTI program phases down, future NGO support activities will build upon the successful efforts of OTI in establishing its network of CICs throughout Kosovo. A number of the CICs have evolved into genuine grass-roots organizations, and many CIC initiatives hold promise for the longer term.

Possible Adjustments to the Plan: USAID planning will be influenced by UNMIK's decisions regarding province-wide and local legislative, regulatory, judicial and executive administrative structures. Once UNMIK's plans are clearly established, USAID will know how to target assistance to support municipal service regulation, delivery, maintenance, reoccurring costs, as well as local economic development initiatives. In addition to support for the electoral system, USAID will develop programs to support democratic governance at the local level. These activities will center on local participation in the public decision making process and public private partnerships for better municipal services and economic growth. As the performance of current activities is assessed, further adjustments to the plan will be made as appropriate.

Other Donors: The United States is a leading player in promoting democratic reforms in Kosovo and is working closely with UNMIK, OSCE, and the Soros Foundation on elections, civil society, rule of law, media, political parties.

Principal Contractors, Grantees, or Agencies: USAID implements its democracy and governance activities primarily through U.S.-based NGOs and contractors, including IFES, NDI, the International Republican Institute, the International Research and Exchange Board, World Learning, the Institute for Democracy in Eastern Europe, and the American Bar Association.

Major Indicators: Appropriate results and performance measures are under development.

ACTIVITY DATA SHEET

PROGRAM: Kosovo
TITLE AND NUMBER: Community Services and Facilities, 167-031
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $17,700,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $11,000,000 SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1998 **ESTIMATED COMPLETION DATE:** FY 2005

Summary: USAID social sector activities in Kosovo are focused on stabilizing communities by meeting priority, small-scale infrastructure repair needs, and strengthening crucial community services. The Community Infrastructure and Rehabilitation Project (CIRP), a six-month, small-scale infrastructure rehabilitation activity to be carried out in the U.S. KFOR sector, was approved in late 1999. The CIRP is the forerunner of a three-year, Community Infrastructure and Services (CIS) program scheduled to begin in mid-FY 2000. Both programs will provide targeted assistance to quickly restore basic infrastructure and utility services. USAID, working through three international, non-governmental organizations, also conducted a number of humanitarian and social sector activities to meet the needs of Kosovar refugees who fled to Macedonia during the military conflict. As these refugees moved back into Kosovo, USAID's programs helped facilitate the return and resettlement process. In late 1999, USAID launched the Kosovo Assistance Program (KAP), to continue support for the efforts of international and local non-government organizations (NGOs) to provide health and psychosocial assistance, income generation opportunities, as well as addressing women's issues in Kosovo.

Key Results: Performance benchmarks and measures for this objective have not been developed as yet. USAID activities focus on social transformation from the bottom, up. Activities are focused on results considered necessary to alleviate human suffering and foster the transition from humanitarian relief to sustainable development in the areas of social and civil society development. USAID aims to reestablish essential services to help Kosovars recover and reintegrate into their communities, improve the institutional capacity and sustainability of utilities, and accelerate the economic recovery of participating communities.

Performance and Prospects: Progress on social sector reform in Kosovo was severely constrained during 1999 due to the military conflict. USAID grantees working in Kosovo were forced to evacuate to Macedonia. Once the fighting ended, USAID was able to quickly restart activities in Kosovo as refugees rushed to return home. USAID's grantees – Doctor's of the World (DOW), Catholic Relief Services (CRS) and the International Rescue Committee (IRC) – focused their assistance in Macedonia on Kosovar refugees' camps, and extended support to relieve the pressure on Macedonian families and communities hosting Kosovar refugees. The CRS program offered psychosocial training for parents and teachers to help them identify children traumatized by the war for referral to professional psychological counseling.

Upon returning to Kosovo, DOW, CRS and IRC, provided significant and life-saving assistance to support displaced persons and other vulnerable groups. IRC, working in seven municipalities, was able to strengthen the foundations of community self-reliance through training in joint problem solving techniques, mobilization of communities in the selection and implementation of small infrastructure projects, and psychosocial activities for women. CRS was able to help improve educational conditions and increase parent participation in school affairs through the establishment of parent councils in several schools. In addition, CRS was able to make progress in trauma recovery through psychosocial training of parents and teachers in a school-based referral system for recognizing traumatic stress in children. DOW focused on improving maternal and infant health care by conducting women's health education seminars for Kosovar doctors, introducing a standardized training curriculum for midwives and nurses, establishing protocols for risk identification of high-risk pregnancies, and procuring vitally needed equipment and supplies for Kosovo birthing

centers. USAID is continuing its support of the NGO community through the Kosovo Assistance Program (KAP) umbrella grant mechanism.

Possible Adjustments to plans: In FY 2000, USAID will regularize and expand social sector activities started in Kosovo through this crisis response objective. Two major, new programs will be initiated. The Community Infrastructure and Services (CIS) program will finance small-scale, community-based infrastructure and utility improvement projects throughout the province. The CIS program will be implemented in conjunction with the OTI-established local Community Improvement Councils (CICs) to ensure that priority infrastructure rehabilitation projects are identified which help communities return to a semblance of normalcy and promote local economic development, such as local power and water networks, health clinics and schools. Local engineering and construction expertise will be utilized for project design and execution, generating much-needed local employment and income.

A second program will empower the NGO community to effectively deliver services to, and represent the interests of many groups in Kosovo. These groups are essential partners to international NGOs operating in Kosovo. Local NGO effectiveness in the implementation of relief, recovery, and reconstruction programs requires institutional development assistance commensurate with the programmatic responsibilities these organizations are carrying. USAID's second program is designed to build capacity among local NGOs through the KAP umbrella grant mechanism. The principal grantee will be responsible for mobilizing and strengthening private voluntary organizations and NGOs through competitive sub-grants and technical assistance. This activity will be carried out in close coordination with USAID democracy-building programs.

Other Donor Programs: Donor participation in social sector reform activities increased significantly during 1999, as did USAID's interaction with other donors, particularly in responding to the humanitarian crisis. The principal international donors with programs in Kosovo include most European and Middle Eastern governments, the United Nations, the European Union, and the Soros Foundation.

Principal Contractors, Grantees or Agencies: USAID is implementing social sector reform efforts primarily through U.S.-based NGOs, local NGOs and US Contractors, including CRS, Doctors of the World, Save the Children and the International Rescue Committee.

Major Results Indicators: Appropriate results and performance measures are under development.

The United States Agency for International Development

Kosovo

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	500	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	3,101	77,200	150,000	175,000
SEED Act Supplemental Funds Request [a]	0	0	92,800	0
Economic Support funds	0	2,900	10,139	0
P.L. 480 Title II [1]	9,853	45,196	50,505	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**13,454**	**125,296**	**303,444**	**175,000**
Operating Expenses	0	2,850 [2]	6,101	5,000
Trust Funds	0	0	0	0
Total Operating Costs	**0**	**2,850**	**6,101**	**5,000**

[a] The Administration has a request for supplemental FY 2000 SEED funds for Kosovo pending before Congress.

[1] At this time, assistance for Kosovars in the Balkan region is not disaggregated by the Office of Food for Peace.

[2] Previously reported under Serbia.

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				

U.S. Direct Hire	0	0	8	8
Other U.S. Citizen	0	0	0	0
FSN/TCN DH	0	0	37	37
Subtotal	**0**	**0**	**45**	**45**
Program Funded*				
U.S. Citizen	0	0	1	1
FSN/TCN	0	0	2	2
Subtotal	**0**	**0**	**3**	**3**
Total Direct Hire Work Force	**0**	**0**	**48**	**48**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**0**	**0**	**48**	**48**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
167-013 - Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	28,700	0	0	0	0	0	28,700
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
167-021 - Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	11,300	0	0	11,300

- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
167-031 - Human Suffering and Negative Consequences of Crisis are Reduced							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	0	0	11,000	11,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
167-041 - Special Initiatives							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	120,000	0	0	0	0	0	120,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
167-042 - Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	4,000	0	0	0	0	0	0
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	152,700	0	0	11,300	0	11,000	175,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Craig Buck

The United States Agency for International Development

Montenegro

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

The USAID assistance program in FY 2001 will continue supporting the Djukanovic Government's efforts to reform, encouraging political and economic change in an effort to help lead the country into transition status. USAID's economic restructuring support program in Montenegro will focus on macro-economic and structural adjustment measures, privatization, and private sector development that will encourage investment and support a more economically independent and democratic form of governance. Specifically, the program will facilitate: the privatization of state-owned assets; creation of a policy, legal, and regulatory framework that favors the private sector; and the design and implementation of a strong banking regulatory framework and enforcement system. The U.S. role is particularly important because the multilateral development banks are not likely to engage in Montenegro in any meaningful way until its status within the framework of FRY is clarified.

USAID will concentrate its democratic resources on empowering change agents. These include: information providers such as media and educational institutions; political organizations; professional and trade groups; reform-minded individuals and organizations; democratic institutions; human rights organizations; and economic reform entities. USAID will increase its emphasis on municipal-government, capacity building in order to help Montenegrins implement the new decentralization law in calendar year 2000. Through public diplomacy and regional training programs, USAID will support participant training programs that support the transition to a more democratic society and free market-based economy.

ACTIVITY DATA SHEET

PROGRAM: Montenegro
TITLE AND NUMBER: Montenegro Economic Restructuring Support, 170-013
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $7,000,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $14,000,000, SEED
STATUS: Continuing
INITIAL OLBIGATION: FY 1997 **ESTIMATED COMPLETION DATE:** FY 2004

Summary: The USAID economic restructuring support program in Montenegro is focused on macro-economic and structural adjustment measures, privatization, and private sector development that will encourage investment and support a more independent and democratic form of governance. Progress has been hampered by the Republic of Montenegro's continued linkage with the fiscal and monetary systems of the Federal Republic of Yugoslavia (FRY) government in Belgrade, which led to disruptions of trade, transport and services. The importance of this activity increased significantly when the Government of Montenegro implemented a dual currency policy in November 999 which permitted the Deutsche mark to be accepted as legal tender in Montenegro along with the dinar. The USAID support programs were halted as well during the spring and summer of 1999 because of the conflict in Kosovo.

In 1999, the U.S. Government provided approximately $35 million in direct financial support to shore up the Djukanovic government including $20 million in SEED commodity support for the purchase of electricity and essential

pharmaceuticals. Additional support included PL 480 Title II commodities. In addition, USAID provided approximately $11.5 million in development assistance support, largely focused in the privatization, business development, agribusiness, micro-finance, and policy analysis areas.

What Montenegro lacks is a well defined roadmap which details the measures the Government of Montenegro must take to effectively stabilize the current precarious monetary and fiscal imbalances it faces; and to then appropriately prioritize and sequence the critical structural reform measures required for a sustainable economic recovery. Thus, the Government of Montenegro must define and execute a strategy for the adoption of (1) the integrated monetary management and fiscal policy measures required to stabilize the current parallel currency system during its early stages of implementation; and (2) the medium-term sequenced structural reform measures in the fiscal restructuring, financial sector reform, privatization, and market environment areas which are required for the economy to move towards economic recovery.

The provision of technical and training support in each of these key macroeconomic and structural reform areas in FY 2000-FY 2001 will prove crucial to successful implementation of the Government of Montenegro's near-term macro-financial reform policies and of its medium term structural adjustment strategy.

Key Results: The results considered necessary for realizing significant acceleration in the development and growth of private enterprises in Montenegro include: (1) increased transfer of state-owned assets to the private sector; (2) an improved policy and regulatory environment supportive of the private sector; (3) improved budgeting and reporting systems necessary for good governance; (4) design and implementation of comprehensive regulatory reforms in contract, property and business law areas; (5) design and implementation of a strong banking and regulatory framework and enforcement system; and (6) design and implementation of a market-based commercial bank restructuring strategy.

Performance and Prospects: Although enthusiasm for reform remains high, progress has been limited because of the Kosovo conflict (which necessitated the evacuation of U.S. advisors from February through July 1999) and rising tensions with Serbia. An influx of refugees and the resultant shift in ethnic balance -- toward Serb supporters of Milosevic -- have caused the Djukanovic government to proceed cautiously with reforms. In addition, Milosevic and the FRY Government have pressured Montenegro by taking a number of measures intended to slow the pace of reforms and to inflict damage on the Montenegrin economy. These included closing the borders between Montenegro, Croatia and Bosnia, and flooding the market with FRY dinars.

With regard to privatization reforms, limited progress was made. Work continues on developing information on companies to be privatized. Several meetings were held in Sarajevo, with Djukanovic and key counterparts from the Montenegrin Payments Bureau and the Privatization Council, to coordinate and address specific issues such as the development of the auction software and central registry. While the Djukanovic Government remains committed to privatization of state-owned assets, political necessity will require cautious implementation of these reforms.

The preparatory work for the USAID led mass privatization program is nearly complete. Company data and lists of citizens eligible to participate in the voucher-based privatization program have been prepared, and the logistics of the auction have been worked out. Moreover, work on the auction software as well as development of the central registrar needs to be completed, formation of privatization funds, and installation of a trading, clearing and settlement system. This is expected to be in place in time for the conduct of Mass Privatization Program auctions, now slated for April 2000.

In the business support area, a major accomplishment during 1999 was strengthening of the Center for Entrepreneurship (CIPE). CIPE supported the development of 83 business plans, each of which was awarded funding. It provided one-day entrepreneurial training for 202 attendees, and developed three publications on business start-up and operation. In addition, USAID financed targeted technical support to a range of private dairy producers and milk processing plants; and is facilitating initial planning activities geared at establishing a private milk producers association. Also in the business support area, a USAID-supported, micro credit program began full operation in July 1999, and has disbursed some 779 loans totaling approximately $1.25 million in six months. Approximately 40% of the funds are for production and agro-business loans. The remaining 60% are financing trade and service activities. The project has 23 employees, including 17 loan officers.

In the economic policy and institutional reform area, the USAID-funded Institute for Strategic Studies and Prognosis was initiated operations, including the provision of two major seminars on pension reform and business financial planning.

Possible Adjustments to Plans: The Government of Montenegro has asserted its commitment to an ambitious, overarching, macroeconomic and structural reform program over the next 12-24 months. USAID envisions adjusting its strategic plan for Montenegro from one that provides immediate, urgent technical assistance to address the continuously evolving threats posed by Serbian policies. A new strategy would call for systematic overhaul of the tax policy regime; improved public expenditure efficiency and decentralized fiscal responsibilities; establishment of an independent central bank and development of a strong financial regulatory system; restructuring of the banking system; acceleration of the current mass privatization program and privatization of major infrastructure and other "strategic" assets; and creation of a market-friendly climate for local and foreign investors.

Other Donor Programs: The other principal donor is the European Union, which is supporting infrastructure rehabilitation, small-and micro-enterprise development, and technical assistance for tax administration.

Principal Contractors, Grantees, and Implementing Agencies: Barent's Group, Opportunity International, Land O' Lakes, Firm Level Assistance Group and the Center for International Private Enterprise.

Major Results Indicators: Appropriate results frameworks and indicators are being developed.

ACTIVITY DATA SHEET

PROGRAM: Montenegro
TITLE AND NUMBER: Increased, Better Informed Citizen's Participation in Political and Economic Decision Making, 170-021
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $2,000,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $7,500,000, SEED
STATUS: Continuing
INITIAL OBLIGATION: FY 1997 **ESTIMATED COMPLETION DATE:** FY 2004

Summary: This objective promotes citizen participation in the political process and public decision-making. USAID's program emphasizes: development of an independent media; judicial and local government reform; municipal government capacity building; political party development; election reform; development of legal systems that better support democratic and market reforms; and Non-Governmental Organization (NGO) strengthening.

Key Results: While responding to rapidly changing circumstances and shifting priorities, USAID has managed to remain focussed on achieving the following results: (1) improved political process as indicated by increased citizen involvement in political parties and increased voter participation in elections; (2) more effective civil society as indicated by a growing number of NGOs and other civil society organizations active in the country; (3) a more independent media as indicated by increased numbers of citizens who listen to, watch, read and have access to independent media and have informed opinions regarding government actions; (4) legal systems that better support democratic processes and market reforms as indicated by how well the rule of law is institutionalized in terms of fairness, objectivity and consistency in application; and (5) more effective, responsive and accountable local government.

Performance and Prospects: Although the Djukanovic government remains committed to democratic reform, the Kosovo conflict, the rising tensions with Serbia, an influx of refugees and the resultant shift in ethnic balance – mostly Serb supporters of Milosevic – have caused the Djukanovic government to proceed cautiously. USAID's support of the reform effort was also hampered because of the evacuation of expatriate staff in February.

Despite these obstacles progress was made on several fronts particularly with the judiciary. A Courts Act, scheduled for enactment in April 2000, will revamp the judiciary. Key provisions in the act provide for an independent council, under the control of the judiciary, instead of the central government, to appoint judges and the separation of the judiciary's budget from control of the Ministry of Justice. Another favorable development is the establishment of an independent Judges Association. USAID's Office of Transition Initiatives is supporting the new association with a grant providing funding to equip a facility, hire a director, and conduct several important training activities. Training sessions held so far include a tour to the International Criminal Tribunal for the Former Yugoslavia, conferences on legal educational reform and curriculum development, and sessions on drafting legislation for Members of Parliament, law faculty and members of NGOs.

Of late the Djukanovic government has shown a willingness to promote the independence of state-controlled as well as independent media. USAID has played a key role in increasing the capacity of various media to produce independent sources of news and related information. In order to capitalize on the new attitude towards media, USAID will support training, equipment grants, Internet development, media partnerships, study tours and association development will be the activities supported in the Montenegro program.

With regard to civil society development, a new law on NGOs, among the first of its kind in Eastern Europe and the Balkans, was passed. This legislation establishes NGOs as entities that can operate unencumbered by Republican law; thereby facilitating their establishment. USAID will continue its work in capacity building of NGOs while increasing emphasis on promoting more activism on a range of political issues.

Support for political party development focused first on developing baseline information on political parties and the parliament. USAID worked closely with almost every political party as well as the parliament in defining missions and assisting them in developing and implementing programs. With regard to political parties the emphasis has been on helping them survey the electorate to better understand the concerns of the citizenry and showing them how to mobilize party structures to address public issues, particularly at the local level. Next year the focus will be on political party development at the national level through polling and leadership development. USAID will continue to work with the parliament improving its rules of procedure, roles and operation of committees, and staffing issues.

The government, with assistance from the Konrad Adenauer Foundation, is prepared to go forward next year with a law on public administration that will redefine the roles and responsibilities of various levels of government. This legislation was formulated during the latter part of calendar year 1999. A key feature is the decentralization of authority to local government. USAID is funding a new activity that will assist in shaping the decentralization process and help develop the capacity of local governments to carry out their responsibilities. The activity will provide training and technical assistance to support participatory local urban service delivery and improved service quality. USAID will also facilitate development of partnerships between the Association of Montenegrin Municipalities and the Massachusetts Municipal Management Association. The reform of the judiciary will continue by putting into place mechanisms that provide it with greater autonomy from the Ministry of Justice; e.g., separate budgets, less control of judgeship appointments by the central government, training, and strengthened judiciary associations.

Possible Adjustments to Plans: Given the positive signs for reform, particularly the shifting of authority to municipal governments, USAID intends to place greater emphasis on strengthening the capacity of local governments to provide services and be responsive to their constituencies.

Other Donor Programs: Assistance being provided for democracy and governance activities is minimal. The European Union is providing some support to media and NGO strengthening. The Office of Security and Cooperation in Europe is providing limited support on rule of law issues and local government. The SOROS Foundation is supporting NGO capacity building.

Principal Contractors, Grantees or Agencies: USAID implements its democracy activities primarily through U. S.-based NGOs such as the American Bar Association/Central and East European Law Institute, the National Democratic Institute, the International City Managers Association, the Institute for Democracy in Eastern Europe, the International Research and Exchange Board, Radio Network ANEM, and the Solidarity Committee.

Selected Performance Indicators: Appropriate results framework and indicators are being developed.

The United States Agency for International Development

Montenegro

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	4,868	25,900	24,000	55,000
SEED Act Supplemental Funds Request [a]	0	0	34,000	0
Economic Support funds	0	15,000	11,000	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**4,868**	**40,900**	**69,000**	**55,000**
Operating Expenses	0	0	0	0
Trust Funds	0	0	0	0
Total Operating Costs	**0**	**0**	**0**	**0**

[a] The Administration has a request for supplemental FY 2000 SEED funds for Montenegro pending before Congress.

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	0	0	0	0

Other U.S. Citizen	0	0	0	0
FSN/TCN DH	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Program Funded*				
U.S. Citizen	0	0	0	0
FSN/TCN	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Direct Hire Work Force	**0**	**0**	**0**	**0**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**0**	**0**	**0**	**0**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
170-013 - Accel. Development and Growth of Private Enterprises							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	14,000	0	0	0	0	0	14,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
170-021 - Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	7,500	0	0	7,500
- ESF	0	0	0	0	0	0	0

- P.L. 480/II	0	0	0	0	0	0	0
170-042 - Cross-cutting Programs							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	33,500	0	0	0	0	0	33,500
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	47,500	0	0	7,500	0	0	55,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

Mission Director,
Craig Buck

The United States Agency for International Development

Federal Republic of Serbia

FY 2001 Program Description and Activity Data Sheets

FY 2001 Program

USAID's strategic priorities and interventions in FY 2001 will depend in large part on the implementation environment in Serbia. Changes in the political or economic arena over the next year may offer an opportunity to advance our democracy building and economic reform objectives. However, should the current implementation environment continue, USAID will continue in FY 2001 to work towards creating conditions for a sustainable, transparent, and representative democratic society in Serbia. The FY 2001 program will concentrate on stimulating democratic transformation at the grass-roots level through a portfolio of inter-related activities addressing key constraints to political pluralism, civil society development, effective local government, and access to objective information. Building on our current efforts, U.S. assistance will focus on five major goals. (1) Increase the cohesiveness and effectiveness of the democratic opposition. (2) Strengthen sustainable democratic institutions such as civic action groups. (3) Support independent media so that the public is better informed on issues that affect them. (4) Make local government more efficient, responsive and accountable. (5) Encourage relationships between government and constituents that reward pluralism and participation.

ACTIVITY DATA SHEET

PROGRAM: Serbia
TITLE AND NUMBER: Strengthened, More Pluralistic Democratic Political Culture, 169-021
STATUS: Continuing
PLANNED FY 2000 OBLIGATION AND FUNDING SOURCE: $25,000,000 SEED
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCES: $22,500,000 SEED
INITIAL OBLIGATION: FY 1997 **ESTIMATED COMPLETION DATE:** FY 2006

Summary: USAID's objective to achieve a strengthened, more pluralistic, democratic, political culture in Serbia requires significant changes to institutionalize the rule of law; improve advocacy capabilities of civil society NGOs; increase capabilities of the democratic opposition; and make the media more viable, effective, and independent. USAID's assistance program during FY 1999 and FY 2000 has been structured around an integrated portfolio of complementary activities in the areas of civic action, political process, independent media and more effective, responsive and accountable local government. During FY 1999, the program emphasized increased citizen involvement in the political process, more effective civil society, a more independent media, a legal system responsive to the rule of law and more effective, responsive and accountable local government. In FY 2000, the program has retained the objectives sought during FY 1999, but has increased support for civic action activities carried out by NGOs and labor unions; and substantially increased political process assistance to opposition political parties and the amount and range of assistance provided to the independent media.

Key Results: USAID's program in Serbia is changing rapidly as new imperatives and opportunities arise. Activities are at present focused on the following principal results considered necessary to accomplish this objective: (1) improved legal system that sustains democratic processes; (2) more effective political advocacy by civil society NGOs; (3) increased cohesiveness and electoral capabilities of the political opposition; (4) increased public policy analysis and

reporting by the independent media; and (5) more effective, responsive and accountable local government.

Performance and Prospects: The USAID program in Serbia is structured to build on the commitment to democracy of organizations active in democratic and political reform. These included mayors and town council members of opposition towns and cities, trade unions, civic minded NGOs and opposition political parties. Significant support was provided to the independent media as a vehicle for disseminating the message of democracy and to promote fair and objective news reporting. Support for judicial reform advocacy and the rule of law was provided through working with local associations of judges and lawyers. It was expected that these activities would result in models of good governance and civic action in the communities and organizations USAID worked with and be emulated by communities and groups throughout the country. Good results at the local level would eventually impact democratic leadership at the national level. Expected results included increased nationwide access to independent media, the development of a new generation of pro-democratic political leadership, recognition of the achievements of assisted local governments in terms of increased transparency and accountability and establishment of a viable institutional foundation for the NGO sector.

Recognizing that an independent print and broadcast media is an essential element of a responsive democratic system, USAID stepped up its support to independent media in Serbia during FY 1999. The Association of Independent Electronic Media (ANEM) television and radio network, financed by external donors but operated by independent stations throughout the FRY, became fully operational during the year. All staff in six of 18 affiliate stations were trained in TV news broadcasting operations and in-house training capability was established for the ANEM radio network of 33 affiliated municipal radio stations throughout the FRY. Selected print media organizations were advised on business planning and management in order to improve commercial sustainability and enable them to expandtheiroperations. USAID provided critical support to independent newspapers and broadcast media to help them deal with severe crackdowns by the government over the course of the year, including facilitating expert analysis of the government's restrictive and punitive information law that enabled the Serbian media to respond more coherently to government harassment. This analysis formed the basis of a formal protest by the Serbian Bar Association.

Over the course of the past two years, U.S. NGOs that are USAID's implementation partners in democratic reform in Serbia have developed a substantial network of community and civic group leaders and opposition party activists that affirm genuine commitment to reform. The challenge is to help them internalize and practice the collaborative, democratic principles that they profess but do not necessarily fully understand. For democracy to grow and be sustainable in Serbia, it is critical that the democratic reform-oriented parties increase and strengthen their base of popular support and improve their capabilities to resist the dictatorial and divisive tactics of the ruling party and its partners.

Following a series of multiparty workshops USAID has sponsored since 1997, USAID provided technical assistance to a range of opposition political parties in 1998 and early 1999. Working groups were set up in several locations around the country, and party activists and others were trained in long-term political party building. This training included preparing and carrying out "customer" surveys to determine voter understandings of issues and to identify party support bases. These results were then used to craft party platforms highlighting issues important to potential supporters. These activities were suspended in March when the NATO bombing campaign began.

Through these efforts, many local party members and leaders developed an appreciation of the importance of communication with constituents and building their platforms on the basis of political themes and messages that reflect public priorities. Many also affirm having learned the value of cooperation, although backsliding is not uncommon. It was on this foundation that USAID began support in 1999 to the newly formed Alliance for Change, which consists of some 40 reform-minded parties and citizen organizations. The Alliance has the potential to press an agenda of viable political reform. It has continued to be supported by USAID since the program was restarted in July with technical and direct material assistance to enable the Alliance to strengthen its cohesiveness, broaden its base of support and sustain reform momentum. Increased support to this network of democratic activists is essential to the opposition's ability to galvanize and strengthen affiliated political organizations enough to make their candidates viable in forthcoming elections. In addition, technical assistance to opposition political parties has been restarted. USAID is also providing assistance to the Center for Free Elections and Democracy and is developing a program of special political action seminars for young people and women.

USAID began a local government pilot program in FY 1998 in the cities of Nis and Kragujevac with the objective of demonstrating how to develop more effective, responsive and accountable local government. The principal areas of focus included promoting community economic development, municipal finance and budget, services contracting and the development and use of appropriate management information systems. It was intended to provide the basis of a

subsequent program to engage municipal associations and public policy institutes in the dissemination of lessons learned to local government authorities and managers in other parts of the country. This program to develop the institutions and processes necessary to make local government more effective and representative strongly complements USAID's program to encourage democratic reform through improved effectiveness of the political process.

Although the local government program was suspended in March, and has not yet been restarted, substantial progress was made on realizing the program's objectives in 1998 and early 1999. Significant steps were taken to increase citizen participation in community and local government issues, local government responsiveness to citizen concerns and strengthened procurement management by local government authorities in the two pilot cities. Special surveys were conducted to identify priority citizen concerns, how people get information about their local government and the services provided and how they deal with problems. The Kragujevac survey resulted in a focus on ways to improve local telephone service, utility billing and developing a system to respond to citizen inquiries.

Community economic development commissions were set up in both cities to prepare strategic plans for local economic development. Both municipal governments budgeted funding to capitalize small and medium enterprise loan funds and to establish offices of economic development. Both cities established procurement commissions composed of municipal officials, business leaders and media critics to prepare municipal procurement rules. The Kragujevac commission adopted interim rules that established a more open and transparent procurement system. Both cities prepared special municipal budget letters to inform local officials, the media and the public about the proposed 1999 budget and drafted information brochures inviting participation in a public meeting on the budget.

The NGO sector in Serbia is essential to democratic development and civic and political stability in the region. NGOs in Serbia are active in human rights and humanitarian activities, helping people meet basic needs and other social welfare and public interest concerns. NGOs in Serbia have the potential for being effective change agents. Several Serbian NGOs are involved in economic policy and democratic reform advocacy. These NGOs have a keen interest in promoting the development of Serbia's civic life and in building the foundations for a genuinely democratic society. Many NGO activists helped organize and participated in the citizen protest demonstrations that began after hostilities in Kosovo stopped. These NGOs have put together broad-based civic coalitions and action groups that are working for change in Serbia. The trade union movement has elements with interests and aspirations similar to these NGOs.

USAID achieved significant results during FY 1999 in strengthening civic groups in Serbia to be effective advocates of democratic reform and in developing bases for NGOs involved in democracy advocacy to improve communication and cohesiveness. NGOs have become more attuned to the idea of collaborating with the independent media as a way of sharing their concerns with the public. Issues dealing with how to build an open, pluralistic society, including such key underpinnings as judicial independence and freedom of the press, have been raised, debated and publicized by the independent media in Serbia.

When repression was increasing in late 1998, NGOs sponsored public conferences in the cities of Belgrade, Nis and Novi Sad on freedom of the press and the public information law. Other public meetings organized by NGOs this past year included discussions of corruption in the courts, war crimes, domestic violence and the criminal trial of the director of the city of Nis's radio station who was accused of illegal broadcasting. The Belgrade Legal Reform Roundtable was created in late 1998 through the collaborative efforts of 15 NGOs committed to increased cooperation and group cohesiveness. USAID support in 1999 to the independent Serbian trade union Nezavisnost, which had expressed a desire to become more active in advocating for and influencing reform, was focused on strengthening the management, organizational and participatory orientation of the union. The immediate result was a broadened understanding of democracy and sharpened perceptions by union management of the active role unions can play to expand the democratic process in civil society.

Possible Adjustments to plans: USAID is considering an expanded program of assistance to the democratic opposition, responding to requests from the Alliance for Change, which will, if approved, provide technical assistance for a program of economic reform and economic stabilization. Additional areas for direct collaboration with the democratic opposition could include assistance in the areas of constitutional reform, organizational support for humanitarian and social assistance programs and anti-corruption program assistance. USAID's program of technical assistance and training activities focusing on municipal service delivery and constituent service programs may be expanded to include direct, material assistance and other support. This would include, for instance, providing environmental impact analysis and clean-up, technical assistance in municipalities controlled by the democratic opposition that continue to suffer from toxic spills at NATO-targeted industrial sites.

Other Donor Programs: There are no other donors with democracy programs similar to USAID's program in Serbia at

this time.

Principal Contractors, Grantees or Agencies: USAID implements its democracy area activities primarily through U.S.—based NGOs and contractors, including National Democratic Institute, International Republican Institute, International Foundation for Electoral Systems, and Freedom House, Institute for Democracy in Eastern Europe, and American Bar Association/Central and East European Law Institute.

Selected Performance Measures:

	Baseline (1999)	**Target** (2000)	**Target** (2001)
Election Reform Law passed	no	yes	
Credible free and open elections	no	yes	
Repeal of the public information law	no	yes	
Repeal of the university law	no	yes	
New NGO legislation	no		yes
NGOs, freely active throughout the country	no		yes
Independent media associations formed to promote and protect freedom of expression	no		yes

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ACTIVITY DATA SHEET

PROGRAM: Serbia
TITLE AND NUMBER: More Effective, Responsive and Accountable Local Government, 169-023
STATUS: New
PLANNED FY 2000 OBLIGATIONS AND FUNDING SOURCE: $-0-
PROPOSED FY 2001 OBLIGATION AND FUNDING SOURCE: $15,000,000 SEED
INITIAL OBLIGATION: FY 2001 **ESTIMATED COMPLETION DATE:** FY 2006

Summary: USAID's assistance program to develop more effective, responsive and accountable local government in Serbia will focus on working directly with eight to ten, core, opposition-led municipal or city governments. Outreach activities will be directed to up to 30, additional, opposition-led municipal or city governments. A priority concern will be improvement of municipal service delivery by effecting better management of existing municipal resources. USAID plans to use technical assistance and targeted grants of material assistance to support realization of this result. USAID plans to enter into a long-term agreement with a qualified U.S. organization to assist in the detailed design and implementation of its local government program in Serbia. USAID expects to continue to make separate awards for priority activities consistent with windows of opportunity and its strategy to quickly develop more effective, responsive and accountable local government in Serbia that can contribute to the overarching goal of a more democratic, Western-oriented, national government.

The proposed program is being designed to have some impact in nearly all opposition municipalities in Serbia. The leadership in opposition cities and municipalities is generally interested in mechanisms for increased involvement of constituents in local government operations and issues, including prioritization of local services. The political leadership of opposition towns and cities is open to mechanisms for implementing de facto devolution and decentralization of power from the central government to cities, towns and municipalities. Local leadership is interested in collaborating with opposition leaders in other local government units, and very interested in finding ways to make their own towns and cities more financially independent of unreliable central government revenue sharing.

In tandem with efforts under the citizens' participation objective, activities in this program will attempt to generate widespread citizen participation in local government decision making,; and include the private sector in planning and implementing local economic development. Innovative ways will be sought to improve local government legal and financial stability and sustainability; increase cooperation with kindred communities to further common agendas at the national level; and to improve efficiency and effectiveness in providing joint services in contiguous communities. Activities will also substantially increase the professionalism of local government politicians, managers and local

bureaucracies, in terms of effectiveness, accountability and customer focus. Examples of service priorities include housing services, utilities, local transportation, infrastructure planning and building, schools, social welfare and health, and environmental clean-up operations.

The contractor selected to design and implement the activities for this objective would serve as the program manager, mobilizing activities in the four principal results areas necessary to achieve the objectives of the program, competing and awarding sub-grants and sub-contracts, and overseeing the implementation of resulting activities. USAID would continue to make separate awards for priority activities consistent with windows of opportunity and our strategy to quickly develop more effective, responsive and accountable local government in Serbia

Key Results: In current, preliminary plans, the principal results for which near term progress is expected are: (1) increased local government ability to deliver essential services to the citizenry; (2) increased citizen and civil society organization (CSO) involvement in the development of local government processes and services; (3) improved legal and financial sustainability; (4) increased local government influence at the national level; and (5) increased political and management professionalism.

Performance and Prospects: USAID's local government component of its democratization program in Serbia prior to the Kosovo war was carried out in the opposition cities of Nis and Kragujevac. The Serbian Renewal Movement (SPO) controls Kragujevac and shares power with the Democratic Party (DS) and other political parties in Nis. USAID's program in these two cities quickly made good progress in getting politicians and local government management personnel to focus on effective mechanisms for increasing citizen involvement in community and local government issues and identifying priority concerns such as ways to improve basic urban services and promote local economic development. The central government did not support this program. Central government opposition to the proposed, more ambitious program, is expected.

Increased involvement and access will be facilitated by local level accreditation of CSOs and increased coalition building with advocacy CSOs serving as catalysts to assure inclusiveness in the scope of grass roots citizen participation in local government affairs. Improved legal and financial sustainability will require finding ways to increase local government autonomy, authority and resources in the face of the Central Government's expected refusal to collaborate in achieving these objectives.

Increased local government influence at the national level will require substantial near-term increased collaboration and networking through the development of effective district and national associations of kindred municipalities and productive networking and association with counterpart Central and East European and Balkan cities and local governments. Increased political and management professionalism will require, and be characterized by improved management efficiency and effectiveness; increased accountability and transparency; and improved, customer-focused service delivery that benefit constituents.

Possible Adjustments to plans: The program is designed to be open to targets of opportunity.

Other Donor Programs: Proposed European "Sister City" activities may be operational by FY2001.

Principal Contractors, Grantees or Agencies: USAID implements its democracy area activities primarily through U.S.-based NGOs and contractors, including National Democratic Institute, International Republican Institute, International Foundation for Electoral Systems, and Freedom House, Institute for Democracy in Eastern Europe, and American Bar Association/Central and East European Law Institute.

Selected Performance Measures: Appropriate performance measures are under development.

The United States Agency for International Development

Serbia

Summary Tables

Program Summary Work Force Data Program/Sector Summary

Program Summary

(In Thousands of Dollars)

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
Development Assistance	0	0	0	0
Development Fund for Africa	0	0	0	0
Child Survival & Disease Fund	0	0	0	0
Freedom Support Act Funds	0	0	0	0
SEED Act Funds	7,331	6,400	25,000	41,500
SEED Act Supplemental Funds Request [a]	0	0	15,000	0
Economic Support funds	0	0	0	0
P.L. 480 Title II	0	0	0	0
P.L 480 Title III	0	0	0	0
Total Program Funds	**7,331**	**6,400**	**40,000**	**41,500**
Operating Expenses	1,074	1043 [1]	1,000	1,300
Trust Funds	0	0	0	0
Total Operating Costs	**1,074**	**0**	**1,000**	**1,300**

[1] Excludes amounts attributed to Kosovo.

[a] The Administration has a supplemental FY 2000 SEED request for Serbia pending before Congress.

Work Force Data

Category	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Request
OE Funded*				
U.S. Direct Hire	2	1	0	0
Other U.S. Citizen	0	0	1	0

FSN/TCN DH	0	0	2	0
Subtotal	**2**	**1**	**3**	**0**
Program Funded*				
U.S. Citizen	1	1	2	0
FSN/TCN	0	0	2	0
Subtotal	**1**	**1**	**4**	**0**
Total Direct Hire Work Force	**3**	**2**	**7**	**0**
Other				
TAACS	0	0	0	0
Fellows	0	0	0	0
IDIs/NEPs	0	0	0	0
Subtotal	**0**	**0**	**0**	**0**
Total Work Force	**3**	**2**	**7**	**0**

* Excludes Technical Advisors for AIDs and Child Survival (TAACS), Fellows, and International Development Interns (IDIs)

Program/Sector Summary

USAID Strategic and Special Objectives	Economic Growth & Agriculture	Population & Health	Environment	Democracy	Human Capacity Development	Humanitarian Assistance	TOTALS
169-021 - Incr. Better-Informed Citizens' Part. in Pol. & Econ Dec.-Making							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	22,500	0	0	22,500
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
169-023 - More effective, Responsive, and Accountable Local Government							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	0	0	0	15,000	0	0	15,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
169-042 - Cross-cutting Programs							

- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	4,000	0	0	0	0	0	4,000
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0
Totals							
- DA	0	0	0	0	0	0	0
- DFA	0	0	0	0	0	0	0
- CSD	0	0	0	0	0	0	0
- FSA	0	0	0	0	0	0	0
- SEED	4,000	0	0	37,500	0	0	41,500
- ESF	0	0	0	0	0	0	0
- P.L. 480/II	0	0	0	0	0	0	0

ABBREVIATIONS AND ACRONYMS

A&A - Acquisitions and Accounts
AAEF - Albanian-American Enterprise Fund
AAFLI - Asian-American Free Labor Institute
AALC - African-American Labor Center
ABA - American Bar Association
ABEUSA - U.S. Participant Training Alumni Association
ACVFA - Advisory Committee on Voluntary Foreign Aid
ACOR - American Center for Oriental Research
ADB - Asian Development Bank
ADC - Andean Development Corporation
ADP - Automated Data Processing
ADRA - Adventist Development and Relief Agency
ADS - Automated Directives System
- Activity Data Sheet
AED - Academy for Educational Development
AFDB - African Development Bank
AFR - Africa
AFSI - Africa Food Security Initiative
AIDS - Acquired Immunodeficiency Syndrome
AIDSCAP - Acquired Immunodeficiency Syndrome Control and Prevention Project
AIFLD - American Institute for Free Labor Development
AIHA - American International Health Alliance
AIMI - African Integrated Malaria Initiative
ANE - Asia and Near East
AOJ - Administration of Justice
APEC - Asia-Pacific Economic Cooperation
APENN - Association of Producers and Exporters of Nontraditional Products
APO - Army Post Office
APP - Annual Performance Plan
APR - Agency Performance Plan
ARDC - Area Reintegration and Development Center
ARENTO - Arab Republic of Egypt National Telecommunication
ARI - Acute Respiratory Infection
- Inter-Oceanic Authority
ASEAN - Association of Southeast Asian Nations
ASHA - American Schools and Hospital Abroad
ASSET - Agriculturally Sustainable System and Environmental Transformation
ATI - Appropriate Technology International
AUB - American University of Beirut
AWACS - AID Worldwide Accounting and Control System

BAA - Business Area Analysis
BCN - Biodiversity Conservation Network
BDS - Business Development Service
BIPRA - Bilateral Intellectual Property Rights Agreement
BIT - Bilateral Investment Treaty
BOT - Build, Operate and Transfer

CAPEL - Center for the Promotion of Electoral Assistance
CARD - Council on Agricultural and Rural Development
CARE - Cooperative for Assistance and Relief Everywhere, Inc.
CASS - Cooperative Association of States for Scholarships
CCI - Climate Change Initiative
CDC - Centers for Disease Control and Prevention
CDIE - Center for Development Information and Evaluation
CDO - Cooperative Development Organization
CDP - Cooperative Development Program (U.S.-Israel)
CDR - Cooperative Development and Research Program (U.S.-Israel)
CEAL - Center for Studies and Legislative Assistance
CEDRO - Center for Drug Education and Information
CEE - Central and Eastern Europe
CEELI - Central and East European Law Institute
CEL - Country Experimental Laboratory
CFC - Chlorofluorocarbon
CFA - African Financial Community
CFL - Compact Florescent Lamps
CFO - Chief Financial Officer
- Chief Financial Officers Act
CG - Consultative Group
CGIAR - Consultative Group for International Agricultural Research
CIAV - Commission of Support for Verification
CIC - Community Improvement Council
CIDA - Canadian International Development Agency
CIFOR - Center for International Forestry Research
CIMS - Contract Information Management System
CINGO - Citizen Initiated Nongovernmental Organization
CLD - Consortium for Legislative Development
CLUSA - Cooperative League of the United States of America
CMA - Crescent Medical Aid
CNG - Compressed Natural Gas
CNV - Culture and Nature Visitor
CO_2 - Carbon Dioxide
CONAM - National Environmental Council
CONCAUSA - Central America-USA Alliance
COTS - Commercial off the Shelf
CP - Congressional Presentation
CPP - Comprehensive Post Partum
CPR - Contraceptive Prevalence Rate
CRM - Coastal Resource Management
CRS - Catholic Relief Services
CRSP - Collaborative Research Support Program
CS - Child Survival
CSD - Child Survival and Disease
CSE - Supreme Electoral Council
CSO - Civil Service Organization
CSM - Contraceptive Social Marketing
CTE - Carbon Ton Equivalent
CYP - Couple Year's Protection

DA - Development Assistance
DAC - Development Assistance Committee
DAF - Development Assistance Fund
DART - Disaster Assistance Response Team
DCA - Development Credit Authority
DCAA - Defense Contracting Audit Agency

DEG - Developing Economies Group
DFA - Development Fund for Africa
DG - Democracy and Governance
DH - Direct Hire
DHS - Demographic Health Survey
DIMS - Democratic Indicators Monitoring System
DMELLD - Design, Monitoring, Evaluation, Lessons Learned, and Dissemination
DNPW - Directorship of National Parks and Wildlife
DOE - Department of Energy
DOP - Declaration of Principles on Interim Self-Governing Arrangements
DOTS - Directly Observed Therapy-Short Course
DPT - Diphtheria, Pertussis and Tetanus
DWG - Democracy Working Group

EAI - Enterprises for the Americas Initiative
EBRD - European Bank for Reconstruction and Development
EC - European Community
- European Commission
ECA - Enhanced Credit Authority
ECLA - Economic Commission for Latin America
ECS - Electronic Certifying System
EE - Europe and Eurasia (formerly Europe and New Independent States)
EEP - Employee Evaluation Program
EFT - Electronic Fund Transfer
EGAD - Economic Growth and Agriculture Development
EIA - Environmental Initiative for the Americas
EIP - Environmental Impact Assessment
EMS - Environmental Management System
ENI - Europe and New Independent States (of Former Soviet Union)
ENR - Environment and Natural Resources
ENSO - El Niño Southern Oscillation
ENV - Environment
EOC - Emergency Obstetric Care
EPA - Environmental Protection Agency
EPI - Expanded Program of Immunization
EPL - Environmental Pollution Licensing
EPRA - Economic Policy Resource Center
ERP - Economic Recovery Program
ESAF - Extended Structural Adjustment Facility (International Monetary Fund)
ESF - Economic Support Fund
EU - European Union

FAAS - Foreign Affairs Administrative Services
FAH - Armed Forces of Haiti
FAI - Food Affordability Index
FAO - Food and Agriculture Organization
FAS - Foreign Agriculture Service (U.S. Dept. of Agriculture)
FCCC - Framework Convention on Climate Changes
FDA - Food and Drug Administration
FDI - Foreign Direct Investment
FFA - Future Farmers of America
FFP - Food for Peace
FGM - Female Genital Mutilation
FISE - Emergency Social Investment Fund
FM - Financial Management
FMAA - Federal Managers Financial Integrity Act of 1982
FMLN - Farabundo Marti National Liberation Front
FP - Family Planning

FREEDOM - Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (FREEDOM Support Act)
FSA - FREEDOM Support Act
FSI - Foreign Service Institute
FSN - Foreign Service National
FSRDF - Foreign Service Retirement and Disability Fund
FTAA - Free Trade Area of the Americas
FTB - First Time Borrower
FTE - Full-time Equivalency
FTF - Farmer to Farmer Program

G-7 - Group of Seven (leading industrialized nations consisting of Canada, France, Germany, Italy, Japan, United Kingdom, and United States)
GAO - General Accounting Office
GAVI - Global Alliance for Vaccines and Immunization
GATT - General Agreement on Tariffs and Trade
GCA - Global Coalition for Africa
GCC - Global Climate Change
GDP - Gross Domestic Product
GEF - Global Environmental Facility
GEM - Global Excellence in Management
GHAI - Greater Horn of Africa Initiative
GHG - Green House Gas
GIS - Geographic Information System
GNP - Gross National Product
GMRA - Government Management Reform Act
GPA - Gender Plan of Action
GPRA - Government Performance Review Act (P.L. 103-62)
GSA - General Services Administration
GSP - General System of Preference
GTN - Global Technology Network
GTZ - Guatemala Trade Zone

HA - Hectare
- Humanitarian Assistance
HCD - Human Capacity Development
HG - Housing Guaranty
HHE - Household Effect
HiB - Hemophilus Influenza Type B
HIV - Human Immunodeficiency Virus
HMO - Health Maintenance Organization
HFTE - Hemispheric Free Trade Expansion
HQ - Headquarters

IACCC - Inter-Agency Climate Change Committee
IARC - International Agricultural Research Center
IASP - International Affairs Strategic Plan (Department of State)
IBRD - International Bank for Reconstruction and Development (World Bank)
ICASS - International Cooperative Administrative Support Services
ICITAP - International Criminal Investigation and Training Assistance Program
ICORC - International Committee for the Reconstruction of Cambodia
ICRAS - Interagency Country Risk Assessment System
ICRISAT - International Crop Research Institute for the Semi-Arid Tropics
IDA - International Development Association
- International Disaster Assistance
IDB - Inter-American Development Bank
IDP - Internally Displaced People
IEC - Information, Education and Communication

IESC - International Executive Service Corps
IFES - International Foundation for Electoral Systems
IFRC - International Federation of the Red Cross
IFI - International Financial Institute
IFOR - Implementation Force (NATO)
IG - Inspector General
IIDH - Inter-American Institute for Human Rights
IIRR - International Institute for Rural Reconstruction
ILO - International Labor Organization
IMF - International Monetary Fund
IMR - Infant Mortality Rate
INADE - National Development Institute
INC - International Narcotics Control
INDIX - International Network for Development Information Exchange
INIFOM - Institute for the Promotion of Municipalities
INRENARE - Institute for the Management of Renewable Natural Resources
INS - Immigration and Naturalization Service
IPA - Interagency Personnel Agreement
IPM - Integrated Pest Management
IPR - Intellectual Property Right
IPRF - International Planned Parenthood Federation
IQ - Intelligence Quotient
IR - Intermediate Result
IRCT - Internal Rehabilitation Council for Torture Victims
IREX - International Research and Exchanges Board
IRI - International Republican Institute
IRRI - International Rice Research Institute
ISA - Institutional Support Assistance
ISG - Institutional Support Grant
IT - Information Technology
ITSH - Internal Transport, Storage and Handling
IUATLD - International Union Against Tuberculosis and Lung Disease

JSE - Jakarta Stock Exchange
JUST - Justice Sector Support

KG - Kilogram

LAC - Latin America and the Caribbean
LAU - Lebanese American University
LDC - Less (or Least) Developed Country
LGD - Local Government Development
LGU - Local Government Union
LIFE - Leadership and Investment in Fighting the Epidemic Initiative
LMI - Lower Middle Income
LPG - Loan Portfolio Guarantee
LWOB - Lessons Without Borders

MAI - Multilateral Assistance Initiative
MCH - Maternal and Child Health
MDB - Multilateral Development Bank
MED - Ministry of Education
M&E - Monitoring and Evaluation
MENA - Middle East and North Africa
MEPU - Ministry of Pre-University Education
MERC - Middle East Regional Cooperation
MFI - Microfinance Institution
MFM - Municipal Finance and Management
MGP - Matching Grants Program

MINSA - Ministry of Health
MIS - Management Information System
MMR - Maternal Mortality Ratio
MOF - Minister of Finance
MOH - Ministry of Health
MOPH - Ministry of Public Health
MOU - Memorandum of Understanding
MSED - Micro and Small Enterprise Development
MSH - Management Sciences for Health
MT - Metric Ton
MW - Megawatt
MWDR - Mid-Western Development Region
MWI - Ministry of Water and Irrigation

NACP - National AIDS Control Program
NAFTA - North American Free Trade Agreement
NAPA - National Association of the Partners of the Americas
NAPCP - National AIDS Prevention and Control Program
NATO - North Atlantic Treaty Organization
NCBA - National Cooperative Business Association
NDI - National Democratic Institute
NDVI - Normalized Different Vegetative Index
NEA - National Electrification Administration
NEAP - National Environmental Action Plan
NED - National Endowment for Democracy
NGO - Nongovernmental Organization
NIC - Newly Industrialized Country
NIH - National Institute of Health
NIS - New Independent States of the former Soviet Union
NMS - New Management System
NPI - New Partnership Initiative
NPR - National Performance Review
NRM - Natural Resource Management
NTA - New Transatlantic Agenda
NTE - Non-Traditional Exports

OAS - Organization of American States
OB - Obstetric
OC - Oral Contraceptive
OCC - Object Class Code
ODA - Official Development Assistance
- Overseas Development Administration
OE - Operating Expense
OECD - Organization for Economic Cooperation and Development
OECF - Overseas Economic Cooperation Fund
OFDA - Office of Foreign Disaster Assistance
OFHEO - Office of Federal Housing Enterprise Oversight
OFR - Ocean Freight Reimbursement
OIC - Organization of Islamic Conference
OIG - Office of the Inspector General
OMB - Office of Management and Budget
OPDAT - Office of Professional Development and Training
OR - Operational Research
ORS - Oral Rehydration Salts
OTI - Office of Transition Initiative

PA - Palestinian Authority
PADCO - Pan American Development Corporation

PAHO - Pan American Health Organization
PAR - Policy and Administrative Reform
PARDEM - Participatory Democracy
PASA - Participating Agency Service Agreement
PCA - Panama Canal Authority
PCTC - Panama Canal Transition Commission
PCV - Peace Corps Volunteer
PHC - Primary Health Care
PHN - Population, Health and Nutrition
PIP - Parks in Peril
PL - Public Law
PLO - Palestinian Liberation Organization
PM&E - Performance Measurement and Evaluation
PNFPP - Philippines National Family Planning Program
PPC - Policy and Program Coordination Bureau (USAID)
PRET - Program for the Recovery of the Economy in Transition
PRIME - Program for Innovation in Microenterprise
PSC - Personal Service Contract
PVC - Private Voluntary Cooperation (USAID Office)
PVO - Private Voluntary Organization

R-4 - Results Review and Resource Requirement
RDA - Regional Development Account
REFORM - Reengineering Effort for Organization and Management
REGO - Reinventing Government
RH - Reproductive Health
RHUDO - Regional Housing and Urban Development Office
RIF - Reduction in Force
RIG - Regional Inspector General
ROL - Rule of Law
RRB - Ronald Reagan Building
RSM/EA - Regional Support Mission for East Asia

SADC - Southern Africa Development Community
SAI - Special Assistance Initiative
- Supreme Audit Institution
SAP - Structural Adjustment Program
SDC - Society for Democratic Culture
SEB - Small and Emerging Business
SEBI - Securities and Exchange Board of India
SEC - Securities and Exchange Commission
SEED - Support for East European Democracy
SET - Supreme Electoral Tribunal
SIECA - Permanent Secretariat of General Treaty of Central America Economic Integration
SME - Small and Medium-sized Enterprise
SO - Strategic Objective
SO_2 - Sulfur Dioxide
SOE - State-Owned Enterprise
SPA - Special Program of Assistance for Africa
- Small Program Assistance
SpO - Special Objective SPRP - Sector Policy Reform Program
SPU - Strategic Planning Unit
SSO - Strategic Support Objective
STD - Sexually Transmitted Disease
STI - Sexually Transmitted Infection
STRI - Smithsonian Tropical Research Institute
TAACS - Technical Advisors for AIDS and Child Survival
TAF - The Asia Foundation

TB - Tuberculosis
TBD - To Be Determined
TF - Trust Fund
TFR - Total Fertility Rate
TI - Transparency International
TNC - The Nature Conservancy
TR&D - Tropical Research and Development

U5MR - Under 5 Mortality Rate
UE - Urban and Environment Credit Program (formerly Housing Guaranty Program)
UN - United Nations
UNAG - National Union of Farmers and Cattle Owners
UNAIDS - United Nations Program on HIV/AIDS
UNAVEM - United Nations Verification Mission for Angola
UNDP - United Nation Development Program
UE - Urban Environment
UNESCO - United Nations Educational, Scientific and Cultural Organization
UNFCCC - United Nations Framework Convention and Climate Control
UNFPA - United Nations Population Fund
UNICEF - United Nations Children's Fund
USIJI - United States Initiative on Joint Implementation
UNMIH - United Nations Mission in Haiti
UNRWA - United Nations Relief Works Agency
UPANIC - Nicaraguan Union of Agricultural Producers
USAEP - United States-Asia Environmental Partnership Initiative
USAID - U.S. Agency for International Development
USDA - United States Department of Agriculture
USDH - United States Direct Hire
USFDA - U.S. Food and Drug Administration
USIS - United States Information Service
USTTI - United States Telecommunications Training Institute

VAT - Value Added Tax
VE - Voluntary Executive
VII - Vaccine Independence Initiative
VOA - Voice of America
VVM - Vaccine Vial Monitor

WFP - World Food Program
WHO - World Health Organization
WID - Women in Development
WIP - Women in Politics
WTO - World Trade Organization

Y2K - Year 2000