

**STRATEGIC PLAN
FOR
UZBEKISTAN**

**USAID Regional Mission for Central Asia
Almaty, Kazakstan
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PART I

ASSISTANCE ENVIRONMENT AND STRATEGIC PRIORITIES

A. US Foreign Policy Interests

US national interests in Uzbekistan reflect a combination of commercial and strategic concerns. Uzbekistan remains the single largest market in Central Asia, far larger than Kyrgyzstan, Tajikistan and Turkmenistan combined. Its economic base is relatively diverse, reflecting a combination of agricultural, industrial and energy resources. Its large, unexploited oil and gas reserves provide an attractive opportunity for US investors and another option for diversifying US energy sources. American exporters stand to benefit from a prosperous Uzbekistan, both because of its relatively large market and its value as a launching point for commercial expansion in the region.

Uzbekistan is increasingly seen as a key player in maintaining the stability and independence of the Central Asia region. It has played a role in shaping events and responding to crises in both Afghanistan and Tajikistan, and has an obvious interest in what happens in Iran to the south and Russia to the north. The combined US mission has identified five major goals regarding Uzbekistan, all of which entail substantial USAID involvement:

- Increase US exports and investment.
- Promote development of multi-party democracy.
- Promote development of a free market economy open to foreign business, through privatization, economic restructuring, and reform of Uzbekistan's commercial laws and foreign trade regime.
- Encourage greater openness, respect for human rights, and the rule of law.
- Encourage continued focus on environmental issues including sustainable water use management.

The overall goal of USAID involvement in Uzbekistan is sustainable economic growth. To achieve this goal, USAID/CAR supports the development of a market economy based on democratic principles. This work includes measures that promote direct foreign investment, including US investment.

B. Overview and Priorities

The table on the following page provides information on the budgetary history of the Mission's activities in Uzbekistan. Limited funding has been used extremely effectively to achieve

Uzbekistan
USAID Obligations 1994-1998

PROJECTS	Through December 1994	FY 1995 (actual)	FY 1996 (actual)	FY 1997 (estimated)	FY 1998 (projected)
! Special Initiatives	\$ 2,617,703	\$ 785,000	-	-	-
! Energy	-		\$ 100,000	-	\$ 200,000
! Environment	\$ 3,761,146	\$ 2,870,000	\$ 1,050,000	-	\$ 800,000
! Health Care	\$ 2,720,291	-	-	\$ 450,000	\$ 1,280,000
<u>-Health Earmarks</u>	<u>\$ 1,350,000</u>	<u>\$ 688,000</u>	<u>\$ 973,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,220,000</u>
! Private Sector	\$ 6,643,599	-	-	\$ 500,000	\$ 750,000
! Democratic Reform \$ 1,293,857	\$ 995,000	\$ 1,045,000		\$ 1,300,000	\$ 3,000,000
! Economic Restructuring	\$ 2,689,591	\$ 1,700,000	\$ 4,380,000	\$ 3,220,000	\$ 5,250,000*
! <u>Eurasia Foundation</u> \$ 581,600	-	<u>\$ 700,000</u>		<u>\$ 700,000</u>	<u>\$ 2,000,000</u>
! <u>Enterprise Fund</u>	<u>\$ 6,000,000</u>		<u>\$ 8,000,000</u>	<u>\$ 8,000,000</u>	<u>\$ 8,000,000</u>
! Exchanges and Training	\$ 2,909,725	\$ 2,150,000	\$ 1,230,000	\$ 1,200,000	-
<u>Ex/Training-Partnership</u>					<u>\$ 250,000</u>
<u>Ex/Training-Exchanges</u>					<u>\$ 200,000</u>
<u>Project Related Training</u>					<u>\$ 1,000,000</u>
TOTAL PROJECTS:	\$ 30,567,512	\$ 9,188,000	\$ 17,478,000	\$ 16,370,000	\$ 23,950,000
AID/Transfers/Allocation					
! Farmer to Farmer	\$ 688,112	\$ 300,000			
! Treasury IAA				\$ 480,000	\$ 500,000
! ENI Funding to other Bureaus	\$ 1,867,226				
! USDA Cochran Fellow				\$ 90,000	
! Commerce: SABIT		\$ 30,000			
! USIA Training and Exchanges		\$ 500,000	\$ 600,000	\$ 820,000	\$ 2,050,000
! Transfer to INL, DOJ				\$ 300,000	
! Humanitarian Transport				\$ 1,000,000	
! Peace Corps		\$ 1,000,000	\$ 1,200,000	\$ 1,200,000	\$ 1,000,000
! Science Center				\$ 750,000	
! Parking Fine Withholding		\$ 2,000	\$ 1,000		
! Warsaw Initiative			\$ 250,000		
! EXIM-Trade and Investment					\$ 3,000,000
! Law Enforcement					\$ 2,000,000
AID/Transfers/Allocation Total:	\$ 2,555,338	\$ 2,582,000	\$ 2,051,000	\$ 4,640,000	\$ 8,550,000
UZBEKISTAN GRAND TOTAL:	\$ 33,122,850	\$ 11,770,000	\$ 19,529,000	\$ 21,010,000	\$ 32,500,000
LESS NON-DISCRETIONARY:	(\$ 10,486,938)	(\$ 3,270,000)	(\$ 11,724,000)	(\$ 14,340,000)	(\$21,220,000)
DISCRETIONARY FUNDING:	\$ 22,635,912	\$ 8,500,000	\$ 7,805,000	\$ 6,670,000	\$ 11,280,000

* Includes 1,000,000 of the Trade Impediment Elimination in FY 1998. Source: Through December 1994 - NIS Financial Report Date February 13, 1995. Figures represent best estimates only, and include only those projects for which USAID has reporting responsibility; TDA, OPIC, USIS and other Inter-Agency funding transfers are excluded. FY 1995 - USAID/Washington Budget Planning Sheet; Last edit: September 25, 1995. FY 1996 - USAID/Washington Budget Planning Sheet; Last edit: August 29, 1996. FY 1997 - USAID/Washington estimates; Budget Planning Sheet; Last Edit: January 3, 1997; FY 1998 - USAID/CAR; Revised FY 1998 Budgets, January 30, 1997.

substantive results in key areas, as demonstrated by a review of the Mission's program in market transition and other intervention areas.

B. Overview and Priorities

Uzbekistan is proving itself to be a reluctant reformer. After a slow start, the Government made sufficient initial progress on meeting IMF macro-economic targets and liberalizing its foreign exchanges regime to obtain an IMF Standby Arrangement and open the flow of World Bank funding. In recent months, however, it has allowed inflation to increase and implemented a seriously restrictive and inappropriate foreign exchange regime which is sti .ng new investment and has resulted in suspension of the IMF Standby Arrangement. On the positive side, after several years of negotiation, the Government reached agreement with the World Bank on mass privatization of 300 medium size industries. The World Bank is not able to provide promised funding support because of the macroeconomic situation, but the program is proceeding with the registration of a large number of private investment funds and several auctions of equity. As will be seen in subsequent sections, progress is being made in crucial areas such as reform of the tax code and tax administration, and pension reform.

In the area of democracy and human rights, Uzbekistan presents a similar mixed picture of steps forward and steps back. Over the last several years, the environment for NGOs has become less threatening and new NGOs spring up everyday. Yet an effort to reform the law governing the registration and control of NGOs led by the Minister of Social Protection and UN has encountered substantial opposition from the Ministry of Justice. In the area of human rights, the President invited back to Uzbekistan an important opposition figure, allowed him to speak at an Organization for Security and Cooperation in Europe (OSCE) sponsored conference and agreed to consideration an application to register his organization, the Human Rights Society of Uzbekistan (HRSU). Yet, the Government has apparently harassed another opposition figure who was allowed to speak at the OSCE conference, and the HRSU is yet to be registered because of seemingly minor technical faults in its application.

The same inconsistency is seen in the area of health reform. The Government is fully supportive of efforts to improve the health of its people and the ability of its health care professionals through training and the active support of family planning programs. Individual institutions such as the hospital supported by the USAID-funded partnership program, have made significant strides in adopting more rationale approaches to providing health care. Yet, serious efforts to implement systemic reform of the health system have only just begun with the design of a World Bank funded project to restructure rural primary health care.

This inconsistency in the reform process can be demonstrated in almost every other sector of the economy. It stems from the deeply seated reluctance of those holding power to relinquish control of the country's resources even in the face of incontrovertible evidence that they will be forced to do so at some point in time because the control mechanisms of the past 70 years simply do not work. The reluctance to relinquish control is caused by many factors. Control provides opportunities for personal gain. Control is essential to the maintenance of the political balance of

power among the various groups contenting for political ascendancy. Giving up control also requires something of a leap of faith that the market system and the mechanisms normally used by governments to moderate the downside of the market system will actually work in Uzbekistan. Recent shocks (poor 1996 wheat and cotton harvests the Taliban advance in Afghanistan) have contributed to the Governments' decision to slow the pace of reform.

What does this imply for the USAID program or , for that matter, all US economic assistance to Uzbekistan? First, Uzbekistan may not be an outstanding performer in the reform process for some time to come. The US commitment to assist Uzbekistan in the transition process must be viewed in the context of the larger US political and economic interests in the country and the region. A stable reformed Uzbekistan could be an engine of growth for this strategically located, energy rich region. An unstable Uzbekistan would create instability throughout the region. USAID must stay engaged regardless, if the desired transformation of the county is to take place and US economic and political interests are to be served.

Second, US assistance activities in Uzbekistan must be linked to the strongly held interests of the Government. For example, the Government is strongly interested in forging closer ties to the west for several reasons; status and self-esteem; access to technologies needed to develop its economy; as a counterbalance to Russian and Iranian influence in the area. Accession to the World Trade Organization (WTO) may be a strong incentive to reform because it has such a direct, clearly discernable impact on Uzbekistan's ability to access western markets, especially for cotton.

Third, USAID assistance activities must focus on sustainable changes which will encourage the general trend of reform while enduring in a problematic environment caused by the lengthy and uneven transition process. USAID assistance must also be flexible, permitting USAID to test the sincerity behind the rhetoric when an opportunity exists and either stay the course if progress is made or move resources to some other areas if progress is not made.

USAID/CAR's strategic objectives described below, provide the framework needed to impose a degree of cohesion and integration as well as a sufficient range of options to provide flexibility to permit USAID to construct an effective program for Uzbekistan. The strategy for each Strategic Assistance Area and the activities for each Strategic Objective reflect the overall strategy described above.

1. Strategic Assistance Area 1: Market Transition

a. Constraints and Opportunities

The Economy: The agriculture and raw material-based nature of its economy has to some extent cushioned Uzbekistan from the most severe contractionary impact of the breakup of the Soviet Union and the economic dislocations that followed. Uzbekistan's GDP fell only 8 percent from 1993 to 1995, much less than the steep decline suffered by other former Soviet states. The country was slow to undertake economic reform during 1992-1994, resisting "shock treatment"

stabilization strategies and citing deterioration in the social standards of nearby reforming countries as justification for the conservatism. However, from mid-1994 through mid-1996, the Government undertook some serious macroeconomic reforms: tightening monetary management, reducing consumer and producer subsidies, liberalizing prices, and cutting the budget deficit. As a result, it was able to conclude an IMF Systemic Transformation Facility and World Bank Rehabilitation Loan in 1995 and an IMF Standby Arrangement in 1996. However, reform slowed in the latter half of 1996. The Standby Arrangement was suspended in November 1996 after the Government introduced a new, restrictive foreign exchange regime and greatly overshot monetary targets. The inflation level, which had fallen to 2 percent per month in mid-1996, has risen to the 5-10 percent per month range since then.

Agriculture accounts for about 35 percent of Uzbekistan's GDP, employs 43 percent of the labor force and accounts for over half of its foreign exchange earnings, mainly from cotton. Scarce water and arable land resources make further expansion in cropping acreage difficult. However market-based approaches to pricing and marketing would go a long way toward helping to increase productivity. Wheat production has been expanded in recent years as Uzbekistan shifted irrigated land out of other crops in an autarchic drive to reach self-sufficiency by 1997. Energy represents a second significant sector for possible future growth. Oil reserves are believed to be considerable. Uzbekistan is a major gas producer. Gas sales within Central Asia and beyond represent a potential source for export growth, but are often stymied by the inability of potential buyers such as Tajikistan, Kyrgyzstan, Kazakstan and Ukraine to meet market prices or pay hard currency. Several foreign companies have already invested or are contemplating investment in Uzbekistan's gold mining sector (seventh largest producer in the world with the fourth largest reserves). Foreign investment could help Uzbekistan to substantially increase production and export from its large reserves of uranium, copper, silver, and other metals. Despite this resource potential, rigidities in economic management are limiting the inflows of foreign investment and trade opportunities which will, in turn, limit Uzbekistan's growth in the future.

The Investment Climate: The Uzbekistan Government officially welcomes foreign investment, and has issued decrees offering a variety of special incentives such as tax holidays. But reluctance to allow majority positions for foreign investors, an unreformed banking sector, an entrenched bureaucracy implementing old regulations, and restricted access to foreign exchange have served as deterrents. Increased fiscal discipline resulted in a sharp reduction of the fiscal deficit from 6 percent of GDP in 1994 to 3.5 percent in 1996, and compression of inflation from 117 percent in 1995 to 54 percent in 1996. However, the Government's IMF Standby Arrangement was suspended in November 1996 and expired in March 1997, with dim near-term prospects for renewal. The principal impediment is an increasingly mismanaged foreign exchange policy which has led to a drastic, artificially created, shortage of foreign exchange and growing divergence between the official and black market rates. Much of the economic asset base remains under state control and the Government has only recently mobilized a medium and large scale privatization program. Prospective World Bank support under a Privatization Loan Facility has also been deferred due to the Government's lack of an IMF agreement though the privatization program appears to be continuing with the activation of a significant number of private investment funds and a number of actions of states enterprise shares to these funds. The program is proceeding

with only limited World Bank technical support and is being carried out within an institutional framework which casts serious doubts on the transparency and competitiveness of the privatization process. Compounding these structural problems is a restrictive, distortionary trade regime, designed to encourage import substituting and export oriented industries.

The Uzbekistan Government's flawed economic policies as well as its dominance and intervention in the economy have created an uncertain investment climate and unsteady footing for USAID market transition initiatives. However, a new tax code drafted with USAID assistance was approved in April 1997 and should improve the climate for foreign and domestic firms alike. Likewise, the Government's strong interest in joining the World Trade Organization (it plans to submit its Memorandum of Trade Regime in May 1997) offers an opening for USAID to dialogue on the legal and regulatory framework necessary to stimulate trade and investment and, by extension, the growth of private enterprise.

b. Evolution of USAID's Program

The main goal of USAID/CAR's program in Uzbekistan is to promote sustainable economic growth. Given the Uzbekistan Government's unwillingness to proceed with key aspects of a comprehensive market reform program, USAID has chosen instead to support reform initiatives in which the Government has genuine interest, and then try to piggyback on success in these areas to broaden the policy agenda. USAID abandoned its early support for privatization when it became clear that the Government was not then interested in a transparent mass privatization program. This conclusion will be reappraised periodically as the World Bank supported mass privatization process proceeds.

Much more promising has been support for improved fiscal policy and management under SO 1.2, where the Government's commitment is strong. Three key legislative initiatives, establishment of an improved budget planning process, a comprehensive tax code reform, and a modern treasury system, are scheduled for Parliamentary consideration this spring and summer (the tax code was reportedly passed into law in late April). Follow-on support under this objective will stress improved budget processes, more efficient tax administration, and reform of the public pension system to enhance sustainability.

USAID's long-term interest under SO 1.3 for private enterprise development is the enactment of a comprehensive package of commercial laws essential to a modern market economy, particularly laws that protect property ownership and transfer rights, and commercial contract rights. The Mission's most promising entry point thus far in the investment climate area has been assistance to the Government on preconditions for WTO accession, particularly trade policy, customs operations, and the investment regulatory regime. The Mission would expect to expand the breadth and duration of USAID's efforts under this objective, but those decisions are dependent on the Government's willingness to create a more open trade and investment regime. The other active, USAID-financed program under the private enterprise development objective is the work of the Central Asian-American Enterprise Fund (CAAEF), which attempts to improve private sector access to capital and technology. With its regional headquarters in Tashkent, CAAEF has

made over \$23 million in equity/loan investments, primarily to building materials, textile and food-processing firms. Reinforcing the CAAEF program is IESC pre-investment planning assistance to prospective CAAEF clients and post investment management support.

The banking system in Uzbekistan is extremely weak, severely limiting opportunities for entrepreneurs to borrow capital to finance their investments. Potential foreign investors face serious obstacles to conducting transactions through existing financial networks. Uzbekistan lags behind several of its neighbors in establishing a basic legal and institutional framework for market-based capital market development, and considerable work is needed to modernize the banking infrastructure. The Government enacted legislation in 1996 intended to enhance Central Bank independence and strengthen commercial bank financial reporting requirements, but there has been only sporadic efforts to pursue the intent of these laws. However, the Government has displayed awareness of the need to establish the institutional framework for a stable financial system. Based upon recent discussions with Central Bank officials, the Mission believes there may now be an opportunity to proceed with major improvements in the banking regulatory area. USAID will proceed with SO 1.4, financial sector development, with initial focus on improved bank supervision. Key results will be tightened bank licensing policies; improved procedures for bank reporting, examination, and supervision, and a clearly articulated problem bank management strategy. If early progress confirms the Government's seriousness, USAID will consider broadening the program to address bank accounting reform and improvement in the range and quality of financial intermediation services. This objective may be expanded to strengthen the nascent securities market later, but only if the Government relinquishes its control over the national securities market regulatory institution and the stock market itself.

Petroleum production is critical to the economic future of Uzbekistan. Petroleum production has expanded rapidly since independence but that growth has slowed in the past year as Uzbekistan has been unable to attract the foreign investment necessary to exploit some of its more promising, but technically difficult, fields. Following a Government request for technical assistance in legal and regulatory reform, USAID initiated assistance in March 1997. Our policy dialogue stresses establishment of an independent oil and gas regulatory agency, thereby allowing the Government to play a facilitating rather than controlling role. It would also eliminate current confusion created by multiple government agencies with overlapping regulatory powers and authorities.

USAID plans to continue support to Uzbekistan on restructuring its energy sector and creating a positive policy, legal, and regulatory environment for private investment (particularly foreign) for realization of its oil potential. Key results will be policies favoring production sharing agreements, simplified licensing regimes, and environmentally sustainable regulations regarding exploration and processing. However, this work will be done through Regional Strategic Objective 1.5 (approved in the 1996 R4 for the CAR program), which is predicated on the economies and complementarities of regional cooperation in energy development and investment planning, water use rights to exploit hydroelectric potential, increased energy trade among CAR countries, and movement to a regional wholesale market for electricity producers. USAID plans for this regional objective are separately discussed in the accompanying CAR Regional Strategic Plan.

USAID's market transition strategy during this plan period will stress a pragmatic approach. The Mission will be able to pursue a well-articulated reform program under SO 1.2 (fiscal policy and management) where the Government's interest is strongest. Under SO 1.3 (private enterprise growth) and SO 1.4 (more competitive and market-responsive private financial sector), however, USAID will initially focus on a few reform areas where success appears achievable, while maintaining a "shadow program" of more comprehensive reforms that USAID will seek to advance through policy intensive and opportunistic dialogue. The Mission will reexamine the feasibility of its ongoing efforts in relation to the evolution of Government economic policies such as foreign exchange management.

c. Most Important Results to Date

- **TAX POLICY.** A comprehensive tax reform code that establishes a standardized, easy-to-administer direct and indirect tax regime was passed in late April 1997. By Memorandum of Understanding with USAID, the Government has committed to a broad agenda of tax administration improvements to be initiated in 1997.
- **BUDGET POLICY AND ANALYSIS.** Budget process and Treasury laws which would rationalize and systematize budgetary planning and reporting systems have, with substantial USAID assistance, been drafted within the Ministry of Finance and are currently expected to be passed into law during the summer of 1997. In January 1997, the Ministry of Finance established a Fiscal Analysis Unit to develop revenue and expenditure data bases and systematically analyze fiscal policy issues.
- **PENSION POLICY AND ADMINISTRATION.** In February 1997, the Cabinet issued a decree to shift the Social Insurance Fund to the Ministry of Social Protection which is better prepared to administer the program and develop a policy reform agenda. The decree also laid the groundwork for collection of pension contributions by the State Tax Committee, and for establishing a working group to develop systematic recommendations to streamline and better target the pension administration system. In addition, in early May the Government expressed to USAID its intent to form a senior level working group to develop legislation designed to systematically overhaul the financially troubled public pension system and to introduce a multi-tiered system with a major private component. This represents a significant step forward in the pension reform area. These actions, recommended and supported by the USAID funded advisor, should, if fully implemented, significantly improve the performance of the public pension system and facilitate reform leading to a multi-tiered system with a significant private component.
- **TRADE AND INVESTMENT.** In its first major step towards WTO membership, the Government has, with substantive technical input from USAID, developed its Memorandum of Foreign Trade Regime. The Memorandum, which lays out key aspects of the trade and investment regime and sets the negotiating framework for WTO accession, should be submitted to the WTO in Geneva by the end of May 1997.

d. Other Donor Involvement and USAID Comparative Advantage

USAID/CAR has closely coordinated its policy reform agenda with other donors, particularly the IMF and World Bank. The IMF Standby Arrangement was particularly important to maintaining a sound macro-economic program. The Government's misadventures in foreign exchange management and failure to renew an IMF program cast a shadow over prospects for market transition. Similarly, the Mission has welcomed World Bank leadership in crafting a meaningful privatization program. The restricted current nature of those efforts is troubling, since the healthy growth of private enterprise and emergence of a well-capitalized, strong-performing securities market demand a reduced government role in the economy. USAID is the lead donor in fiscal policy/management reforms, and the breadth of our partnership and the recently signed MOU on tax administration, give USAID comparative advantage in the fiscal area. USAID is the only donor poised to act quickly on commercial law reform, and our assistance to the Government on WTO accession provides a promising, though uncertain, "staging area" for a broader policy, legal, and regulatory agenda conducive to private enterprise development.

2. Strategic Objective Area 3: Social Transition

a. Constraints and Opportunities

Social policies developed during the Soviet era are unsustainable. Currently social expenditures account for roughly 40 percent of the total government expenditures, underscoring the need for a more targeted social safety net and application of market-based approaches to social services delivery. The health system is inefficient and highly centralized. There is a serious lack of potable water in some regions and health indicators point to serious health problems in some of the worst affected areas. The recently completed Uzbekistan Demographic and Health Survey (DHS) shows an increase in infant mortality in recent years and a facilities assessment by the Centers for Disease Control and Prevention (CDC) has identified serious problems in the health care system which requires fundamental reforms as well as the retraining of personnel. While the Government has not demonstrated an inclination to undertake systemic reforms in such areas as housing and family welfare support, it has for the last several years demonstrated a clear understanding of the social and economic consequences of high fertility rates and high birth rates. It has, therefore, actively supported family planning as a means of improving child spacing in order to improve the health of mothers and children. Collaboration between USAID and other donors in this area has been excellent. The results of the DHS demonstrate the success of this collaboration. In the last few months, the Government has begun to show an interest in undertaking significant health sector reforms. After two years of discussions, the Ministry of Health and the World Bank have begun designing a primary health care reform project. USAID has been invited to collaborate in this effort by extending the experience and expertise gained under its Health Reform Project in Kazakhstan and Kyrgyzstan.

The constraints on the growth of the private sector also affect the privatization of pharmacies and the promotion of commercial contraceptive sales. For example, recently adopted regulations which severely control and limit access to foreign exchange hurts the pharmaceutical sector

severely because most pharmaceuticals and all contraceptives are imported.

- The Ministry of Health purchased a large stock of contraceptives through the EU credit line. They are now being distributed at heavily discounted prices, that are hindering the development of a commercial sector.

b. Evolution of USAID's Program

The Government has frequently cited fear of social sector hardships as an explanation for its reluctance to implement economic reforms. Unfortunately this concern for the social sector has not translated into improved social services. Government dominance in this area and resistance to market-based health reforms provide little opportunity for USAID to organize a high-impact program equating to a strategic objective. Our assistance efforts in the social transition area to date have consisted primarily of health earmark activities. To the extent possible, USAID has programmed these earmarks to introduce market-based approaches to the health sector. An annual savings of approximately \$700,000 from expenditures on vaccine procurement and commodities will be realized as a result of USAID-funded assistance to upgrade immunization schedules to modern standards. As a result of the medical partnership, the Ministry of Health regards the Tashkent Medical Institute as a demonstration site for new management approaches for providing health care. As a result of the advertising and training provided under the Contraceptive Social Marketing Program, 90 percent of pharmacies in the two market test sites are selling modern contraceptives. These earmarks are now presented under Special Objective 4.1 (Special Initiatives).

Over the past several years, USAID and the World Bank have maintained a joint dialogue with Government officials on a full-scale health reform demonstration program. Recent Government overtures suggest that it is now ready to pursue a health reform agenda including alternative health care delivery and financing systems that could enhance long-term sustainability. Based on the Government's expressed interest, USAID is initiating SO 3.2 on improved sustainability of social services. USAID will provide training and technical assistance necessary for demonstration of health reform in one oblast using lessons learned from health reform demonstrations in both Kazakhstan and Kyrgyzstan, adapted to the Uzbek context. A variety of interventions will be tested including modern management techniques and modern clinical practices, and diversified health care financing. USAID plans to work both at the national and local levels in legal, regulatory, administrative, and technical spheres. The World Bank is prepared to finance the roll-out of a successful USAID model. Building on USAID's overall evolution of programming in Uzbekistan, USAID will explore with the Uzbek Government other areas of assistance to reform the social sector in a manner compatible with a market-oriented democracy.

Regarding other social stabilization objectives in the ENI Strategic Framework, there has not been a crisis situation requiring response to reduce human suffering and deprivation. The principal environment risk - health hazards arising from degradation of the Aral Sea Basin - has been addressed through the CAR Regional SO 3.3 focussed on increased availability of potable water and improved public information on safe water practices, among other things. In Uzbekistan,

USAID financed the installation of chlorination and laboratory equipment, and conducted training for management improvements. These results will be fully achieved by September 1997, as 500,000 Uzbekistanis are benefitting from potable water improvements and 100,000 through the public health program. USAID support to potable water programs will be brought to a close, and the Regional SO 3.3 will focus primarily on increased regional cooperation in water resources management for irrigation, industrial, and hydroelectric uses, with secondary emphasis on urban and industrial pollution abatement. The rationale and plan for SO 3.3 are detailed in the CAR Regional Strategic Plan.

c. Most Important Results to Date

- **FIRST DEMOGRAPHIC AND HEALTH SURVEY DATA COLLECTED IN UZBEKISTAN.** Uzbekistan's Minister of Health, Dr. Shavkat Karimov, acknowledged his acceptance of international standards for data collection when he signed the foreword of the Uzbekistan Demographic and Health Survey (DHS). Uzbekistan's first-ever international health survey was conducted by the Institute of Obstetrics and Gynecology with technical assistance provided by Macro International, Inc. with USAID/CAR funding. The DHS was carried out from June to October 1996, and the data activities were completed at the end of October. The preliminary report, signed by the Minister of Health, was released in both English and Russian in February 1997. The DHS should enable USAID/CAR and the Ministry of Health to plan effective health policies and programs that will improve the health care system in Uzbekistan. This, of course, furthers USAID/CAR objectives of social sustainability (SO 3.2).
- **FAMILY PLANNING AND CONTRACEPTIVE SOCIAL MARKETING.** The DHS clearly demonstrates the success of USAID's efforts in family planning. Abortion and fertility rates have declined. A reported 95.5 percent of currently married women and 88.7 of all women know about a modern method of contraception while 51.3 percent of married women and 36.6 percent of all women are currently using a modern method of contraception. Over ninety percent of women recognize the Red Apple symbol of the USAID supported contraceptive social marketing program.

d. Other Donor Involvement and USAID Comparative Advantage

USAID will be the principal donor focused on alternative health care delivery and financing programs that offer improved prospect for quality care, accessibility, and financial sustainability. Its successful health reform work in Kazakstan and Kyrgyzstan and easily-mobilized advisory services give USAID both credibility and a rapid response capability. As noted, USAID will coordinate the demonstration program closely with the World Bank, and the latter is poised to finance replication of successful efforts in the pilot oblast. USAID is the only donor working in the area of social marketing of contraceptives. Other donors have recently entered the field of family planning training. Given the favorable results of the DHS and the activities of other donors, USAID can now concentrate its resources on health reform and contraceptive social marketing.

3. Strategic Objective Area 2: Democratic Transition

a. Constraints and Opportunities

Political control in Uzbekistan rests almost exclusively with the President. Meaningful political opposition is not tolerated, media outlets are closely controlled, and free and fair elections have yet to be held. President Karimov was confirmed in office until 2000 following a 1995 referendum. The current parliament was chosen in a 1994 election process that offered only sanctioned candidates for voter choice.

Despite this overall bleak political landscape, the Government has been more permissive of non-threatening citizen activity over the past several years and has expressed a willingness to allow at least some changes which will promote the growth of civil society, the rule of law, a freer media and more transparency in government. Therefore, opportunities do exist to address human rights concerns, to engage NGOs promoting grassroots issues, to promote an understanding of the rule of law concepts and to expose a future generation of Uzbek policy makers to democratic principles. Commercial television stations are interested in starting their own independent network. Parliamentary and presidential elections in 1999 represent an opportunity to promote free and fair elections. Recent Government consent for an International Foundation for Electoral Systems (IFES) survey of voter attitudes, similar to ones conducted earlier in Kazakhstan and Kyrgyzstan, represents a small step forward and perhaps greater receptivity to USAID programs in democratic transition. Similarly, the prospects for the formation of independent judicial and bar associations and possibly even an independent judiciary are bright. Efforts to reform the law regulating NGOs, while currently stalled, may finally succeed because of support from within the Government. While all of these changes will be difficult to bring about, there appears to be growing support among various elements of the Government, as a clear result of USAID activities. If conditions merit, voter education and other electoral support programs will be expanded as nation-wide elections (required before January 2000) approach.

2. Evolution of USAID Program

Given the rigid structure of Uzbekistan's political system, opportunities to promote democratic governance or openness and transparency of government operations are currently limited. At this time, NGOs offer the most viable and visible means of increasing citizens participation in public affairs, allied with more effective, independent media programs. Under SO 2.1 increased, better-informed citizens' participation in political and economic decision-making, there has been a four-fold increase in NGOs over the past year, and 550 members of the currently active 340 NGOs have participated in USAID-financed training programs. The nascent NGO community, however, lacks basic skills in democratic leadership, management, fund-raising, and advocacy, and there is little immediate chance for an improved NGO legal framework. USAID assistance under SO 2.1 will focus on civic education, management training, and grassroots and community issues, followed by work with more advanced NGOs on advocacy skills and democratic internal operations.

With USAID support, 23 commercial TV stations have arisen over the past few years, of which six run daily news programs. Though the numbers are promising, these stations uniformly lack equipment, finance, and management skills. Most are influenced by local authorities, and rarely tackle controversial subjects. Further work under SO 2.1 will initially address organizational deficiencies, then progressively seek to improve programming quality.

Openness of government is the intended result that faces the most intransigence. USAID tentatively plans a three-stage effort to improve the electoral process, seeking to strengthen the independence of the electoral commission, and the soundness of election laws, providing subsequent training for election officials and observers, and supplementing these initiatives with voter education campaigns. USAID will reassess the viability of this strategy as it progresses to ensure that pre-ordained election results do not derive some credibility from the USAID involvement.

The opportunity exists to strengthen the judiciary in a meaningful way, even without a separate Rule of Law Objective. The Embassy is very supportive of this effort. Therefore, USAID is funding assistance to promote the formation of a bar association, a judiciary association and a law library to disseminate legal information to citizens, lawyers, and judges. These activities seek to improve the public trust in the judiciary as a fair place to resolve disputes and defend against criminal charges. USAID will seek to integrate these activities into SO 2.1 as much as possible. For example, the judges plan a monthly or quarterly publication which will include draft legislation and analysis of existing laws.

Similarly, given tight central control, it is unlikely that the Government of Uzbekistan will provide the legal base or transfer sufficient revenue authority to make SO 2.3 (improved local government), viable. USAID is currently not addressing SO 2.2, rule of law, in Uzbekistan. If strides are made, and USAID is able to phase out of SO 2.1, it will consider a commitment to SO 2.2. In summary, SO 2.1 on informed participation represents positive steps to introduce basic building blocks of civil society.

c. Most Important Results to Date

- **NGO INSTITUTIONAL STRENGTHENING:** 550 members of 340 NGOs have received training in a variety of subjects which will strengthen the capacity and sustainability of their organizations.
- **IFES OPINION SURVEY:** In late 1996, the Government permitted the first survey of citizens' attitude to be held in Uzbekistan. In a tightly-controlled society, Government's assent to the survey and the participation of respondents are noteworthy. The results of the survey were supportive of the Government's efforts to implement reforms on a step by step basis. People were generally satisfied with the Government's effort and quite optimistic about future. 71 percent believe that Uzbekistan is already a democracy but very few demonstrated any real knowledge of the electoral process, the Oily Majlis, political parties, or NGOs. Several key Government officials who participated in the first

briefing, acknowledge the need for a significant citizens education effort. The results of the survey will be disseminated to international donors, local NGOs, and the press, with the assistance of the National Commission on Human Rights, which is a part of the Presidential Apparat. IFES has also produced and will deliver to the Government in May an excellent critical analysis of Uzbekistan's election law, providing a blueprint of the changes necessary for free and fair elections in 1999.

- **NEW MEDIA LAW:** The Government worked on a new media law in April 1997, which reportedly is designed to safeguard journalists from harassment and defines citizens' access rights to government information. Given continued abuse of these rights, the real value of the law will be determined by its implementation.
- **EXPANDED OPPORTUNITIES FOR CITIZENS PARTICIPATION:** As a direct result of USAID's efforts, NGOs in Uzbekistan are stronger. For example, the Private Farmers' Association in the Fergana Valley has elected its first president from among the Association's membership; the President had previously been appointed. By-laws were developed allowing elections. In addition, the coalition of NGOs involved in artisanry successfully lobbied for a reform in export-tax laws to allow them to compete better in the international market.

d. Other Donor Involvement and USAID Comparative Advantage

USAID is unquestionably the leading and most influential donor engaged in strengthening the NGO community, promoting advocacy, and improving independent media programming. Part of its credibility with its client base derives from more advanced, similar programs in Kazakhstan and Kyrgyzstan and the array of highly-qualified advisors available through its grantees and contractors. The Eurasia Foundation, with regional headquarters in Tashkent, effectively supplements the direct USAID-financed efforts in NGO development. Soros Foundation recently opened an office in Tashkent and will play a role in the future but the organization is in the early stages of defining what its role will actually be. The Adenauer Foundation, UN and OSCE fund training, seminars and workshops focusing on human rights, the media, and democracy, but do not have long-term advisory personnel on the ground. USAID contractors and grantees work in close collaboration with these donors, often participating actively in their activities.

C. Summary Rationale for Strategic Objectives

SO 1.2 Increased Soundness of Fiscal Policies and Fiscal Management Practices

Sound fiscal policy and management are critical, to Uzbekistan's long-term growth prospects, particularly in maintaining a stable investment climate. Of our three market transition objectives in Uzbekistan, SO 1.2 presents the best opportunity for a comprehensive, well-articulated reform program. Key results sought under this SO include improved tax administration, modernized budget management and treasury operations, and pension reform. USAID's prior assistance on a modern tax code and an MOU setting the agenda for tax administration improvements will help us

influence the pace and breadth of follow-on work. USAID is also the leading voice in advocating pension policy and administrative reform. The Government appears committed to improved budget management, improved tax administration and pension reform.

SO 1.3 Accelerated Development and Growth of Private Enterprise

Continued improvement of the policy, legal, and regulatory environment is essential to building investor confidence, enhancing prospects for profitability, and promoting the trade and investment linkages sought under the Partnership for Freedom initiative. Key initial results are improvement in Uzbekistan's trade and investment regime sufficient to qualify Uzbekistan for accession to the WTO. USAID cooperation with this Uzbekistan Government priority will hopefully provide a springboard for more far-reaching reforms on commercial law. USAID is the only donor closely engaged in this process.

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

More competitive, efficient forms of financial intermediation are essential to facilitating private enterprise growth. USAID's initial work under SO 1.4 will be a limited effort to strengthen bank supervision, the financial sector reform area which appears to have the strongest Government commitment. USAID will be the lead donor engaged in bank supervision work, although a modest earlier World Bank support effort yielded minor improvements. USAID would like to expand the SO 1.4 programs to include improved bank accounting standards and more diversified, efficient financial intermediation services, but the Mission will proceed one step at a time until certain of the Government's commitment.

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

More problematic than our market transition objectives, SO 2.1 nevertheless provides the best opening to increasing the interest, involvement, and influence of Uzbekistan citizens in public affairs. In particular, the key result of an active, effective NGO community represents the most viable means of promoting a more participatory political process, closely complemented by, a strong independent media. USAID is the only donor with significant commitment to these areas, and past achievements in promoting NGOs and independent media, capacity-building, and formation of associations give USAID credibility in helping these organizations to improve their operations. The success of the third key result, increased openness and responsiveness of government is very uncertain as the Mission has not yet tested the Government's interest in an open and fair electoral process or otherwise inviting citizens' participation in government affairs. The IFES survey/election law analysis provides an opportunity to test that resolve.

SO 3.2 Improved Sustainability of Social Benefits and Services

Financially sustainable social services are critical to maintaining public support for economic and political reforms and relieving the government of unsupportable outlays that are inconsistent with

sound fiscal management. SO 3.2 key results are to demonstrate cost-effective systems for health care delivery in a selected oblast, develop targeted service programs for vulnerable populations, and leverage World Bank support to replicate successful pilot efforts. USAID, and the World Bank are the only donors currently dedicated to financially sustainable social services. The Government was initially resistant to health sector reform, and USAID initiated work under SO 3.2 only after a supportive change in attitude. The Mission will test the validity of the Government's commitment as USAID proceeds with the demonstration.

The Mission identifies below the comparative importance of its five strategic objectives, in addition to the two regional objectives, to the success of the strategic plan for Uzbekistan. USAID/CAR's ranking is based on factors cited earlier in explaining the rationale for selecting SOs for priority attention.

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

D. Customer Focus

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

As regards US taxpayers and US business, the Mission has worked with Embassy officers, the Foreign Commercial Service (FCS), and local counterparts to benefit the United States. In this connection, we have seized opportunities to use key interests of the Uzbekistan Government such as WTO accession to push our policy, legal, and regulatory agenda. Fully supported by the Embassy and the FCS, this systematic approach should help yield an improved business climate for American interests in Uzbekistan. To identify obstacles to address under this approach effectively, the Mission's representative and USAID-funded advisors in Tashkent work directly with American business people. More recently, the newly formed American Chamber of Commerce has provided an effective vehicle for dialogue. For example, USAID funded tax advisors met with the American Chamber's tax committee to help it formulate a position paper to present to the State Tax Committee. The paper addressed specific issues of concern to the business community in a manner which was consistent with, and supportive of, the new tax legislation prepared with USAID assistance.

The USAID country representative sponsors monthly roundtables of all USAID funded contractors and grantees. This roundtable provides an effective vehicle for the exchange of view and customer feed back. Members of the Embassy and other agencies are invited and often attend. Recently, at the initiative of USAID, the roundtable was expanded to include all US Government funded contractors and grantees.

With regard to the Mission's clients in the Embassy, regular consultations have greatly improved coordination and cooperation. The USAID Country Representative participates in the Embassy monthly "economic" and "democracy and governance" committee meetings which consist of Embassy personnel with responsibility for and agency representatives with active programs in these two areas. About once a quarter contractors and grantees active in one of the two areas are invited to attend.

The Uzbek people, of course, are the key customers for the field mission. To identify and address the country's needs, the Mission's methods include direct dialogue with key officials, policy makers, and community leaders; and survey research to better understand attitudes toward democratization and health status of vulnerable groups. USAID relies heavily on the advice of our contractors and grantees who are working at the grassroots, particularly those working with NGOs. The first IFES opinion survey in Uzbekistan will ascertain attitudes on the impact of economic reforms, political participation, effectiveness of NGOs, and quality of media information. During a Women in Development (WID) team visit, two roundtable discussions of women's concerns were organized in Tashkent.

To cement customer understanding of the purpose and direction of the Mission program, USAID/CAR has launched a media initiative to inform our customers, especially the local public, about USAID/CAR work and the benefits of reform. This initiative includes production of brochures in English and Russian on USAID/CAR programs in Uzbekistan.

Other key tools to assess the needs of Uzbekistan include forums for discussion with international PVOs, our local NGO partners and relevant outsiders. Also, involvement of PVOs, NGOs, and

other implementing partners in the development of the Mission's R4s and Strategic Plans guarantees that such documents reflect country realities. For instance, IFES, Internews and the American Bar Association (ABA) were involved in developing the indicators for SO 2.1, (Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making). During FY1997, a coalition of donors and NGOs have worked hard to reform the NGO law in Uzbekistan. The commitment of these groups to this effort has spurred USAID to seek additional technical support in this area in 1997.

Finally, the Mission works closely with other donors to assure effective coordination of our activities. Although these entities are technically not the Mission's "customers," our work with them ensures that our program enumerated above are better served. Regular donor coordination meetings with the World Bank, international donors, embassies and the Uzbekistan Government provide a forum for discussion of ongoing and planned work in specific technical areas. As a result of such work, the UNFPA has entered into a contract with the American Voluntary Service Committee (AVSC) to continue the family planning training work that it initiated with USAID funding. USAID provided technical assistance to help design the World Bank health sector loan. This will ensure that the World Bank project builds upon lessons learned through USAID health reform programs in the region.

E. Graduation Prospects

It is too early to speculate about Uzbekistan in 2006. Simple extrapolation from current circumstances would not yield a favorable or accurate outlook. The highly centrist regime appears to dominate every aspect of political life, stifles opposition, and curbs the creative force of widespread participation of citizens in public affairs. Individual efforts of segments of the Government and individuals in authority give some measure of hope that progress, albeit sporadic, slow and halting, will continue and eventually reach a sufficient critical mass to accelerate the pace. However, with the right policies, the economy, with its strong agricultural base and rich, natural resource endowment, could reestablish reasonably high growth rates in a near term time frame. Distortive exchange rate policies and slow movement in key structural reform areas, have stagnated the economy. Our challenge is to make the Government see and adopt the reforms necessary to complete the transition to a market-based and democratic government.

F. Environmental Issues

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

PART II
STRATEGIC PLAN ELEMENTS

STRATEGIC OBJECTIVE 1.2

**INCREASES SOUNDNESS OF FISCAL POLICIES
AND FISCAL MANAGEMENT PRACTICES**

A. Statement of Strategic Objective 1.2

Increased Soundness of Fiscal Policies and Fiscal Management Practice.

B. Problem Analysis

Fiscal reform is crucial to the maintenance of a stable macroeconomic environment; and to ensure the most cost-effective and efficient provision of public services to the population.

In its absence, inflationary pressures will create instability for private investors which will make the investment planning process extremely difficult; and discourage the inflow of additional physical and financial capital into the country. In addition, inefficient provision of major public services (including infrastructure investments) and a distorted tax regime raise the costs of private investment in Uzbekistan; and thereby also indirectly discourage business development.

C. Progress, Program Approaches and Other Donors

Uzbekistan made significant progress in the fiscal reform area during the 1995-96 period. The fiscal deficit was slashed from about 6 percent of GDP to approx. 3.5 percent of GDP between 1994 and 1996, largely through reductions in consumer subsidies and buoyant revenue performance. Inflation was reduced from approximately 117 percent in 1995 to 54 percent in 1996. At the same time longer-term fiscal restructuring measures need to be put in place. The budget planning process has not yet been rationalized; and the tax administration system requires modernization; particularly as regards the administration of the indirect tax system.

USAID has provided targeted support in the fiscal reform area for the past two years. USAID advisors have focused on rationalization of the budget system and taxation regime; and improvement of the tax administration system. In the budget area USAID advisors have played a key role in the drafting of new budget process and Treasury laws; which the Government is targeting for approval this summer.

Once in place, these laws will help create a more orderly and transparent annual budget planning process; and significantly improve budget monitoring and control capabilities. In addition, the budget law mandates adoption of a revised budget classification system; which USAID advisors are now working on the implementation of with counterpart budget personnel in the Ministry of Finance (MOF).

Finally, after prolonged dialogue the MOF recently agreed to set up a Fiscal Analysis Unit to develop expenditure and revenue data bases and systematically analyze fiscal policy issues within a broader macroeconomic context. The unit, which was formally established in January 1997, should facilitate the provision of more detailed and consistent budget-related information within the MOF and for USAID advisors working with the MOF.

Timely availability of budget data has been a persistent issue between USAID and the MOF; an issue characteristic of the idiosyncratic and somewhat secretive working environment which all

donor institutions face in Uzbekistan. A major focus of budget reform work in Uzbekistan in 1997 will be the introduction of basic expenditure rationalization tools designed to promote a greater linkage between program expenditures and performance outcomes. For this type of reform to be adopted within the MOF and in key line Ministries, budget information-sharing between Ministries and between the MOF and USAID advisors will need to be strengthened significantly.

In the tax policy area USAID has played a major role in the conceptualization and development of a comprehensive tax reform code; which was approved by the Parliament in late April. The code establishes a standardized direct and indirect tax regime with few loopholes, and represents a major step forward in the development of a simplified and nondistortive tax policy environment. With the approval of the code, Uzbekistan has become only the third CIS country (after Kazakstan and Kyrgyzstan), to adopt a modern comprehensive tax code.

Of course, now that the new code is in place, it must be effectively administered. USAID is providing long-term advisory and technical support in the tax administration area. This is being carried out within the context of a Memorandum of Understanding (MOU) between the Uzbek State Tax Committee (STC) and USAID.

The MOU commits the STC to undertake comprehensive reform of all major elements of the tax administration during 1997. This includes basic procedural reforms in audit selection, collection and inspection practices; rationalization of the payments and returns processing systems; comprehensive automation of the tax administration system; and reorganization of the tax administration system along functional lines. Significant progress has already been made in the establishment of a nationwide taxpayer registration system, and in the development of a taxpayer education program.

For the past year USAID has also been providing long-term advisory support in the pension reform area. USAID has forged a close working relationship with key officials in the Ministry of Social Protection (MSP), which is the most progressive in Central Asia. Key ministerial officials have been exposed through intensive dialogue and through a recent training program in Washington (carried out as a follow-on to the World Bank's EDI seminar on pension reform this past November) to the main currents in pension reform in developing countries and transitional economies.

In addition USAID experts have undertaken a comprehensive analysis of weakness in the design and administration of the current public pension system. Financial projections indicate that the deficit of the pension system - currently running at about 2 percent of GDP - will soon reach unsustainable proportions if basic policy reforms (particularly as regards the benefits indexation system and the elimination of special benefit categories) are not carried out in the near-term. Moreover, USAID has provided a comprehensive longer-range reform scenario to the MSP envisaging the gradual transition from a publicly funded system to a multi-tiered system with a significant private component.

The relatively favorable demographic position of the country, with a preponderance of young workers, will allow the transition to be carried out reasonably smoothly. This of course assumes that the Government moves quickly to adopt the short-term measures necessary to ease the immediate financial pressures facing the system. At the same time development of a privately funded component of the pension system will require a significant acceleration of progress in building a securities market in Uzbekistan; which has been slow in developing thus far (primarily as a result of the related lack of progress in the privatization of state-owned industrial assets).

In spite of the receptivity of senior MSP officials to USAID recommendations, the MSP had not proven able to elevate the dialogue on pension reform to the highest levels of the Government. USAID/CAR recently communicated to the relevant Deputy Prime Minister its recommendation that an inter-ministerial working group be formed which would focus on crucial pension policy reform issues. (An inter-ministerial working group had already been formed to work on pension administration issues, which was directly attributable to the efforts of USAID advisors in this area.) In response, the Deputy Prime Minister communicated to USAID that a senior-level working group (with USAID advisory participation) would be formed in late May with the aim of drafting comprehensive pension reform legislation for presentation to the Parliament in the fall of 1997. This legislation would be designed to put the public pension system on a sounder financial footing and to lay the groundwork for the introduction of a multi-tiered system with a major private component. In fact, the Government recently announced a delay in the indexation of pension benefits, a direct response to USAID's recommendation on short-term strategy to lessen the fiscal pressures associated with the current pension system. This recent progress represents a potential major breakthrough in the pension reform area, which USAID will follow up on during the coming months with intensive regulatory and actuarial advisory support.

D. Graduation/Sustainability

The year 1997 marks a watershed period in the fiscal reform process in Uzbekistan. A number of key pieces of legislation (including the budget process law and treasury laws) are slated for final consideration and approval by Parliament. In addition the Government has committed itself to carrying out major reforms of its tax administration system, to ensure effective implementation of its tax reform legislation. Major decisions on pension reform will need to be made if the Government is to avoid severe financial pressures on the solvency of the current public pension system. However, it appears that the Government is willing to move forward with major reforms in this area.

USAID/CAR intends to carefully monitor Government performance in these crucial reform areas over the coming months. Should reforms be carried out in these areas, and the Government display a heightened willingness to work pro-actively with USAID/CAR on fully implementing reform recommendations, USAID/CAR envisages a medium term (through the year 2000) commitment to provide a technical support and training program in key fiscal reform areas.

These would include tax administration, budget reform, and pension areas - areas where other donors are not directly and significantly involved (USAID/CAR does maintain a constant dialogue

with the IMF, in particular, on all aspects of its fiscal reform work). Should additional progress in some or all of the key fiscal reform areas enumerated above not be forthcoming, USAID/CAR will redeploy resources from the programs in question into other sectors beginning in 1998.

A comprehensive functional reorganization of the tax inspectorate should have been carried out, and the core tax administration practices (including audit, collection, inspection) should have been rationalized. These reforms, along with corollary automation of the tax information processing system, should be instituted comprehensively at a nation-wide level by this time.

In the pension area, a comprehensive reform of the public pension system, designed to put it on a permanently sound financial footing, should have been introduced. In addition the policy framework for the introduction of a multi-tiered pension system with a major private component should have been developed. Reforms designed to rationalize and increase the cost-efficiency and targeting capability of the public pension administration system should also have been introduced in a systematic manner.

All of these are reform areas where other donors are not directly and significantly involved (USAID/CAR does maintain a constant dialogue with the IMF and World Bank, in particular, on all aspects of its fiscal reform work). Should additional progress in some or all of the key fiscal reform areas enumerated above not be forthcoming, USAID/CAR will redeploy resources from the programs in question into other sectors beginning in 1998. Should progress in these areas in fact accelerate beginning in 1997, support would continue through 2001; at which point it would be phased out and SO 1.2 discontinued.

The fiscal reform activity remains a critical component of the Office of Market Transition portfolio in Uzbekistan. Following passage of a new modern tax code in April 1997, the fiscal reform activity will now concentrate on achieving gains in tax administration completing work on budgetary reforms. While technical support for tax administration will continue throughout the planning period, budgetary assistance will peak in 1999 and phase out completely in 2001. Fiscal reform is viewed by the Mission as a core activity and is therefore not reduced under any of the budget scenarios presented during the planning period.

UZBEKISTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
				YEAR	VALUE	1996		1997		1998		1999		2000		2001	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual		
SO 1.2	Increased soundness of fiscal policies and fiscal management practices	1. General government deficit as a % of GDP (accrued and cash basis).	Definition: Expenditures (cash & accrued basis) less revenues as % of GDP Unit: Percent	1995	3.5 (n/a)	3.3 (8.0)	3.6 (7.72)	3.2 (5.0)		3.1 (3.8)		3.0 (3.5)		2.8 (3.0)		2.6 (2.7)	
IR 1.2.1	Central government shifted roles and responsibilities as primary fiscal manager and regulator vis-a-vis local government, state owned enterprises and private sector	No activity															
IR 1.2.2	Government of Uzbekistan complied with the International Financial Institution's conditions.	Other donor activity			Y	P	Y		Y		Y		Y		Y		
IR 1.2.3	Taxes are more fairly and broadly applied and enforced.	Tax Compliance Rate	Definition: Tax revenues as a percent of GDP. Unit: Percent	1995	11.5	12	12.6	14		17		19		21		23	
IR 1.2.4	Improved budget management.	Fiscal arrears as % of GDP	Definition: General fiscal deficit (accrued basis) less general fiscal deficit (cash basis) as % of GDP. Unit: Percent	1995	n/a	4.7	4.12	1.8		0.7		0.5		0.2		0.1	
IR 1.2.1.2	Roles and responsibilities of different levels of government clarified	No activity															
SO 1.1	Increased transfer of state-owned assets to the private sector	< See SO 1.1 >															
IR 1.2.3.1	A more rational tax policy enacted	Adoption of modern tax legislation	Unit: Yes - No - Partial	1995	N	Y	N	Y		Y		Y		Y		Y	
IR 1.2.3.2	Efficiency of tax administration system increased	Costs per unit of tax revenue collected	Definition: Ratio of Tax collecting agency's budget to Tax Revenue Unit: Percent of the National Currency unit	1995	4	3.7	n/a	3.0		2.5		2.0		1.5		1.0	
IR 1.2.3.2.1	Computers used to produce necessary information for tax administration and collection		Unit: Yes - No - Partial	1995	N	Y	P	Y		Y		Y		Y		Y	
IR 1.2.3.2.2	Officials are trained in modern tax administration methods		Unit: Yes - No - Partial	1995	N	Y	P	Y		Y		Y		Y		Y	

IR 1.2.4.2	Government borrowing is less inflationary	CBU share in deficit financing	Definition: Share of CBU credit to the government as a percentage of total deficit financing Unit: Percent	1995	54.5	50	39	30		25		20		15		10	
IR 1.2.4.2.1	More robust secondary market for government securities is developed as a primary debt instrument	Volume of outstanding t-bills	Definition: Average volume of all types of government securities during the year Unit: \$Millions	1995	30	70	100	110		120		130		140		150	
IR 1.2.4.2.2	Policy advice to the government to limit CBU share of deficit financing is accepted	Compliance	Unit: Yes- No - Partial	1995	N	Y	P	Y		Y		Y		Y		Y	
IR 1.2.4.1	Expenditure allocation process rationalized	1. New budget classification system is in place 2. Budget Law passed 3. Treasury Law passed	Unit: Yes - No - Partial	1995	N	Y	P	Y		Y		Y		Y		Y	
					N	Y	N ¹	Y		Y		Y		Y		Y	
					N	Y	N ²	Y		Y		Y		Y		Y	
Comments/Notes:																	

¹In process

²In process

H. Results Framework Narrative

1. Transition Hypothesis and Underlying Rationale

Development of a vibrant private sector in Uzbekistan has been hampered by macroeconomic instability resulting from weak fiscal policies. To combat this situation, the strategic objective establishes an appropriate fiscal policy framework that contributes to price stability, raises fiscal revenues in a neutral and non-distortionary fashion, and provides a more rational allocation of scarce budgetary resources. Essential to this objective are:

- Development of a tax regime which is transparent, broad-based and voluntary-compliance oriented; and
- Adoption of a rational system of budgetary control that would direct scarce public resources to their best uses.

Such a fiscal framework will directly contribute to the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed.

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

2. Critical Assumptions

Uzbek officials have been relatively open to reform in the fiscal arena, forming the basis for ongoing work in this area over the past year. Progress in privatization was much slower until recently, when the Government reached agreement on a program with the World Bank and initiated implementation with the registration of private investment funds (PIFS) and the auction of equities in selected state enterprises. Work in the fiscal year is based on this assumption that collaboration in fiscal reform will go forward and the privatization program in Uzbekistan will accelerate significantly in 1997-1998.

If the process of privatization does not proceed rapidly, and the adjoining state orders system is not phased out, pressure will increase to augment fiscal subsidies. In addition, failure of the Government to renew its IMF program agreement will significantly limit its incentive to maintain responsible fiscal policies.

3. Causal Linkages

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

- Compliance by the Government of Uzbekistan with the conditions set forth by the International Financial Institutions (the IMF and World Bank in particular) must occur.

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

- Taxes must be more fairly and broadly applied.

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

- The central government budget must be better managed, which will occur if expenditure allocation decisions are made using the new planning system and if government borrowing is less inflationary.

These conditions require further development of a secondary market for government securities capable of absorbing a larger share of public debt and less reliance on credit from the National Bank of Uzbekistan to the government for financing the deficit. Better budget management contributes to increased fiscal soundness by reducing budget arrears as a percentage of GDP.

STRATEGIC OBJECTIVE 1.3

ACCELERATED DEVELOPMENT AND GROWTH OF PRIVATE ENTERPRISES

A. Statement of Strategic Objective 1.3

Accelerated Development and Growth of Private Enterprise

B. Problem Analysis

Key to the development of a vibrant private sector are:

- reforms in the legal/regulatory environment which establish clarity and stability in the treatment of both foreign and domestic private investors; and
- development of the managerial and technical capacity of private entrepreneurs to respond effectively to a more decentralized market decision-making environment.

For Uzbekistan these have been major constraints on the successful transition to a market economy.

As in a number of areas in the economic reform process, Uzbekistan's progress in the enabling environment area has been relatively sluggish. The structure of Uzbekistan's economy is based upon exports of primary products which were easily divertable to international markets following the collapse of the Soviet regime. This, in combination with favorable terms of trade trends, has cushioned the Uzbek economy from the severe contraction experienced by most other CIS economies.

Thus, over the 1993-5 period GDP declined by only approximately 8 percent. The relative stability of the Uzbek economy in the immediate Post-Soviet era appears to have limited the sense of urgency of senior policy-makers regarding the need to adopt comprehensive economic liberalization reforms.

One reflection of this policy outlook is that many of the fundamental legal and regulatory building blocks for the operation of a market economy have not been put in place. At the same time the entrepreneurial capacity of economic agents accustomed to responding passively to central directives regarding production and investment decisions has not been significantly improved. USAID/CAR has focused intensively over the past three years on addressing these constraints.

C. Progress, Program Approaches and Other Donors

Legal and Regulatory Reform Progress

After sluggish progress in the legal/regulatory reform area in the immediate Post-Soviet era, Uzbekistan has begun to establish some of the major reforms required for the creation of a stable investment climate which would facilitate private sector growth. Most impressive until recently was its progress on the macroeconomic stabilization side.

However recent policy shifts have put that progress at risk. In particular the Government has adopted a highly distortive exchange rate management policy over the past 6-9 months; which basically aims at controlling and rationing access to foreign exchange in order to exercise state control over savings and investment decisions. This policy has resulted in a dramatic shortage in foreign exchange availability to businesses; and has created a significant divergence between the official exchange rate and the black market rate.

The Government's 15 month IMF Standby Arrangement expired in mid-March. At this point there is no IMF follow-on program in place; and there is not likely to be one until the Government moves away from its highly distortive exchange rate management policies.

In addition the Government has a distortive trade regime in place. A high degree of dispersion in import tariffs exists (although it was reduced somewhat in 1996, and the unweighted nominal average is only 11 percent); and a large number of product groups are subject to high export tariffs. In addition a number of product groups are subject to an export ban. These policies, which are largely designed to encourage the development of domestic textile and food processing industries, embody the same type of directionist approach to industrial development as does the Government's current exchange rate policy.

Similarly the sluggishness with which the Government has implemented a mass privatization program, and its desire to control closely all aspects of the ownership transfer process (including having the State Securities Agency and the Stock exchange existing as organizational units within the Privatization Agency) illustrates the difficulties facing private investors wishing to expand activities in Uzbekistan.

The World Bank has worked over the past 18 months with the Government to try to ensure some degree of competitiveness and transparency in the Uzbek mass privatization program. However the Bank recently announced that it would not be able to move forward with its long-planned Privatization Loan Facility; in light of the Government's current impasse with the IMF.

WTO Accession Support

Under these circumstances USAID/CAR feels that the best opportunity for dialogue with the Government on key policy reform issues rests in taking advantage of its intense desire to attract foreign investment and integrate itself within the international trading and financial community. Thus over the past few months USAID has initiated a modest technical support program designed to educate key Government decision-makers on the requirements for membership in the World Trade Organization (WTO).

Through this effort USAID/CAR will work with the Government's internal WTO working group on fashioning the changes in trade and investment policies necessary in order to facilitate a successful negotiation on WTO accession. This process is now well underway - the Government submitted its Memorandum of Foreign Trade Regime to the WTO in Geneva in March and plans

to submit its Memorandum of Accession in May. USAID is providing two long-term advisors in the trade/investment regulatory and customs areas; supplemented by strategic short-term support in key areas such as intellectual property rights and investment law.

Thus far the advisory program in this area has been well-received. The key will be to see how far the Government is willing to move on adopting key liberalization reforms in the trade policy area and in the protection of investor rights; as it becomes fully aware of the stringent nature of WTO admission requirements. One factor which will help drive the process forward may be the quick progress that two of Uzbekistan's neighbors - Kazakhstan and Kyrgyzstan - are making towards WTO accession. In addition, the Government is aware of the strong need to become more fully and formally linked up with the international trading system if it is to improve its reputation among foreign investors.

If WTO-related progress accelerates, this would lay the groundwork for a broader support effort designed to improve the commercial law environment. This would involve both technical and training support designed to develop (1) the basic commercial law building blocks which define the property and commercial transactions rights of market agents and (2) the capability of legal officials to understand and enforce the economic rights of market agents.

Support for Development of Entrepreneurial Capacity

The other major private sector support initiative funded by USAID/CAR in Uzbekistan is the operation of the Central Asian American Enterprise Fund (CAAEF). The CAAEF has established its regional headquarters in Uzbekistan and has been operating there for over two years. The CAAEF has been extremely active in Uzbekistan, having approved ten equity/loan investments (mostly in the textile and food processing sectors) for over \$23 million.

In addition it has made 18 loans (totaling about \$1.33 million) through the small loan window it operates through a number of commercial banks in Uzbekistan. However the recent distortions introduced into the foreign exchange management system have slowed down the CAAEF's operations in Uzbekistan recently; and will inhibit the effectiveness of CAAEF activities in the country until they are removed.

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

Moreover the USAID-financed Agricultural Cooperative Development Institute (ACDI) has provided credit analysis/administration training to staff of some of the commercial banks working with the CAAEF on its small loan program.

USAID also plans to address basic human capital development constraints beginning in 1998 by supporting a major higher learning institution, Tashkent State University (TSU). USAID will

support the formation of a partnership between TSU and an American academic institution, with an intensive focus on improvement of teaching curriculum and materials in the economics area. This program would include student and faculty exchanges and build a permanent dialogue on economic education and policy between a major university in Uzbekistan and one in the United States.

D. Graduation and Sustainability

If USAID/CAR's dialogue on major trade/investment policy and administrative reform areas proceeds successfully within the Government, this support program will be continued during the 1998-2000 period. Under this scenario WTO accession would be expected in the 1999-2000 time frame. Technical and training support in the broader commercial law and economic policy reform areas would be initiated in 1998 and continue through at least 2001. However if it appears the Government is unwilling to adopt major changes in its exchange rate and trade/investment regime in 1997, the legal reform-related support program will be more rapidly phased down.

USAID plans to continue a modest level of IESC support over the next several years, in order to (1) support the effective targeting of private entrepreneurs for the scarce financial resources of the CAAEF; and (2) to maintain support for private entrepreneurial development while major policy constraints are being addressed.

In the budget years FY 1999-2001, if the budgets allocated for Strategic Objectives 1.2, 1.3, and 1.4 were reduced by from 6 percent to 20 percent, much of the cuts would occur in SO 1.3. Hardest hit would be the IESC program and the educational partnership program; important activities that are nonetheless not part of the core program.

Insert Framework Tree Here For SO 1.3

UZBEKISTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA											
						1997		1998		1999		2000		2001	
				YEAR	VALUE	Target	Actual								
SO 1.3	Accelerated development & growth of private enterprises	Increase in private sector GDP market shares	Definition: Share of GDP generated by private enterprises Unit: %	1996	26.00	30.0		40.0		50.0		60.0		65.0	
IR 1.3.1	Improved operating environment for private sector growth	Increase in private sector capital investment	Definition: % of total capital investment in private sector Unit: %	1996	8.00	10.0		30.0		50.0		55.0		60.0	
IR 1.3.1.1	Improved policies, laws and regulations in place to ensure competition and allow for easy market entry and exit	1. Critical policies, laws and regulations that are consistent with international standards are published	Definition: Number of policies, laws, regulations published with drafting and implementation assistance provided by USAID Unit: Number	1996	6	13		15		17		20		25	
		2. Significant bodies of law and international conventions that promote legal basis for the growth of market economy	Definition: Major legislative initiatives (more than 50 sections), treaty accessions, and significant policy determination drafted or implemented with USAID assistance Unit: Number	1996	2	5		7		10		11		12	
IR 1.3.1.2	Administrative agencies strengthened to enforce policies, laws, and regulations	Number of legal and administrative positions filled with personnel trained by USAID	Definition: Number of key legal and administrative positions filled USAID trained professionals Unit: Number	1996	0.00	50		100		200		250		270	
IR 1.3.1.3	Business and business advocacy groups strengthened	1. Number of groups benefitting from USAID assistance (e.g. NGOs, PIFs)	Definition: Number of groups receiving USAID advice Unit: Number	1996	5.00	10		12		15		20		25	

IR 1.3.1.4	Government of Uzbekistan complied with the International Financial Institutions' conditions	1. Compliance	Definition: GOU adheres to conditions set forth by the IFIs for additional assistance Unit: Yes or No	1996	N	N		Y		Y		Y		Y	
IR 1.3.2	Human resources improved to function in a market economy	1. Number of people trained (excluding 1.3.1.3)	Definition: Number of people trained through seminars, roundtables or one-on-one encounters Unit: Number	1996	162	170		300		600		650		700	
IR 1.3.3	Increased availability of and access to capital and technological resources for the private sector	1. Loan and joint venture funds invested	Definition: Dollar volume of joint venture funds invested Unit: Dollars (millions)	1996	12.90	15		17		20		22		25	
		Comments/Notes:													

H. Results Framework Narrative

STRATEGIC OBJECTIVE 1.3 "ACCELERATED DEVELOPMENT AND GROWTH OF PRIVATE ENTERPRISES"

1. Transition Hypothesis and Underlying Rationale

Private business growth in Uzbekistan is hampered by limited progress in privatization and the very nascent stage of its financial market development. Nonetheless, opportunities for both domestic and foreign investment exist. The Central Asian American Enterprise Fund (CAAEF), headquartered in Tashkent, has made a number of investments. In the area of privatization, there have also been encouraging signs as the Government begins to implement a World Bank - approved mass privatization program.

The three basic issues related to private sector growth in Kazakhstan and Kyrgyzstan hold true in Uzbekistan as well:

- First: a much more favorable legal and regulatory environment needs to be established. Key characteristics would include consistency, transparency, and efficient, comprehensible mechanisms for resolving disputes. Also, policy guidance and new legislation, once it is adopted, needs to be administered effectively.
- Second: the human resource base needs to be improved. Basic knowledge about the functioning of a market economy is often lacking. Many of the rudiments related to business planning, cost analysis, marketing, accounting, and other skills needed to manage and sustain a private business have yet to be properly introduced. Similarly, government officials charged with administering new laws and regulations need to be properly changed in their new roles and responsibilities.
- Third: inadequate access to capital and technology invariably emerges as a key constraint. Previously, government-owned businesses were "bailed out" by the infusion of cheap credit by government-owned banks, which in turn fueled inflation. Now firms have to finance their own operations and obtain credit for their own expansion, and to map out longer-term financing and market growth strategies.

Although lack of funding prevents USAID from fully addressing the full range of issues and concerns, opportunities do exist and do need to be developed within the context of a wider strategic framework.

- First, CAAEF is emerging as an important source of capital for private business in Uzbekistan; their own experience in working with the private sector can also inform program development in other areas.

- Second, a window of opportunity has emerged in the trade and investment area, partly reflecting Uzbekistan's long-standing goal of conducting normal trading and commercial relationships with the outside world (already, Uzbekistan conducts most of its trade outside rather than inside the former Soviet Union).
- Reforms in trade and investment law would also benefit potential US firms interested in doing business.

Hopefully, these initial engagements in the legal and regulatory front will lead to other opportunities aimed at helping to improve the business environment in Uzbekistan.

2. Critical Assumptions

Continued work in this area hinges on at least two critical assumptions:

- First: the recent discouraging news on economic restructuring in Uzbekistan will be reversed with the Government renewing its commitments to the World Bank and IMF, especially in the areas of foreign exchange management and banking reform. Also, progress initiated in both the privatization and financial markets areas will continue.
- Second: Uzbek authorities will continue to be receptive to new ideas and approaches. As in other Central Asian countries, linking progress on a particular issue to Uzbekistan's credibility with international organizations and institutions is often a good approach for advancing policy dialogue. Hopefully, this interest will continue.

3. Causal Linkages

Lack of credit and concern over legal and regulatory environments are two concerns that go hand-in-hand. The quality of the human resource base for private sector development in Uzbekistan is also closely linked. Funding constraints prevent USAID from being as big a player in these areas as is the case in Kazakhstan and Kyrgyzstan, but a combination of close cooperation with other donors combined with efforts to ensure that the experience and "lessons learned" from elsewhere are brought to bear on the Uzbek experience can make a difference. Close coordination in all these areas should ensure progress in achieving the Strategic Objective.

STRATEGIC OBJECTIVE 1.4
A MORE COMPETITIVE AND MARKET-RESPONSIVE
PRIVATE FINANCIAL SECTOR

A. Statement of Strategic Objective 1.4

A More Competitive and Market Responsive Private Financial Sector

B. Problem Analysis

Financial sector reform must be accelerated if Uzbekistan is to effectively accelerate the transition process. An independent central bank is crucial to effective monitoring and oversight of the performance of the commercial banking sector. This is of extraordinary importance in the early stages of the transition process. Given the under-capitalization of most commercial banking institutions and the reverberating impact of banking sector illiquidity on the performance of the real sectors of the economy. In addition, exchange rate and monetary policies must be designed and implemented which promote macro stability and a market-based allocation of financial resources.

C. Progress, Program Approaches and Other Donors

Monetary Policy Reform

Uzbekistan has made limited progress thus far in the financial sector reform area. It had moved forward during 1995-96 to improve the flexibility and competitiveness of monetary control mechanisms, and instituting regular credit and foreign exchange auctions. In addition new central and commercial bank laws were approved, which enhanced (nominal) central bank independence and significantly strengthened commercial bank financial reporting and performance requirements.

However the back-sliding which has occurred over the past 6-8 months on exchange rate management policies has created long queues for foreign exchange within the banking sector. It has also limited the degree to which the banking system can effectively carry out financial intermediation activities.

Banking Regulatory Reform

At the same time the need clearly exists to enhance the bank supervision capability of the Central Bank in order to promote a stabler financial system over the medium term. Little has thus far been accomplished in terms of building the supervisory capabilities of the Central Bank in response to the higher degree of authority vested in the Central Bank in the aforementioned banking legislation.

A modest support effort by the World Bank yielded no significant change in bank supervision policies and procedures. A related World Bank support effort in the bank accounting area has also been slow in generating results; with a new central bank chart of accounts and commercial bank chart of accounts still under development.

In response to this glaring support need and following intensive discussions with senior Central Bank officials, USAID initiated in March 1997 a long-term support program in the bank supervision area. The program is geared towards promoting the adoption and implementation of systemic reforms in the on-site examination process, and introducing a structured financial reporting and analysis system for off-site supervision.

Recommendations on bank licensing policies and procedures and problem bank management strategy will also be provided. A core element of the program will be comprehensive training of the bank supervision department's staff, and recommendations for restructuring of the bank supervision department in a manner which will promote more efficient and coordinated decision-making on supervision-related issues.

Initially the support program will be carried out by one long-term advisor, supplemented by short-term advisory and training support. Procedural reform and training materials developed by the long-standing and highly effective bank supervision support efforts in Kazakhstan and Kyrgyzstan will be utilized to create the most cost-effective program possible. In addition USAID/CAR will closely monitor:

- The receptivity of the Central Bank to initial organizational/procedural recommendations;
- the degree to which relevant information on the current financial tracking system of the Central Bank is made available to the advisor; and
- the overall effectiveness of the banking system in relation to the severe policy constraints introduced by the current exchange rate management regime.

If one or more of these factors appear to militate against the success and impact of the bank supervision support effort, the effort will not be continued beyond a one-year time frame. If the effort does appear to be yielding significant improvements in the bank supervision system, it will be continued and expanded during the 1998-2001 period.

Bank Accounting Reform

In addition if other donor efforts in the related and critical bank accounting area remain marginal, USAID/CAR will contemplate expansion of technical and training support to promote accounting reform in the Central Bank and key selected commercial banks beginning in 1998. All support activities in the banking area have and will continue to be closely coordinated with the IMF and the World Bank.

Securities Market Development

Finally, some donors in Uzbekistan have provided limited assistance in the area of securities market development. Over the medium to long-term, securities market development will be

extremely important in helping attract additional financial capital into Uzbekistan.

In the short run it can serve as an important medium for promoting a more competitive and transparent privatization process than has transpired up until now in Uzbekistan. However the current legal status of key securities market institutions will make it extremely difficult for the securities market to develop dynamically in Uzbekistan.

The key government securities market regulatory institution - the State Securities Agency - exists within the State Privatization Agency (GKI) and so has little real autonomy. The Uzbek Stock Exchange is owned by the GKI, and the depository system is also controlled by it. Thus at this point the independence of both the securities market regulatory institution and the key intermediary institutions are open to severe question. This in turn casts significant doubt on the regulatory and operational legitimacy of the securities market in Uzbekistan which may severely constrain investor interest in participating in its development.

Should the Government show an interest in the course of 1997 in creating a more legitimate regulatory infrastructure for the operation of the Uzbek securities market and creating more independent intermediary institutions, USAID/CAR would seriously consider implementation of a securities market development support program beginning in 1998. Such an effort would build upon the targeted initiatives in this area already undertaken in Kazakhstan and Kyrgyzstan. It would support the development of both the legal/regulatory infrastructure and the organizational and operational infrastructure for a modern functioning securities market trading system.

Starting in 1999, such a program could also involve institutionalized linkages between (1) the Uzbek National Securities Commission and the US SEC; and (2) Uzbek securities market intermediary associations and US counterpart institutions (ie. stock exchanges and broker/dealer associations).

Private Pension System Development

Moreover, if at the same time the pension reform process gains momentum and the Government moves aggressively towards the development of a multi-tiered pension system, USAID/CAR would envisage the provision of a significant level of technical support for the development of a strong private pension fund management industry starting in 1998.

The development of private pension funds would significantly augment the demand for share capital in the Uzbek stock market. Of course this augmented demand for share capital will only be channeled into stock market equities if:

- The pace of privatization picks up; and
- the regulatory structure of the securities market promotes confidence on the part of potential investors in the stability and legitimacy of the stock market.

Reforms in these areas would contribute critically to the medium-term development of a vibrant financial system and attract additional private capital into the system. As emphasized above, support efforts in these areas will not be undertaken in the absence of key regulatory reforms which would create the conditions for a competitive and transparent securities market trading system. The support program could also again involve beginning in 1999 a direct linkage between an Uzbek pension fund association and an equivalent US institution.

D. Graduation and Sustainability

USAID/CAR's financial sector support program is limited and almost experimental in nature - attempting to achieve breakthroughs where other donors have not. If responsiveness is limited, this program will be discontinued at the end of this year.

However assuming counterpart responsiveness, technical and training support in the bank supervision and (beginning in 1998) accounting areas would continue through 2001. At that time the on and offsite bank performance monitoring capability of the central bank would have been modernized and systematized, and the supervision department completely restructured and retrained. In addition all major commercial banking institutions would be expected to have adopted modernized accounting systems at the ledger and sub-ledger levels.

Assuming that a major shift in the Government willingness to adopt more transparent and competitive privatization and related securities market development policies occurred, support in the securities market development area could also begin in 1998-99. It would continue through the year 2005. The primary focus during the first two to three years would be direct technical and training support design to develop an independent regulatory authority and a strong, pro-competitive regulatory framework. Intensive support would also be provided for development of the basic organizational and technical infrastructure required for the competitive operation of the securities market, and for the development of key self-regulatory institutions required to promote competitiveness in the marketplace and limit Government hegemony over securities market operations.

During the 1999-2000 period, the emphasis of USAID/CAR support would shift away from direct technical support and toward partnerships with key US securities market regulatory and intermediary institutions. Support for the development of a private pension fund industry would also commence in 1998 and continue over a long-term time frame, assuming policy reform in the pension area in fact accelerates. The pattern of this support would assume the same form as that in the securities market, beginning with intensive direct technical assistance and training support and shifting over the medium term to primary emphasis on support through linkages with a major US private pension fund association.

This SO has two main components:

- support for Bank Restructuring; and
- support for development of domestic capital markets.

We anticipate that the work in Bank Restructuring will phase out in FY2000 and that no funding will be required in FY2001. On the other hand, support for capital market development will continue throughout the planning period. In fact, if conditions permit in Uzbekistan, beginning in FY1998, we will begin one or more financial sector partnership programs to supplement traditional technical assistance activities.

Insert Framework Tree Here for SO 1.4

UZBEKISTAN PERFORMANCE DATA: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	VALUE FOR 1995	TARGETS AND ACTUAL RESULTS											
					1996		1997		1998		1999		2000		2001	
					Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.4	A more competitive and market responsive private financial sector	Bank deposits as % of GDP	Definition: Private sector deposits in Uzbekistan's banking system as % of GDP Unit: Percent	N/A	N/A	N/A	3.0		5.0		6.0		7.5		10	
IR 1.4.1	Government regulatory agencies supervise, administer and enforce legislation	Assessed regulatory capacity in place and functioning.	Definition: USAID assessment of regulatory readiness of National Bank Unit: Y/N	N	Y	Y	Y		Y		Y		Y		Y	
IR 1.4.2	More forms of financial intermediation are institutionalized and effectively supply the private sector on a competitive basis.	Increasing # of financial services available	Definition: # of distinct services available Unit: #	5	-	6	7		9		11		13		15	
IR 1.4.1.1	Legal structure, required for efficient operation of financial markets, is defined and adopted	Legislation fulfillment	Definition: Consideration/adoption of appropriate official laws & regulations Unit: Yes/ No	Y	Y	Y	Y		Y		Y		Y		Y	
IR 1.4.1.2	Regulatory framework and reporting systems are broadly applied to effectively screen out deficient institutions	increasing % of banks meeting capital adequacy requirements	Definition: Percentage of all banks that meet regulatory requirements Unit: Percent	N/A	N/A	N/A	20		30		50		70		85	
I.R. 1.4.2.1	Financial institutions effectively serve the private sector	increasing # of types of financial institutions	Definition: Types of financial institutions (e.g. commercial banks, credit and savings institutions, all hedging and insuring institutions). Unit: #	3	5	4	7		9		10		12		17	
I.R. 1.4.2.2.	Public pension system pays all current benefits and regains participant confidence	% of pension obligations paid to beneficiaries	Definition: % of public pension systems total current obligations that are actually distributed to beneficiaries in a given year	60	70	75	100		100		100		100		100	
IR 1.4.2.3.	Public pension fund effectively collects and allocates pension contributions	contributions collected as % of GDP	Definition: Public pension contributions collected and properly allocated to pension system stated as % of GDP. Unit: %	13.0	13.0	12.0	13.5		13.5		13.7		13.8		13.8	
		Comments/Notes:														

H. Results Framework Narrative

1. Transition Hypothesis and Underlying Rationale

A competitive, private financial sector is vital to the growth of a market-oriented economy. Hence, new market-based financial institutions are urgently needed to replace Soviet relics that are incapable of serving a modern economy in Uzbekistan. Given such conditions, during the next three years this strategic objective seeks to build a legal/regulatory structure to provide the foundation for private sector banks and capital market institutions; establish private-sector institutions; and develop major governmental supervisory bodies for the financial sector. In this regard, one key piece of legislation was enacted in late 1997, namely a pension decree that aimed to improve the collections and allocations for the public pension system. However, more needs to be done. By the end of 1998 the financial sector needs to provide fundamental services such as a payment system, market-based bank and credit facilities, deposit and checking accounts, and a more sustainable public pension system.

This task will not be easy, since the whole idea of investment and financial intermediaries is new in Uzbekistan. Most people are highly skeptical about banks and financial markets in general, having had their life savings ravaged during the breakup of the Soviet Union and the economic restructuring process which followed. Thus, we assume that most people will avoid savings accounts, bonds, stocks, annuities or other formal financial structures until new financial systems have demonstrated their soundness. The USAID strategy, therefore, concentrates on the leading financial institutions, larger private companies, and a select group of entrepreneurs and academics, teaching them to be the first successful users of the new systems. Special attention will be paid to banking institutions and, over the longer term, to investment funds and private pension funds as they become fully operational.

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

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

2. Critical Assumptions

- Inter-governmental, bank, and enterprise debt, which grew chaotically under the Soviet system, can be steadily reduced and liquidated.
- The Government resolves problems associated with its current dual exchange rate.
- Privatization proceeds with the transfer of small-scale and large-scale enterprises into the private

sector.

- The commercial law sections of the civil code are addressed, providing private financial institutions with the legal environment necessary to conduct business in an orderly fashion.
- Growth occurs in some sectors of the economy, supporting the development of the financial sector and attracting domestic and foreign investors.

3. Causal Linkages

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

- Laws, regulations, and policies authorizing essential pension market regulatory institutions and systems (IR 1.4.1). To achieve this result, many changes must occur. Specifically, the legal framework must define the parameters of operation for public and private pension managers, the reporting relationships between private firms and their regulatory agencies. In short, the legal basis for public pension funds and private pension funds will need to be established.
- Regulatory agencies supervise, create regulations, and policies, and enforce legislation (I.R. 1.4.1). These agencies will be trained to govern on the basis of principle and to encourage private-sector development. Specifically, policy advice and training will be furnished to the Central Bank and the Ministry of Finance. Training will focus on financial regulatory skills and background on the activities to be regulated. This is being done through long term technical assistance to the regulatory agencies, short courses open to all market participants and through work with some firms on a pilot basis.
- Sets of institutions, services, and financial instruments are created and properly protect "customers" rights (I.R. 1.4.2). In other words, private-sector banks and capital market intermediaries are established and provide essential financial services to business and population, namely:
 - Electronic fund transfers system among banks and for the business community.
 - Market-based bank and securities credit.
 - Deposit and checking accounts, primarily for business.
 - Accounting and auditing services offered by firms on the basis of international standards.

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

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

STRATEGIC OBJECTIVE 2.1

***INCREASED, BETTER INFORMED CITIZENS PARTICIPATION
IN ECONOMIC AND POLITICAL DECISION MAKING***

A. Statement of Strategic Objective

The objective is increased, better-informed citizens' participation in political and economic decision-making.

B. Problem Analysis

At no time in their histories have the countries of Central Asia had democratic forms of government. The totalitarian rule of the Soviet period was an extension of historical precedence. This is in great contrast to the vibrant market and trade history of the region. This region was dominated completely during the Soviet period by Russian leadership, and Uzbekistan is only now establishing itself as a nation state. Therefore, the central problem in Uzbekistan is one of establishing new democratic institutions in places where there were none.

The problem is exacerbated in Uzbekistan by the fear of the executive branch of social turmoil which would result from rapid loosening of state control. The Government has maintained a very strong and visible presence in people's lives through the apparatus of the state security services. The Government has yet to commit itself to the benefits associated with democracy.

Finally, there is the problem of geography. The Freedom House Report looks only at the countries of the former Communist bloc. Uzbekistan does not. South of Uzbekistan are countries which routinely ignore and violate human rights and civil liberties. The build-up of the Uzbekistan military is indicative of how seriously Uzbekistan considers the threat from these countries. The Freedom House report is seriously flawed, in that it does not consider the impact on development in Central Asia from areas outside of the boundaries of the former Communist bloc.

There is extremely low or no participation by the general public in political and economic decision-making at all levels of government. Key obstacles to achieving such participation are that Uzbeks, having lived for so long under totalitarian governments, are inexperienced in (per IFES surveys) and lack the institutional mechanisms (eg. NGOs or political parties) for voicing their opinions regarding democratic and economic issues, adequate and impartial sources of information on which to base those opinions, or the means for making government officials responsive and accountable to them. In working on these obstacles towards achieving the strategic objective, USAID will be focusing on the general public, which is the ultimate customer, and the NGO community in particular.

Regarding the first obstacle, non-governmental public associations, which provide a principal means for citizens' voicing their concerns to government, did not exist in Uzbekistan even six years ago. Today, per IFES surveys, people are gradually becoming aware of them and their potential utility. There was a four-fold increase in NGOs during the past year, and the Government has not interfered with training for these groups. Nevertheless, they are generally new groups and are not yet sustainable without foreign donations. They lack key skills in how to run such associations, increase membership and effectively make known their

positions to local and national government.

C. Progress, Program Approaches and Other Donors

Progress

The Mission's democracy program will address these problems in a phased approach:

- *first: raising levels of citizens' awareness by promoting some degree of general civic education (largely accomplished);*
- *second: helping to establish a core of grassroots NGOs, often with a community development concern, through small grants (in progress);*
- *third: continuing to provide training for at least the next six years for these NGOs in critical management areas (membership, accounting, program development, publicity, constituent building, etc); and*
- *starting in 1999: targeting those civic advocacy NGOs which are the most viable and democratic and have the potential for advancing citizens' participation and the Mission's agenda by focusing on democracy training for their internal operations and advocacy training so as to become more influential in national government and, in particular, local government, which the Mission plans to support in other programs. This will include partnership development.*

Regarding the availability of information, the press is closely controlled. People obtain most of their news via television, and USAID's efforts have been focused here. Just six years ago, there were no commercial television stations; today, due in part to USAID assistance, there are 23 independent television stations operating and a number of those are reporting on the news. While this is a major step forward, many are poorly managed and, often as a result thereof, financially unviable. All are under the influence of some self-censorship. Also, some stations lack even the most basic equipment and the quality of the programs is low - surveys show many people prefer the Russian stations to local ones for their news. In addition, local stations are often afraid to report on controversial issues. As a result, people are still not getting unbiased, provocative news that would allow them to become more effective participants in the political arena.

USAID/CAR's program will help overcome these problems by providing primarily training and technical assistance, also some equipment, to these stations in a phased approach. The first phase of intervention concentrates on increasing the number of independent television stations (in progress) and then, for several years more, USAID anticipates work on improving their management and journalism.

By 2006, this program should have achieved its intermediate result. As stations become more self-sustaining, they may be a bit more willing to speak out on controversial issues, although financial independence will not be sufficient to produce editorial independence in the current environment. Given the barriers to electronic media and freedom of speech, USAID will also explore assistance to NGO newsletters, which may be more willing to speak out on controversial matters. In addition, USAID is working with other donors to create a law library which will provide information to advocacy NGOs as well as to the legal community. It should open in late 1997.

Regarding the government's responsiveness to citizens, Government control remains very much centered in the President and meaningful opposition is not tolerated. Fair elections have yet to be held. The president was confirmed in office up to 2000 following a referendum, and a new Parliament was elected in a process that allowed voters to choose only among officially sanctioned candidates. Political parties, except the official opposition, are still not legally sanctioned.

As a result, USAID/CAR's program is directed largely at the non-governmental areas. Nevertheless, since the success of the strategic plan requires Government engagement, USAID resources will initiate dialogue on how Government might improve its functioning by getting input from other sources into its deliberations. The Government is, for example, interested in interventions which will increase the success of the economic transition. USAID will pursue these openings.

USAID will also offer some assistance to the National Center for Human Rights in the Presidential Apparatus to test the sincerity of the government's stated intentions of democracy and cooperation, and one of USAID's partners will continue to work with the Parliament to improve its effectiveness, primarily reviewing draft legislation at this point but perhaps evolving in the future into more general assistance. In general, USAID will be looking for targets of opportunity with any government institutions (Parliament, local governments, for example) that have the potential for making a significant impact on improving government transparency.

As for government's lack of accountability, USAID is helping to improve the election system in a phased three-year approach, focusing in 1997 on the election commission to improve existing election laws, then training election officials and observers and, during Presidential and Parliamentary elections, conducting voter education campaigns. If at any time it appears that elections will not be free, fair, and multi-candidate, USAID will terminate its assistance to the Central Elections Commission.

USAID will not be pursuing a local government agenda in Uzbekistan until conditions are more favorable. Likewise, USAID is currently not pursuing SO 2.2 Rule of Law in Central Asia. However, if certain conditions are met, and SO 2.1, Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making, is near completion, USAID may choose to address Rule of Law in the out years as some programs begin winding down provided the government.

Regarding the NGO sector program, progress is as expected. There are now 340 advocacy NGOs, and over 550 members received training last year, exceeding targets in both areas. However, a major effort to

develop a better NGO law met resistance at the hands of the Ministry of Justice despite support from the UN and other elements of the Government. Assistance will continue to be needed until 2002, at which time the sector should re-evaluated.

Progress of the media program is close to target. Out of 23 commercial television stations, six run daily news programs, which exceeds targets as does training for these stations. However, their programming is still weak and assistance is likely to be required until 2006 before most stations are viable. A major potential advance was the passage in late 1996 of a new media law protecting journalists from harassment and defining citizens' rights to access of government information. However, no criticism of the government is allowed, and a major impediment in television stations' willingness to report on controversial news is the perceived threat of government or regional power reprisal. As long as such reprisals occur even sporadically, no progress in this area is likely.

As for government's responsiveness and accountability to its citizens, the program is not on target. The government continues to show little or no agreement to loosening its grip on power. However, in 1997, the government permitted the conducting of the first survey of voter attitudes on the transition and on their relationship to the agencies of civil society. The event of conducting the survey itself is a success in Uzbekistan, whose citizens are usually reticent in the face of such questions. Parliament shows signs of willingness to listen to outside experts, and this opportunity will be pursued. One significant test may be its willingness to extend this receptivity to open hearings. As for elections, USAID's target for having elections officials, monitors and citizens reasonably well trained on their proper roles by 2000 seems attainable. However, obtaining legislation increasing the election commission's independence may be unattainable.

Illustrative Program Approaches

Most programs are being carried out by U.S. PVOs and training and technical assistance are the key elements of all programs, occasionally accompanied by limited commodity assistance. Under USAID/CAR's civil society program, for example, such PVOs have been assisting local advocacy NGOs through training programs designed to increase their professionalism and improve their management skills as well as through small grants programs targeted to NGOs involved in rule of law, human rights and other civic society issues. USAID/CAR's media program consists essentially of the provision of technical assistance and training, along with limited electronic equipment, to local television stations by a U.S. PVO which is involved in similar programs elsewhere in the NIS. Training and technical assistance are provided typically in part by well-trained locals, thus reducing costs and the necessity for a large expatriate presence. Programming implementation in the future is expected to continue along similar lines. However, in the coming years, we will be making serious efforts to develop partnerships between a state bar association and the Uzbekistani bar/judiciary. If Parliament shows receptivity to outside advice, we may attempt a similar partnership between a state legislature and the Uzbekistani Parliament. When established, such partnerships would allow USAID assistance to Parliament and the judiciary to terminate.

Commitment and Capacity of Development Partners

Activities of our partners, which are all US PVOs, are being implemented through cooperative agreements and grants. Most partners have had successful experience with similar programs elsewhere in the NIS, which increases our confidence in their commitment and capacity and that they can achieve their intended results. There are three intermediate results dependent on our partners' programs: strengthened NGO participation in civil society, increased availability of information on domestic economic policies and politics; and increased responsiveness and accountability of government to citizens and NGOs. All are attainable if the government shows willingness to permit criticism of the government, become more responsive to its citizens and decentralize power.

D. Graduation and Sustainability

USAID anticipates that by 2006, no further assistance in this area will be required because NGOs should be sufficiently strong and independent television stations should be sufficiently viable as to allow significant well-informed participation by citizens in political and economic decision-making at the local and national level. This assumes that the government, including the Parliament, is willing to become more responsive to citizens and permit criticism of the government. A key part of the Mission's strategy is to look for windows of opportunity with any government organization, including human rights organizations, or branch of government (local government, for example) that has the potential for significant impact on increasing overall government transparency.

UZBEKISTAN PERFORMANCE DATA SO 2.1: BASELINE, TARGETS, AND ACTUAL RESULTS

FY 1998 Submission

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
				YEAR	VALUE	1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
						Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
SO 2.1	Increased, better-informed citizens' participation in political and economic decision making	1. Number of advocacy NGOs	Definition: Advocacy NGOs are those local organizations which focus upon advocating and advancing governmental or civil society attention to means of addressing particular democratic, economic or social needs as objectives, including human rights, women's rights, NGO rights and media rights. Unit of Measure: 1) Actual number of NGOs listed in the Counterpart Consortium database for Kazakstan on a particular date with advocacy (women's rights, human rights, Media rights, NGO support) as their purpose (covering all known NGOs)SOURCE: Counterpart IFES survey	1992	0	NA	ADV: 9 TOTAL NGOs Oct 95 45	147	ADV: 40 Total 170	10% increase	ADC: 72	10% increase	10% increase	TBD evaluate progress, and see if ready to move beyond just group formation	TBD	TBD
		2. Percent of citizens who feel informed		FY 1997	POL 39% ECON 42%	NA	NA	NA	NA	NA	POL 39% ECON 42%	POL 45% ECON 50%	POL 50% ECON 55%	POL 60% ECON 65%	POL 70% ECON 70%	POL 70% ECON 70%
		3. Number of Parliament members who are members of NGOs		1994	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
					NA								5			

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
IR 2.1.1	NGOs engage in strengthening civil society	Increasing number of NGOs that seek to influence the government or get attention/ support for their activities	<p>Definition: contacts with media or government officials reported in grant/contract monitoring documents in response to the questions:</p> <p>Stage one: Fear and lack of public understanding Stage two: narrowly defined advocacy groups emerge Stage three: institutionalize base, and form coalitions</p> <p>1. "Did you have any contacts with media organizations regarding your work or issues during the past year?"</p> <p>2. "Did you have any contacts with government officials regarding your work or issues during the past year?"</p> <p>Unit: Percent of total NGOs in Counterpart Consortium database which answer yes to one of the above questions. SOURCE: COUNTERP</p>	NA	NA	NA	NA	yes 15%	70%	yes 25%	2/97 30%	yes 30%	40%	50%	60%	yes 75%
				NA	NA	NA	NA	yes 10%	52%	yes 15%	yes 25%	30%	35%	40%	yes 50%	
	Strengthened NGO capacity for participation	2) Number of sector coalitions	<p>Definition: Groups of NGOs which are formed around an issue, and have met to discuss this issue.</p> <p>Unit: Number of sector coalitions seeking press attention for their efforts</p>	1992	0.00	0.00	0.00	0.00	0.00	2	NGO law coalition	2	4	6	6	8
	Strengthened NGO capacity for participation	IFES survey results on populations knowledge of NGOs existence.	<p>Definition: Percent of population who answer "yes" when asked if they think a Non-governmental organization is a theoretical possibility.</p> <p>IFES survey</p>	FY1997	0.00	0.00	0.00	0.00	0.00	N/A	40%	50%	55%	60%	65%	70%

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
IR 2.1.1.1	Strengthened NGO capacity: Quantity	Number of NGOs trained and the number of NGO members trained	<p>Definition: In a transitional society without a history of non-governmental organizations NGOs must be trained in organizational and programmatic sustainability.</p> <p>Unit: Records of USAID sponsored training for NGOs and for NGO participants, including but not limited to management, media, advocacy, and government relations.</p> <p>DEFINITION: NET/AED, ALC, IFES, Counterpart, ABA</p> <p>NGOs (members)</p>	1992	0.00	NA	ALC ?	ALC 5 NGOs	ALC 9(18)	complete						
						NA	Counterpart ?	C'part 25 NGOs	C'part NGOs: 183 Memb: 275	NGOs: 340 Memb: 550		360	380	400	400	400
IR 2.1.1.1	Strengthened NGO capacity	Number of NGOs in data base which are providing fee-for services to assist sustainability.	<p>Definition: A service shall be deemed to be anything that the organization is providing, related to its mission, in order to sustain itself.</p> <p>Unit: 1) Absolute number 2) percent</p>	1994	na	NA	NA	NA	NA	BASELINE	7%	10%	12%	15%	20%	30%

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target	
	Strengthened NGO capacity for management	Percent of NGOs managed by a democratic process	Definition: An NGO will be deemed to be managed by a Board of Directors if the NGO has 1) bylaws 2) follows those bylaws to elect a Board of Directors 3) the board of Directors has the authority to manage the budget and program of the organization. Unit: OF all NGOs monitored in the previous 12 month period, what percent were managed by a Board of Directors.	1992	0.00	0.00	0.00	NA	NA	NA	NA	new indicator 10%	20%	30%	30%	40%	
IR 2.1.1.2	Improved laws/policies enabling NGO formation and operation	Existence of a law including x number of stages in definition column, and enabling NGOs to organize and function; Improved quality, based on knowledgeable opinion, of these laws	Definition: In order to function without government hindrance a set of laws and/or policies, including policies in administration, needs to be enacted which is necessary and sufficient for NGO operations. See performance monitoring plan for definition Unit: Quality of NGO laws on scale. See Performance monitoring plan. 1996 SOURCE: NDI, Counterpart	1992	1 of 11	1 of 11	1 of 11	1 of 11	1 of 11	4 of 11		4 of 11	4 of 11	4 of 11	4 of 11	8 of 11	
IR 2.1.2	Information on domestic economic policies and politics available	Public availability of draft laws prior to passage by government	1) Definition: Based on three possible levels of availability. 4 is highest, 0 is lowest. 2) # of draft laws held in law library for public access Source: ABA	1994	1	NA	1	NA	1	NA		1	2	2	3	3	
												new indicator 1	3	5	7	10	10

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
IR 2.1.2.1	Strengthening Print Media	1) Other donors involvement 1) Number of NGOs publishing newsletters	See USIS, Eurasia, Soros Definition: The number of NGOs publishing newsletters. Source: Counterpart	NA	NA	NA	NA	NA	NA	Baseline (new indicator)		20	40	60	80	100
IR 2.1.2.2	Domestic news widely available via electronic media	1) Number of commercial TV/radio stations	Definition: See indicator	1994	5/0	NA		10		35/1		40/4	45/8	50/10	50/10	50/10
		2) Average daily independent local TV news programming	Number of minutes	1994	2	NA	3	30	15	5		10	12	14	16	18
		3) % of stations who broadcast news daily.	Number of stations with daily news Source: Internews	1994	1	NA	2	5	6	7		10	17	20	25	25
IR 2.1.2.2.1	Increased Quality of independent electronic media	1) Number of stations using "appropriate" technology (S-VHS or Betacam, computer graphics)	Definition: as indicated Unit: Absolute number Source: Internews	1994	0.00	NA	1	3	6	8		12	17	20	23	25
		2) Percent of population who watch independent TV news.	Definition: Based on IFES survey data. New indicator for FY 1998 Unit: Percent of total Source: IFES	FY 1998		NA	NA	NA	NA	NA	NA	10%	20%	30%	40%	50%

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
IR 2.1.2.2.2	Increased management capabilities of independent electronic media	1.Average daily hours of broadcast time for TV/radio	Definition: see indicator TV/Radio hours	1994	3	NA	4	8	10	10		10	10	10	10	10
IR 2.1.2.2.3	Increased willingness of independent electronic media to report on democratic processes, public policy issues	1) Media law exists allowing commercial stations to broadcast and register, without political approval 2) Number of stories in month of January about political opposition group activities.	Definition: see indicator SOURCE: INTERNEWS, ABA	1994	no law		no		some discussion			1				
				NA	NA	NA	NA	NA	NA	NA	NA	baseline				
IR 2.1.3	Increased responsiveness and accountability of Government to citizens/citizen organizations	1.Number of draft laws and policies with input by NGOs considered by the parliament	Definition: See unit Unit: Total number of passed laws with NGO input as a percent of total number of passed laws Source: ABA, NDI	1994	Total laws: ?	NA	Total laws: ?	NA	Total Laws: ?	Laws with NGO input: ? of ?		2	4	6	8	10
IR 2.1.3.1	Increased Government transparency	1) Number of open hearings addressing legislative/policy issues 2) Number of consultative processes addressing legislative or policy issues	See indicator 1)Source: ABA See indicator 2) Source : ABA	1994	0	NA	0	NA	0	1		1	2	4	4	4
				1996	0	NA	0	NA	12	15		15	20	20	20	20

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS										
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
IR 2.1.3.2	Increased Government accountability to citizens and NGOS	1) degree of fairness of elections per annual US Embassy Human Rights Reports	Source: USG Human Rights reports narrative	1991		NA		NA	"Citizens can not exercise their right to change their government peacefully"	NA		NA	Improved		"Fair and Open"	
		2) Number of consultative processes on the local budget between local government and citizens' organizations in Target cities	2)Source: implementing partners	1994	0.00	NA	NA	No program	NA	NA	NA	NA	1	8	10	15
		3) Number of public officials removed from office for corruption.	Definition: Based on the media reports of officials removed for corruption. Unit: Number of individuals Source: USAID media records	1994		0	NA	NA	NA	NA	NA	2	2	4	6	6

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target
IR 2.1.3.2.1	More genuine and competitive political processes	1) Improved election laws and procedures	Definition: On a scale of a possible seven attributes, how many are present in the law. Unit: See Performance monitoring plan	1) 1994	0 of 6							1	4	6	End of program
		2) Increase in citizen information on election procedures	Definition: Based on the number of newspaper articles, as tracked by the Press Club, nationwide on election procedures. Unit: Number of articles in year of election	2) 1994	NA	NA	NA	NA	NA	NA	NA	NA	100		
		3) increase in training sessions for election officials,	3) Definition: Each polling station should have one person who is in charge of overall compliance with current election laws. Unit: Percent of all polling officials trained by IFES	3)	0%	0%	0%	0%	0%	5%	50%	100%			

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS														
						1995		FY 1996		FY 1997		FY 1998	FY 1999	FY 2000	FY 2001	FY 2002				
						YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target			
IR 2.1.3.2.2	More effective and independent elected officials	Number of vetoes or major changes in draft laws by legislatures	<p>Definition: Based on implementing partner reports of laws under consideration,</p> <p>1) count of number of laws in which legislature upon consideration of draft from executive branch, makes considerable changes which are then adopted into the bill which is passed.</p> <p>2) Number of veto equivalents</p> <p>Unit: Number reported</p>	1994		NA		NA		no program		no program								
				1994		NA		NA		0		1		TBD		9		12		15
				1996	0.00	NA	NA	NA	NA	NA	NA	NA	NA	1		3		4		5
		Number of political parties which participate in Presidential elections.	<p>Definition: Non government sponsored party with a candidate in the Presidential election</p> <p>Unit: Number of candidates besides current President</p> <p>Source: ABA; NDI; IFES</p>																	
		<p>Comments/Notes: draft April 18, 1997</p> <p>FY 1996 dated is based on October 1996 inputs; following extended team review, October 31 prepared for Mission Review on November 6, 1996</p> <p>NOTE On SO 2.1 indicator number 3 -- This is based on the IFES survey conducted in calendar year 1996; reported to the Mission in April, 1997.</p> <p>FY 1997 data is current as of preparation of the R4 submission.</p>																		

H. Results Framework Narrative

1. Transitional Hypothesis and Underlying Rationale

Regarding the NGO sector and media activities, USAID's strategy is to continue its successful work in these areas. Additionally, USAID will pursue an opportunistic policy to work with the government on areas of transparency and to provide feedback into the development of new laws.

Citizen participation is the central element of USAID's short-term strategy for the democratic transition in Uzbekistan. The problem in Uzbekistan is an historic lack of democratic structures of government combined with an authoritarian regime concerned with the disruptive effect of the social sphere. Thus, our transitional hypothesis is that in order to achieve increased better-informed citizens' decision-making, we will need to provide intensive modeling and skills transfer, long-term technical assistance in-country to build trust, training in the US and third countries to provide examples of the institutions of a democratic society, work directly with people and institutions, and take a long-term view. We will build on the constituency identified in the IFES survey of people who believe in a market-based democracy.

In mid-1996, following the visit of the President of Uzbekistan to the United States, the Government stated its commitment to improving human rights. While a sound human rights record is important to civil society, it is not essential. The Government has permitted the registration and development of NGOs that are not advocating a political agenda. These groups may be subject to government monitoring of their activities and their membership by the state. In light of the fact that these groups are working in a system which does not guarantee the right to free assembly and freedom of association, work in this area will continue at present to emphasize constituency building and provision of services to NGO members, rather than directing work towards interaction with the Government. This should develop as NGOs gain strength.

Independent media endure the same lack of respect for privacy as members of NGOs. Therefore, the strategy calls for work on the development of an independent media in apolitical terms, such as basic journalism skills and business management. The sooner stations are financially independent, the sooner they will be able break away from regional sources of control. If at that time they don't become more risk-taking in their commentary on the Government, USAID will have to reassess the program and consider terminating assistance.

The government has shown an openness to some activities which might elsewhere be termed "rule of law". These include development of judicial skills and input from expert advisors on laws. These will be pursued in Uzbekistan as a venue for increasing government responsiveness. In addition, USAID will use the period prior to elections to work with the Central Electoral

Commission to improve the election laws and processes provided it demonstrates commitment to such.

2. Critical Assumptions

The critical assumptions have not changed from the 1997 strategy.

- The Government of Uzbekistan will not interfere significantly with the development of citizen participation in political and economic decision-making. In the 1998 program year USAID will continue to monitor the government's stated willingness for these groups to form, and its opening to human rights. Programming decisions in this area will be deferred pending this review.*
- A strong tradition of respect for authority will not prevent democracy from taking root.*
- Economic development will allow citizens to maintain time and attention to NGO activities. As in the other countries, it is hard for citizens to concentrate on democratic activities when they lack basic utilities. However, over time USAID expects this situation to improve.*
- Parliament will be receptive to working to increase democratic input and responsiveness. While this last may be optimistic, it is still integral to USAID strategy that the government must accept that citizens have a role to play in government. If, after another year of observation and work with the existing government programs, USAID has not observed the promised changes, then USAID will need to reassess the potential for achieving this strategic objective.*

3. Causal Linkages

The three Intermediate Results address strengthening the capacity of NGOs to act as the voice of citizens, developing information sources for citizen oversight and participation, and development of areas where the government may be more responsive to citizen input. In the short term all three areas need development in Uzbekistan although long-term strategy would re-evaluate this emphasis.

IR 2.1.1 NGOs engage in strengthening civil society. *The implementation activities encompassed under the first intermediate result, IR 2.1.1, are those supporting the development of NGOs. The NGO sector is the best area for citizen involvement in a society with only official opposition political parties and few official opportunities for citizen comment on government policy. The NGO groups represent opportunities for groups of citizens to come together around issues of concern to them, along a range of activities, from health concerns, to women's*

organizations, to neighbourhood improvement, to environmental advocacy, to business associations.

IR 2.1.2 Information on domestic economic policy and politics available. Access to information is crucial because of the primary role that independent information plays in informing the citizen about their society and about the actions of other members of their society. For citizens to participate, they must be able to obtain information.

IR 2.1.3 Increased responsiveness and accountability of Government to citizen organizations. This IR focuses on the group of activities which will increase government responsiveness to citizens. In Uzbekistan at the present time it does not seem effective to use limited resources in support of increasing the effectiveness and independence of government. Since the success of this strategic plan requires government engagement, USAID resources will initiate dialogue on how government might improve its function by soliciting input from other sources into its deliberations. Again, the government is interested in interventions which will increase the success of the economic transition, and these openings will be pursued.

Finally, assistance in the area of increasing government responsiveness to citizens will seek to strengthen the technical aspects of conducting free and fair elections. As the next scheduled Presidential election is in 2000, the current period of reduced pressure on the Election Commission allows for work on strengthening the fundamentals of elections. The work on electoral reform is part of the long term strategy of building the blocks of a transparent and accountable government, and part of the opportunistic strategy being USAID is pursuing in this area.

STRATEGIC OBJECTIVE 3.2

IMPROVED SUSTAINABILITY OF SOCIAL BENEFITS AND SERVICES

Statement of Strategic Objective 3.2

Reform strategies in selected social sectors developed and implemented

B. Problem Analysis

The rationale for inclusion of this Strategic Assistance Area in the 1993 strategy submission for Central Asia of USAID/CAR was that substantial public support is essential for successful transition to free markets and democratic governance. This requires that people believe that the reform will produce improvements in their social and economic circumstances. Citizens must also believe that, to the extent possible, the transition is being managed to minimize social and economic costs, and that those suffering distress are being helped.

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

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

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

The political environment in Uzbekistan limits the scope and opportunity for market-based reforms in the social sector. The government of Uzbekistan has used the social sector hardships as an explanation as to why it has been slow in implementing economic reforms. Unfortunately this stated commitment to the social sector has not resulted in improved social services. Given this situation, Uzbekistan needs to ensure sustainability by implementing fee-based social services (for those able to afford it), combined with targeted assistance for vulnerable populations.

The Government of Uzbekistan has now formally indicated to USAID that it is ready to pursue a health reform agenda more consistent with a market-based economy, including addressing issues related to financing health care services. USAID will use this opportunity to demonstrate that a credible methodology exists for supporting social services. This will be demonstrated using health services, which require the largest budgetary expenditure (health services) as the medium. Assuming positive results from this focused attention to the health sector, more generalized

training and technical assistance to the social sector would be considered.

C. Progress, Program Approaches and Other Donors

USAID plans to provide training and technical assistance necessary for a demonstration of health reform in one oblast using lessons learned from health reform demonstrations in both Kazakhstan and Kyrgyzstan and applying them with full consideration of the Uzbek context. Work will be conducted at both the national and oblast levels in the legal and regulatory, administrative, and technical spheres. Assistance will be provided to both the government and non-government sectors. Results of the model will be the basis for roll-out under a World Bank loan.

The principal intermediate results are:

- Critical social benefits and service needs identified for vulnerable populations.*
- Demonstration that health care and municipal services can be made available on a cost-effective basis.*
- Broad dissemination of successful reforms.*

USAID recognizes that resources to improve the sustainability of social benefits are unlikely to be achieved by any single donor. Thus, USAID will actively continue to leverage resources of other donors to replicate pilot interventions on a national level. USAID collaborates and coordinates closely with other donors in this sector in Uzbekistan, most notably the World Bank. The World Bank loan in the health sector for Uzbekistan is based on the USAID model and lessons learned in Kazakhstan and Kyrgyzstan. USAID training and technical assistance interventions in Uzbekistan will support the World Bank loan and reciprocally the World Bank loan will make possible extension of the USAID assistance interventions.

D. Graduation and Sustainability

The final year of new funding for this Strategic Objective is FY 2003. World Bank will be the key loan agency to support this sector.

Insert Framework Tree for SO 3.2 Here

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

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA										
						FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
SO 3.2	Improved sustainability of social benefits and services													
Mission SO 3.2	Reform strategies in selected social sectors developed and implemented.	1.# of programs introduced.	Definition: Reform Programs=pilot projects to restructuring sector Unit: Number of oblast	1994	0.00	NA	NA	1		1		1	TBD	
		2. Policies for vulnerable populations introduced.	Definition: Needed social sectors reforms identified, examined, and policies developed in conjunction with counterparts for sustainable social services Unit: Number of new decrees or legislation designed with counterparts at the national level.	NA	NA	NA	NA	NA	NA	NA	NA	1	1	2
IR 3.2.1	Critical social benefits and services needs identified for vulnerable populations	1.Number of evaluations of needs for vulnerable populations	Definition: Vulnerable populations = pensioners, women and children. Needed social sectors reforms identified, examined, and policies developed in conjunction with counterparts. Unit: Number of evaluation studies	1994	0.00	NA	NA	1	Health	1	Housing			
		2. Number of demonstration projects developed	Definition: Vulnerable populations = pensioners, women and children Unit: Number of pilot programs developed and implemented	1994	0.00	NA	NA	NA	NA	1				
IR 3.2.1.1	NGO's providing sustainable social services established.	1. Number of grants awarded.	Definition: Grants awarded to support social services. Unit: 1) # Counterpart NGO grants	1994	0.00	Seed 10 Partnership 4 Corp Challenge 5	42 3 4	0.00		TBD		TBD	TBD	complete

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA										
						FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
		2. Percent increase in NGOs providing sustainable social services.	Definition: Based on Counterpart Database, on number of NGOs registered as providing social services. Unit: Percent increase	1994	0.00	10		25		TBD		TBD	TBD	Complete
IR 3.2.1.2	Housing allowances adjusted and targeted	1.# of regions with programs.	Definition: A housing allowance program requires cities to calculate the space per person or family unit that is sustainable, determining how much of a families income should be spent on housing, developing a program for shifting funds from increased utility charges to sustaining an allowance program, establishing an office, advertising services, receiving and processing applicants. Unit: Number of cities	94	0.00	NA	NA	NA	NA	NA	NA	NA	1	15
IR 3.2.2	Demonstration that health care and municipal services can be made available on a cost effective basis.	1. # of independent primary care practices increased in demonstration sites	Definition: Increase in number of primary care practices actually staffed and providing services in demonstration oblast Unit: Number of primary care practices	1994	0.00	NA	NA	10		20		TBD		complete
		2. Percentage of population covered by primary care in demonstration sites	Definition: Ratio of population in FGP service areas to total population in demonstration area. Unit: Percentage	1994	0%	NA	NA	15%		25%		TBD		complete
IR 3.2.2.1	Increased efficiency and accountability of health system contributing to a market oriented economy	1. % health care providers being reimbursed by incentive-based method	Definition: Incentives based method = fee for service or capitation on case-based method. Unit: % of hospitals and outpatients care providers, public and private in demonstration sites.	1994	0.00	NA	NA	10		20%		complete		

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA										
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001
						Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
IR 3.2.2.1.1	Increased Consumer participation in market based human services delivery	Percent of people actively choosing their primary health care provider	Definition: People choosing their primary care provider Unit: % signed up of total population in demonstration sites	94	0%	NA	NA	10		20%		TBD	complete	
IR 3.2.2.1.2	Modern management techniques and clinical practices introduced	1. Increase in number of health providers using modern mgmt. techniques and clinical practices	Definition: 1) Health providers implementing new management information systems 2) Percent of health facilities using drug formularies All above are in demonstration oblasts. Unit: 1. Percent	1)1994	0%	NA	NA	10		20				
				2)1994	2)0%	NA	NA	20		20				
IR 3.2.2.2	Shift from public to private ownership and maintenance of housing.	2. Housing Cooperatives formed	Definition: As there is no condominium law in the CAR region, number of consumer cooperatives organized for housing will be tracked. Unit: Number consumer cooperatives	1994	0.00	NA	NA	NA	NA	NA	NA	5	25	150
IR 3.2.2.3.1	Cost recovery methods of charging for utilities introduced.	1. % increase in city revenue for water, gas, heat.	Definition: Dialogue on full cost pricing introduced Unit: Target city raises prices Target: Full cost pricing	1994	NA	NA	NA	NA	NA	NA	NA	NA	NA	first project
IR 3.2.3.	National legal and regulatory framework established for health and housing reforms.	Government policy endorsing new methodologies	Definition: Number of decrees, laws, or regulations requiring the use of techniques developed and tested on a pilot basis that are enacted nationally. Unit: Cumulative Number	1994	NA	NA	NA	NA	NA	NA	NA	1	2	

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA											
				YEAR	VALUE	FY 1996		FY 1997		FY 1998		FY 1999	FY 2000	FY 2001	
						Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	
IR 3.2.3.1	Policy based on informed discussion	Consistent dialogue with national policy makers and public on health reform.	Definition: Progress will be judged on how many points out of a possible 4 have been accomplished. The proxy issue to be monitored is reform and rationalization of the health system. Unit: See performance monitoring plan	1994	NA	NA	NA	TBD					2 of 4		
IR 3.2.3.2	Increased participation by other donors	Successful pilot projects rolled out by other donors	Definition: Other donors initiating and expanding AID roll out projects Unit: Number of projects interventions rolled out	1994	NA	NA	NA	1					1		
IR 3.2.3.3	Project products developed and disseminated	Number of interventions disseminated	Definition: Prepare products and disseminate to audiences of policy makers, health sector providers, and the public Unit: 1) Number of products developed (ie manuals and videos, etc) 2) How many units of products are delivered, and disseminated.	1994	0.00	NA	NA	NA	NA	NA	NA	video 2 Manua6	TBD		
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H. Results Framework Narrative

1. Transition Hypothesis and Underlying Rationale

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

In Uzbekistan USAID/CAR's efforts to develop and implement reform strategies in selected social sectors have been slowed by the lack of interest on part of the Government of Uzbekistan to implement reform. However, this situation has now changed and USAID/CAR has been invited by the Government to provide technical assistance in the health reform area. In the coming year, USAID/CAR plans to improve primary health care by consolidating tertiary health facilities which will free up resources for primary health care. Strategies and materials developed in other Central Asian countries will be made available for replication as appropriate. In addition, modern management techniques will be introduced, such as cost accounting, clinical information systems and computerized billing systems. Assistance will also be provided in the area of health insurance and development of a new payment system. A resident consultant will provide on the ground technical assistance (at least in the early phases) supported by short term technical assistance and training from the regional office.

2. Critical Assumptions

- *Politically stable government in place.*
- *Cooperation and support of the Government of Uzbekistan to adopt and implement reform programs in the social sphere.*

3. Causal Linkages

USAID/CAR is aware that progress in Uzbekistan regarding reform in the social sector has been slow. However, the Uzbekistan Government has expressed an interest in receiving technical assistance to help reform the health sector. USAID/CAR plans to pursue the same Mission strategic objective in Uzbekistan as it has in Kazakstan and Kyrgyzstan. The interventions will be modified to meet Uzbekistan needs. USAID/CAR strategic objective of developing and implementing reform oriented strategies can be achieved by closely coordinating with other donors and having them expand the USAID/CAR model to restructure the social sector,

especially health. To do this USAID/CAR will increase the efficiency and accountability of the health system by increasing the delivery of preventative services. The effectiveness of the health care system will be increased if modern management techniques and clinical practices are introduced and health care financing diversified to reduce the burden on the public sector which is unable to provide health services effectively.

In addition, USAID/CAR may assess the opportunities for undertaking work in the housing sector. No work will be initiated in this area without full consultations with Embassy and USAID staff in country.

SPECIAL ASSISTANCE AREA 4

SPECIAL INITIATIVES, EARMARKS AND CROSS-CUTTING PROGRAMS

Statement of Strategic Objective 4.1: Special Initiatives

USAID/CAR anticipates receiving for the next several years Congressionally mandated earmarks in reproductive health, infectious diseases, and medical partnerships. In the past we have tried to integrate these specific areas into Strategic Objective 3.2, “Improve the Sustainability of Social Benefits and Services” to support reform of the health sector. Given the narrow focus or specific interventions of these areas, they are now placed under the Strategic Objective 4.1, Special Initiatives. These activities while supportive are not critical to the overall mandate of Strategic Objective 3.2. These earmarks will continue to be shaped, to the extent possible,

to improve the sustainability of the social sector in general and to support the health reform agenda specifically.

Reproductive Health

Under the reproductive health earmark USAID will continue to focus on improving the availability of and access to modern contraceptives. To do this we plan to continue supporting the program for the social marketing of contraceptives. When USAID initiated its Reproductive Health Services Expansion Program in 1993 USAID was the only donor in country working on this issue with the exception of UNFPA, which supplied contraceptives. As other donors have become interested in this area it is now possible to focus specifically on the contraceptive social marketing which is consistent not only with USAID's social transition objectives but also with USAID's overall support of the transition to a market economy.

An external evaluation of the social marketing program was conducted to inform USAID's strategic approach in this area. Based on this evaluation USAID plans to focus on the following areas:

- Development of a contraceptive market of sufficient size to ensure continued market growth and sustained private industry interest in the market;*
- Improvements in distributor and pharmacy operational capabilities; and*
- Regulatory reform that will increase the availability of currency conversion for importation of pharmaceuticals generally and /or contraceptives specifically.*

Depending on the level of earmark funds, consideration will be given to supporting the Demographic and Health Survey in 2000. Again, depending on the magnitude and duration of earmark funds, USAID will use these funds to support the development of advocacy NGOs in women's health and in the general improvement of women's health status.

Medical Partnerships

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

Infectious Disease

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

Rule of Law in Uzbekistan

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

Therefore, USAID is funding assistance for the development of a bar association and a judicial association. These projects seek to improve the public trust in the judiciary as a fair place to resolve disputes and defend against criminal charges. USAID seeks to integrate these activities into SO 2.1, Increased, Better-Informed Citizens' Involvement in Political and Economic Decision Making, as much as possible. For example, the bar association will invite indigenous NGOs to its continuing legal education seminars.

UZBEKISTAN PERFORMANCE DATA SO 4.1: BASELINE, TARGETS, AND ACTUAL RESULTS 1998

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1995		FY 1996		FY1997		FY 1998		FY 1999	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 4.1															
Mission SO 4.1	Family Planning	1. Decrease in abortion rates	Definition: Induced abortions per 1000 women ages 15 -49 Unit: General Abortion rate	1994	12.1	NA	10.8	NA	10.6	10.4					
IR 4.1.1.		2. Increase in Couple Years of Protection (CYP)	Definition: Couple Years of Protection is the theoretical number of couples receiving contraceptive protection for a year. It is calculated using contraceptive specific denominators: 15 cycles of oral contraceptives equals one CYP; 100 condoms equals one CYP; 4 doses of Depo-Provera and six doses of Noresterat equals one CYP. Unit: Couple Years Protection	1994	0.00	11,500	4,400	20,700 -	235,960	tbd					
	Health Partnerships	3. Number of health providers trained in management and clinical practices	Definition: Number trained by AIHA. Unit: Number	1994	NA	NA	NA	NA	81	181	104	tbd			

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
						1995		FY 1996		FY1997		FY 1998		FY 1999	
				YEAR	VALUE	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
	Infectious Disease	4. Percent of oblasts using modern approaches to disease surveillance	Definition: Increase in the number of oblasts using computer-based applications for case specific diseases	1995	0%	NA	0%	25%	100%	complete					
		5. Decrease in vaccine preventable diseases	Definition: Improve and maintain the vaccine coverage for children under 2, using DPT as a proxy. Unit: Percent of children under 2 years old who have completed primary series for Diptheria, Pertussis, and Tetanus (DPT) A) MoH data B) corrected to world standards.	1994	88.6%	nA	88.6%	-	a)96.1% b) 94.4%	95%		ccomplete			
		May 7, 1997													

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Special Objective 4.2: Cross Cutting Initiatives

Eurasia Foundation

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

Participant Training

Under the cross-cutting programs of SO 4.2, the NIS Global Training program continues to provide important support for reform-minded Uzbeks to obtain specific training in a way that also exposes them first-hand to Western systems and methods. The training has proven to be especially effective in Uzbekistan because it offers important opportunities to strengthen ongoing technical assistance programs and allow Uzbek counterparts to directly observe the situation and experience of other countries. The importance of this program to the Government is demonstrated by its agreement to pay for international and local travel costs for participants. These programs will continue through 2006, though they will be reshaped over time to respond to the changing situation in Uzbekistan.

The NIS Exchanges and Training (NET) program provided U.S. short-term training for more than 350 counterparts during the 1994-1996 period. Over 500 training slots are anticipated for 1997 as a result of a new training initiative that also includes opportunities for third country and in-country training. Training participants have been instrumental in bringing about changes in tax policy and administration, national budgeting, pension reform, and health reform. This effort benefits Uzbeks at all levels by providing training for qualified public officials who are able to establish laws and regulations which are transparent and foster the growth of markets and democratic governance.