

PD-ABD-999
767:15

ACTION PLAN
for
U.S. Assistance to Central and Eastern Europe

Prepared by:

**The Bureau for Europe
Agency for International Development**

**and the
Office of the Coordinator for East Europe Assistance**

August, 1991

TABLE OF CONTENTS

	<u>page</u>
I. <u>INTRODUCTION</u>	1
II. <u>UNITED STATES POLICY AND PROGRAM OBJECTIVES</u>	3
III. <u>PROGRAM EMPHASES</u>	9
A. <u>Democratic Institutions</u>	9
1. Political Process and Governance	10
2. Democratic Pluralism	11
B. <u>Economic Restructuring</u>	11
1. Macroeconomic Support	12
2. Microeconomic Support	12
3. Investment and Trade	14
4. Agriculture and Agribusiness	15
5. Energy Efficiency	16
C. <u>Quality of Life</u>	17
1. Short-term Emergency Humanitarian Aid	17
2. Employment and the Social Safety Net	18
3. Housing	19
4. Health	19
5. Environment	20
IV. <u>OPERATIONAL GUIDELINES</u>	22
A. Regional Programming	23
B. Program Breadth vs. Focus	24
C. Staffing and the Mission in Washington	24
D. Program and Project Documentation and Approval	27
E. Procurement of Goods and Services	33
F. Program Monitoring, Evaluation, and Audit	35
G. Donor Coordination	36

I. INTRODUCTION

The revolutionary upheaval that swept Central and Eastern Europe in 1989 came faster than anyone could have predicted. It came in many forms, from the "velvet revolution" of Czechoslovakia to the bloodbath of Romania. Emboldened by the new willingness of the Soviet Union to let Eastern Europe determine its own destiny, the peoples of six countries - Poland, East Germany, Czechoslovakia, Hungary, Romania, and Bulgaria - rose up and declared that they had enough of communist repression and declining living standards.

But throwing off the yoke of communism was not the end of the their struggle. The problems that caused the collapse of communism were a long time in the making. Beneath the sheen of the Warsaw Pact's military might were four decades of economic and social decay. The rest of the world is only now beginning to understand how low were the levels of economic productivity and growth, how poor were the living standards of Eastern Europe.

Now comes a new set of challenges for the people and the newly elected governments of that region:

- to develop new political institutions and traditions that encourage participation, guarantee individual liberty, and govern fairly;
- to turn unproductive, state-run economies burdened by debt and inefficient technologies into productive, vibrant market economies led by the private sector;
- to reverse decades of declining living standards and environmental degradation.

These formidable challenges must be met, first and foremost, by the people of Eastern Europe themselves. But they need help. The role of international businesses will be crucial for years to come in transferring technology, managerial know-how, and capital into central and eastern European markets as they develop. And in the short term, development assistance from the West, including the United States, will also be key. We have been presented the opportunity to return to the home of the Marshall Plan and, once again, engage in the work of rebuilding European nations with whom many Americans have close cultural and ancestral ties.

The U.S. response to this opportunity has been nearly as spontaneous and diverse as the democratic revolutions themselves. In passing the Support for East European Democracy (SEED) Act in November 1989, Congress authorized 25 separate assistance actions in areas as varied as structural adjustment, trade and investment, education, and the environment. Although the SEED Act specifically designated only 12 USG agencies as implementing

entities, more than 20 government agencies have become involved in the program, and a great many NGOs and private businesses are participating in the assistance effort.

Congress appropriated \$285 million in FY 1990 for economic assistance to Central and Eastern Europe and another \$381 million for the program in FY 1991. The Administration has requested \$400 million in FY 1992. In addition, other U.S. agencies are delivering assistance using their own appropriated budgetary resources.

An initiative of this size and diversity requires special mechanisms for coordination and rapid response. In January of 1990, the President designated Deputy Secretary of State Lawrence Eagleburger as Coordinator of U.S. assistance to Eastern Europe and CEA Chairman Michael Boskin and Deputy Treasury Secretary John Robson as Deputy Coordinators. In June, 1991, A.I.D. Administrator Ronald Roskens was also named as a Deputy Coordinator. Ambassador Robert Barry is the Coordinator's Special Advisor for East European Assistance; Dr. Carol Adelman, A.I.D.'s Assistant Administrator for Europe, directs A.I.D. staff managing the assistance effort. A.I.D. and other participating USG agencies have made rapid progress in mounting a broad program of economic assistance without the time typically allowed for country and sectorial analysis or for project design.

This Action Plan presents a framework for U.S. assistance that is fully consistent with the USG priorities enunciated by the President, Secretary Baker and the Coordinator's Office. Parts II and III do this at the policy and sector levels, annexes A, B, and C at the project and contract level. This program framework will allow A.I.D. and other USG agencies to demonstrate at any time that their funding is programmed -- from contract to project to sector to broad program objective -- directly in the furtherance of USG policy priorities.

Part IV of this Action Plan presents A.I.D.'s response to the management challenges of developing, on extremely short notice, a new program of assistance to a singular region of the world. New approaches to program management, project development, and implementation have been tailored to the special needs of Central and Eastern Europe and are now being tested.

II. Strategy and Priorities for Assistance
to Central and Eastern Europe

FY 1991 - 92

It is the policy of the United States to facilitate the reintegration of the countries of Central and Eastern Europe into the community of democratic nations and to end the artificial division of Europe - to create a Europe that is whole, prosperous and free.

In furtherance of these objectives, the U.S. will support economic and political reform through the provision of assistance to governments and private individuals and entities in the region, and by the promotion of U.S. trade and investment.

Goals of U.S. Policy

As explained by the President, the U.S. is pursuing the following goals in Central and Eastern Europe:

Democratic pluralism, based on free and fair elections and an end to the monopoly of communist party power.

Economic reform, based on the emergence of a market-oriented economy with a substantial private sector.

Respect for internationally recognized human rights, including the right to emigrate and to speak, publish and travel freely.

A willingness to build a friendly relationship with the U.S.

Eligibility for U.S. Assistance

U.S. policy is that the countries of Central and Eastern Europe are eligible for U.S. assistance as they make progress towards these goals. A key criterion is "democratic differentiation", or a willingness to hold free and fair elections and to abide by their results.

Based on these criteria, Poland, Hungary, Czechoslovakia, Bulgaria, Romania, Yugoslavia and Albania are all eligible for some types of assistance under the Foreign Operations Appropriations Act. Poland, Hungary, Czechoslovakia, Romania and Bulgaria are eligible for the full range of U.S. assistance. Albania is eligible for assistance in support of democratization and limited support for economic reform, as well as humanitarian aid. Assistance to Yugoslavia will be monitored closely to determine the appropriate response to the political situation evolving in that country.

In terms of assistance to constituent republics within a given country, U.S. policy is to encourage the process of political and economic reform where ever it is taking place. Within a country, assistance should be provided to regions or republics depending on their progress on the relevant criteria cited above, but this assistance should be provided with the knowledge and acceptance of the central government.

As a basic objective of U.S. assistance is to create a market economy and a vital private sector, the primary emphasis should be on programs which encourage the growth of the private sector. In order to accomplish this, technical assistance will have to be provided to governments as well as private entities because only governments can create some of the institutional infrastructure necessary to create market-based economies. But we want to avoid a government-to-government focus in our assistance programs. The mechanisms we create should ensure that our private sector emphasis is not diluted by those who would like to use U.S. resources to support government projects which do not contribute to market-oriented reform and privatization.

Types of U.S. Assistance

Consistent with U.S. objectives, U.S. assistance falls into three general categories:

1. Support for democratic institutions and pluralism.

The purpose of this kind of assistance is to help create democratically based political parties, contribute to the holding of free and fair elections, develop constitutional systems and legal codes that protect individual rights, and generally to develop the institutional bases of a pluralistic society. We should assist in establishing the rule of law through assistance in the administration of justice. Support for independent media and objective standards of journalism is a key element.

As the democratic process advances, longer term programs become more important; e.g., training legislators, local government officials and public administrators; civic education and efforts to deal with ethnic and national issues; and educational reform.

2. Support for economic reform and the transition to market-based economies led by the private sector and integrated with a vigorous public sector.

It is U.S. policy to promote comprehensive macroeconomic and microeconomic reform, proceeding simultaneously and at as fast a pace as possible.

Macroeconomic reform is largely the responsibility of the international financial institutions, particularly the IMF and the World Bank. U.S. support for macroeconomic reform should not involve any additional conditionalities.

Promotion of microeconomic reform - privatization and the creation of the infrastructure of a market economy - is the primary target of U.S. technical assistance. Through the Enterprise Funds and the EBRD we seek to use official funds to promote and leverage investment in the private sector.

3. Support for improvements in the quality of life.

This third category of assistance is designed to ease the burden of economic transition on the peoples of Central and Eastern Europe, and to demonstrate that democracies and free market economies are able to provide a quality of life superior to that provided by communism.

Objectives to be pursued include:

creation of a social safety net, including efforts to deal with labor mobility, employment and social insurance.

creation of the basis for environmental improvement and remediation.

creation of a private housing sector, and improvement of the housing industry.

assistance in meeting emergency health care needs and the improvement of health care through private participation.

Current priorities

At present, we see three major problems facing the region as a whole which deserves priority attention.

--Political instability. The combination of economic decline and the emergence of virulent and persistent national tensions have seriously strained new democratic institutions in some countries. This points to the need for special efforts to strengthen democratic institutions and demonstrate progress on quality of life issues such as health care or the environment.

--Lag in microeconomic reform. Bold reforms on the macroeconomic, demand side have gotten ahead of reform on the microeconomic supply side. Privatizing state-owned economies and creating the institutional infrastructure of a private economy is inherently more difficult than changing macro level policy. But the lag creates problems since it means that the supply side responds too slowly to macro signals, given the fact that there

is no competitive environment. This indicates the need to provide a greater flow of technical assistance and resources directed at the private sector and the institutional support it requires - banking, telecommunications, commercial law, etc.

--The trade and investment gap. The collapse of trade with USSR and the GDR is dealing a blow to the economies of Central and Eastern Europe. They must urgently develop alternative markets and restore some of their previous trade with the USSR. Western countries should join with the countries of the region to identify and eliminate external and internal barriers to trade. Donor countries should also provide technical assistance designed to help with marketing efforts. Steps must also be taken to encourage the greater mobilization of domestic resources and greater flows of Western investment. In addition to funding vehicles such as the U.S. enterprise funds, we should work with the Central and Eastern Europeans to identify and remove barriers to external investment as well as the use of domestic resources. U.S. assistance to help the countries of Eastern Europe reform state pension, social security, and disability payment systems will contribute significantly to the mobilization of domestic resources for investment in outward looking productive ventures.

Providing Country Focus.

At the initial stage of program design, emphasis was placed on creating functionally oriented programs which met the priorities initially identified by recipient countries and were consistent with U.S. goals and objectives. At the same time the U.S. Government was discussing the elements of a U.S. assistance program with governments and private entities in recipient countries, and were determining what needs would be met by other donors.

The current stage of program development requires that projects be finalized for each country, and that certain priority programs be developed for each country which provide a specific focus for each. For example, the U.S. Government and the Bulgarians have agreed that agriculture should be a priority in U.S. assistance to Bulgaria; the U.S. and the Hungarians have focused on banking reform as an area where the U.S. should concentrate its effort. In each country we should identify, together with the host government, a few areas of functional focus where the U.S. is prepared to provide resources depending on the demand.

Each country program will also contain a number of programs which are not adjustable according to demand, but which are fixed and limited in scope from the outset. Some, such as management training, are set at the time of contracting with U.S. partners. Others, such as sector grants, provide a limited amount of resources when negotiated with the host country.

We should not try to replicate each of the programs in our inventory in each of the countries of the region. Some countries, such as Romania or Albania, will have only a few projects, consistent with their progress on the criteria for eligibility for U.S. assistance, as well as pressing needs. Others, such as Poland, will be eligible for the full range of assistance but may wish to concentrate resources on a few key programs such as privatization.

Funds will not be allocated on a country by country basis, in part because this does not allow flexibility as countries progress through various stages of reform, but we will attempt to fund programs proportional to the size of a country and its progress on the criteria for U.S. assistance.

Within each country we should look for opportunities to provide a local focus for our programs, for example by planning to mount several complementary assistance programs in one region of a country, as in Krakow, Poland.

Where possible, programs should also be designed which will promote regional solutions to economic problems. In particular, U.S. programs should provide an incentive for governments of the region to cooperate in resolving environmental and energy problems.

Where feasible, the U.S. should design programs which complement or provide parallel financing for projects undertaken by the European Community and international financial institutions such as the IFC, IBRD and EBRD.

In each of the countries receiving U.S. assistance, functional and regional focus is developed through a dialogue between our embassies and host government officials responsible for assistance coordination. As of the summer of 1991, each Embassy will also have a resident AID Representative to work specifically on assistance matters under the direction of the Ambassador and the DCM. These in-country development specialists should facilitate the economic cooperation dialogue.

We urge the host government to set priorities among programs sought by their own agencies. We also urge that they meet with donors to explain priorities and avoid duplication of efforts. We are prepared to provide short and long term resident advisors on assistance coordination.

It is U.S. policy to support rapid, comprehensive economic reform taking place simultaneously at the macro and micro levels. The transition period will be painful; therefore it should be as brief as possible. Western assistance is required early in the process. We should, therefore, favor programs which provide benefits in the first 3-5 years.

We must also avoid the creation of dependencies on foreign assistance, because this vitiates the transition to a market-based economy and undermines efforts to eliminate subsidies. Therefore U.S. assistance programs which involve support for institutions in Central and Eastern Europe must have a sunset clause, providing for self-financing or private sector support within 3 years of project inception startup.

The emphasis on the program is in supporting a rapid and comprehensive transition and developing quickly the institutions to support that transition, not in long-term direct U.S. involvement in institution building.

III. PROGRAM EMPHASES

A. DEMOCRATIC INSTITUTIONS

Democratic institutions form the foundation for enduring political freedom and encourage broad-based participation in civic and economic affairs. Central and Eastern Europeans look to the United States as a model for democracy, and have asked us for help in building and strengthening their own democratic institutions.

Congress appropriated \$14 million to A.I.D. for this purpose in FY 1990: \$4 million for Poland and Hungary under the SEED Act and a subsequent \$10 million under the Panama Supplemental for the region as a whole. The Administration has programmed over \$35 million for this objective in FY 1991 and plans a further \$28 million in FY 1992.

The great majority of the FY 1990 funds (over \$10 million) were channeled through the National Endowment for Democracy, which, in turn, has made subgrants to other U.S.-based NGOs for a wide variety of activities to strengthen Eastern European democracy. These activities have included electoral reform and election monitoring, technical assistance in the establishment of viable political parties, technical assistance in revising statutes, support for independent press and broadcast media, civic education, and strengthening of independent trade unions.

FY 1990 funding also supported a grant to the State University of New York at Albany for parliamentary training in Hungary, a grant to establish a Citizens Democracy Corps (which will match the resources of U.S. PVOs, individuals, and businesses with needs in Eastern Europe), a transfer of \$350,000 to USIA for the training of journalists, and \$1 million for independent print and broadcast media.

While it was extremely useful to be able to program most of the funding in this area quickly through a single grantee (the NED) in the first year of the program, funding in FY 1991 and the out years will be channeled through a larger number of grantees and contractors.

During the first year of program implementation, the U.S. was able to assist Poland, Czechoslovakia, Hungary, Romania, Bulgaria, and Yugoslavia in their first rounds of democratic elections, at the national or regional level or at both. But while the region has made such significant steps toward instituting democratic practices, the need for U.S. assistance in this area will not diminish during FY 1991 and 1992. Political instability in some countries of the region is becoming more serious. The problems of economic transition have been

compounded by the Gulf War and the collapse of trade within COMECON (especially with the Soviet Union), and the virulence of national and ethnic issues has been greater, and more lasting, than the United States had hoped.

This type of assistance will be tailored to the political structures and traditions of the countries of Eastern Europe, which vary considerably. The U.S. will pay particular attention to countries where democracy is least developed or where ethnic and national problems are most serious - i.e., Romania, Yugoslavia, and Albania. In countries where the political party system is already well developed, U.S. emphasis will shift to the development of local government, civic education, and similar projects designed to support democracy on the local level.

Based on the experience of the first year of implementation, A.I.D. and the Coordinators have identified the following areas of program emphasis, and A.I.D. has begun to solicit proposals to implement programs in most of the areas.

1. Political Process and Governance

The U.S. will assist electoral systems, local governments, new legislatures, political parties, and civic organizations to become effective, stable, democratic institutions. Areas of emphasis will include:

- elections: electoral reform, the monitoring and administration of elections, and the establishment of electoral mechanisms (e.g., electoral commissions, election laws, vote counting procedures);
- citizens' networks: technical assistance and training for political parties, independent labor unions, and non-partisan NGOs fostering political participation.
- local government and public administration: technical assistance and training to improve the administration of local government and assistance to local elective bodies;
- national legislatures: training for new legislators, assistance in staffing and equipping legislatures, technical assistance in establishing legislative information systems;
- rule of law: assistance in establishing laws and procedures based on majority rule and the protection of the personal, political, and commercial rights of individuals and minority groups; administering independent judiciaries; and establishing and administering independent regulatory institutions.

2. Democratic Pluralism

Lasting democracy must be founded on a commitment to democratic values among the citizenry and the free sharing of ideas. The U.S. will help the emerging democracies of Central and Eastern Europe build a popular understanding and commitment to democratic processes, to civil liberties, and to societies in which social or cultural differences and problems are handled within the bounds of civility and the rule of law. U.S. assistance will support:

- educational reform, including curricular reform, the introduction of democratic student activities, and teacher training;
- activities dealing with the resolution of ethnic and other minority conflicts;
- support for public civic education on the nature of the democratic process, including the rights, responsibilities, and limitations of individuals and organizations; and
- the provision of important books relating to the principles and philosophical bases of democracy.
- independent print and broadcast media, which, as channels for dissent and for the public discussion of alternative viewpoints, serve as a checks on the power of government. The U.S. will provide technical assistance, training, commodities, and (in selected cases) budgetary support for startup costs for independent newspapers, magazines, radio stations, and television stations.

B. ECONOMIC RESTRUCTURING

Congress appropriated over \$250 million to A.I.D in FY 1990 to help Central and Eastern Europeans begin the huge task of restructuring their unproductive and undercapitalized economies. The great majority of these funds (\$200 million) went into a currency stabilization fund for Poland, and most of the rest was used to start up investment ("enterprise") funds for Poland and Hungary. Other activities began in the areas of privatization of state-owned enterprises, technical training and scholarship programs, training and other assistance for farmers, and increased efficiency of energy use. (A detailed budget for FY 90 appears in Part V below.)

In FY 1991 and the out years, the lion's share of U.S. assistance for Eastern Europe will continue to support the objective of economic restructuring to market-based economies led by the private sector. Particular emphasis will be placed on microeconomic reform at the firm, industry, and institutional

level. A.I.D. funds will be programmed in seven areas of emphasis.

1. Macroeconomic Support

At the policy level, macroeconomic reform is largely the responsibility of the IMF and the international financial institutions. U.S. support for these macroeconomic policies will not involve any separate conditionality. Nor will the U.S. be able to provide further major resources to support macro-level stabilization or currency convertibility, as we did with Poland in FY 1990; here we must look to the IMF, IBRD, and other G-24 donors.

In FY 90, the U.S. contributed \$200 million to a \$1 billion G-24 currency stabilization fund to support the convertibility of the Polish zloty. This \$200 million will revert to the Polish Government to be used for purposes agreed to by the U.S. when the Stabilization Fund is no longer required. Current plans for balance of payments support in FY 1991 and 1992 focus at the sectorial level, where A.I.D. grants, developed in conjunction with World Bank sector loans, will support reform of policies and institutions in key economic sectors. Sector grants are currently being developed for Czechoslovakia, Hungary, and Bulgaria.

2. Support for Microeconomic Reform

A large portion of A.I.D.'s assistance for economic restructuring will be targeted at the privatization process which is essential to the success of overall macroeconomic reform. Assistance to individual enterprises, helping existing businesses to restructure and privatize or to improve efficiency and adapt to the new market environment will be key endeavors in the economic restructuring effort. Such assistance will not be limited to the more familiar state-owned enterprises in the industrial and agricultural sectors, but will include assistance to the privatization of service sectors, such as banking, housing and health.

a. Privatization and Enterprise Restructuring. The bulk of Eastern Europe's productive capacity is in the hands of state-owned enterprises (SOEs). Large scale privatization of these SOEs is essential to the success of economic reform. The U.S. has excellent capability to provide assistance to this end, and the governments of several Eastern European countries have asked for it. A.I.D. will provide assistance to these governments in establishing a policy, legal, and institutional framework governing the process of privatization and assistance to state owned-enterprises preparing to restructure and privatize or liquidate.

b. Business Services. The U.S. will provide limited technical assistance to businesses, both private enterprises and SOEs in the process of privatizing, on a cost-sharing basis. Emphasis will be on helping firms address managerial and technical deficiencies and adjust to the market mechanism. We will also emphasize small business development, including small grants to indigenous small business support organizations, technical assistance for small businesses, support for firms that generate data and information needed by small businesses, support for small business investment corporations, and support for entrepreneurial incubators.

c. Competition Policies, Laws, and Regulations. The improvement of key public sector functions in Central and Eastern Europe is critical to the success of private businesses and the growth of economies. A.I.D. will provide technical assistance and training to help Eastern Europeans develop the policies, laws, regulations, and institutions conducive to private sector competition and growth. In the near term, particular emphasis will be on tax reform, establishing the legal and procedural bases for private property and private participation in all sectors, and revamping the legal and regulatory structures facing business. Key USG agencies involved in implementing these programs will be the Federal Trade Commission, the Justice Department, the Securities and Exchange Commission, and the IRS. In addition, technical assistance to the telecommunications sector will focus on development of policies and regulations to enable the creation of modern, competitive telecommunications systems and to encourage the participation of U.S. businesses in this effort. Similarly, technical assistance and training will be provided to encourage the public and private sectors to establish collaborative partnerships in the provision of social services such as health and housing.

d. Financial Services Sector. It is critical that the countries of Central and Eastern Europe develop the financial services sector upon which private businesses can rely. An efficient banking industry must mobilize savings and provide the private sector with credit and a range of business services. Capital markets (stock exchanges, bond markets, investment banking, venture capital firms) and other mechanisms for generating investment capital such as pension systems and prepaid insurance programs must be created and must operate openly and freely to supply the critical domestic capital for new investments as well as restructured and privatized SOEs. A financially viable insurance industry must serve the need of private investors to mitigate risk at reasonable cost.

To promote development of these financial service industries, A.I.D. will finance technical assistance and training for both governments and the private financial service industries themselves as well as related industries, such as life and health

insurance. FY 91 activities will focus on the banking industry and financial markets. They will be designed in collaboration with the Department of the Treasury, the Federal Reserve, and the SEC. They will complement efforts of the World Bank and the IMF. Some A.I.D.-financed activities (e.g., training for banks and the financial sector and short-term technical assistance to government policy makers) will be implemented by Treasury. In FY 1992, A.I.D. assistance may be expanded to cover other financial service industries critical to a competitive business environment and to the generation of investment capital through the development of health insurance and similar prepaid health programs such as health maintenance organizations (HMOs).

e. Management Training and Economics Education.

In addition to the technical training that will comprise an important element in almost all its projects in Eastern Europe, A.I.D. and USIA will implement a few broader education programs aimed at key human resource constraints that limit the ability of Eastern Europeans to restructure their economies and develop businesses. The two major areas of programmatic emphasis will be:

- developing basic business skills (accounting, planning, marketing, finance, and production management) that are so sorely lacking in both the large state enterprises to be restructured and/or privatized and in private firms and
- developing a better understanding of market economics among teachers, government officials, and mass media audiences.

3. Investment and Trade

The engine that drives the growth of Central and Eastern European economies must be, from now on, the private sector. New investments, from both domestic and international sources, and expanded trade opportunities must generate this growth. Eastern Europe's economies are undercapitalized, however, and the region's international trade has shrunk with the disappearance of guaranteed markets within COMECON. In addition to the activities to mobilize domestic resources described under the section on "Privatization", a large share of A.I.D. funding in FY 90 and the out years will address the investment and trade constraints to economic growth.

a. Enterprise Funds. In FY 1990 the U.S. provided over \$39 million to the Polish-American and Hungarian-American Enterprise Funds, private organizations that make loans, grants, and equity investments in private businesses in Poland and Hungary. These funds are up and running, providing risk capital that leverages considerable outside capital for new investments. USG financing for these two funds increased to \$90 million in FY

1991, and similar Enterprise Fund are being established for Czechoslovakia and Bulgaria in FY 1991. Fully capitalizing these Funds will be a top priority for U.S. assistance in FYs 1992 and 1993. Based on the track record of these Funds, the needs of other countries in the region, and the availability of funding, the U.S. will consider establishing and funding Enterprise Funds for other Central and Eastern European countries.

b. Improved U.S. Trade and Investment Opportunities.

American firms have much to offer central and eastern Europe through the transfer of U.S. technology and the flow of U.S. capital to the region. Furthermore, it is U.S. policy to promote opportunities for American firms to do business in central and eastern Europe. Several USG agencies will promote these objectives with A.I.D. funding through a variety of business-promotion initiatives focused on five sectors key to economic growth of the region: energy, environment, housing, telecommunications, and agriculture.

- The Commerce Department will implement activities to facilitate entry into European markets by providing, at market cost, information and business services to American firms and consortia of firms.
- The Trade and Development Program will finance feasibility studies by U.S. firms of large infrastructure or industrial projects where the resulting projects will provide significant export and other business opportunities for the United States.
- The Overseas Private Investment Corporation (OPIC) will establish an equity program for Eastern Europe, which will improve OPIC's capacity to respond to financing requirements of U.S. businesses and cooperatives in the region.
- A.I.D. will undertake a Capital Development Initiative to provide technical assistance to help identify, analyze, and market specific infrastructure projects in central and eastern Europe that may lead to significant business opportunities for U.S. businesses, either as contractors or as investors.

4. Agriculture and Agribusiness

Large areas of Central and Eastern Europe are dependent on agriculture as their major source of employment and economic production, and increased production in the sector is crucial to improving the external trade balance of several of the countries of the region. Increasing the efficiency of agricultural production and marketing and of agribusiness is clearly a key to

the economic recovery of Central and Eastern Europe, and it can only be done by replacing inefficient state control of the sector with free markets.

Priorities for U.S. assistance to restructure Eastern European agriculture and agribusiness are:

- the development and strengthening of member-managed private agricultural cooperatives.
- technical assistance and training to develop government institutions necessary to facilitate competitive private agricultural markets;

5. Energy Efficiency

Long dependent on highly subsidized Soviet oil and gas imports, the countries of Central and Eastern Europe are burdened with energy-inefficient power plants and industries. As the countries move to market economies and the Soviets demand hard currency and world market prices, the bills for imported fuel are becoming intolerable burdens on their budgets and foreign exchange reserves. Improving the efficiency of energy use, therefore, will be an important element in achieving viable economies and reducing environmental pollution.

A.I.D., the Department of Energy, E.P.A., and other agencies are working closely together to design and implement programs to address this problem, emphasizing regional cooperation in the energy sector and cooperation with international energy organizations and multilateral financing institutions.

The U.S. strategy calls for short-term, immediate-impact measures to:

- reduce waste through energy price reforms, technical efficiency measures in industrial and power plants, and debottlenecking of refineries and
- improve purchasing of oil on the world spot and futures markets.

In the longer term, U.S. funding will:

- help Central and Eastern Europeans develop a rational regional energy supply infrastructure integrated with Western Europe;
- help Central and Eastern Europeans analyze and institute policies to promote privatization and private investment in energy-efficient technologies and joint ventures, reduce

pollution from energy facilities, improve the safety of nuclear power plants, and achieve world energy prices; and

- support U.S. commercial interests in energy trade and investment.

The U.S. Department of Energy is also continuing efforts, begun in FY 1990, to test and commercialize clean coal and other energy efficiency technologies to reduce the severe air pollution in the Krakow region of Poland.

C. QUALITY OF LIFE

Since the 1960s, the quality of life in the communist countries of Central and Eastern Europe has declined. Death rates are rising, life expectancy is falling, and far too many children are dying needlessly. The housing supply is woefully inadequate in some countries, and extreme environmental degradation pervades the region. Furthermore, economic restructuring is sure to raise unemployment and cause real incomes for some groups to fall as wages and prices realign. While we cannot expect limited U.S. assistance funds to have a major impact on these problems, we can focus on a few key areas where success would demonstrate that solutions can be found in democratic, market-oriented systems. This will enhance the ability of reform leaders to sustain public support for the difficult process of political and economic liberalization. It will also demonstrate the importance of moving to a market system in the areas of employment, health, housing and dealing with the environment. These are not just social problems, they are also economic issues and dealing with them in this context will help to create sustainable solutions that contribute to the goal of a stable and prosperous Europe.

A.I.D. programmed over \$21 million of its FY 1990 appropriation for central and eastern Europe for activities to maintain or improve the quality of lives. Over half of this amount was for short-term emergency and humanitarian aid (e.g., emergency medical supplies). (These figures do not include food aid, which is not an A.I.D. appropriation, or funds obligated by A.I.D.'s Office of Foreign Disaster Assistance.) Other FY 1990 activities included a Department of Labor effort to develop unemployment insurance programs, health care for Romanian children, programs to combat environmental pollution, and preliminary studies in housing and health. (See budget in Section V.)

Funding for programs to improve the quality of life are budgeted at about \$70 million in FY 1991 and should remain at about or slightly below that level in FY 1992. In FY 1991 and beyond, A.I.D. will continue or develop programs in five areas:

1. Short-Term Emergency and Humanitarian Aid

It is difficult to predict where emergency assistance will be needed. Some programs, like the successful influenza vaccination targeted at children and other vulnerable populations in the winter of 1990-91, may well be repeated in future years. Other emergencies are impossible to forecast. Medical emergencies like influenza or pneumonia epidemics, natural disasters, targeted health and nutrition programs, and the like may be eligible. A.I.D. will program a significant portion of these funds through private voluntary organizations.

A.I.D. has also initiated a program of PVO humanitarian and development assistance in FY 1991, which both provides direct assistance and strengthens the capabilities of Central and Eastern European NGOs to deliver social services in response to community needs. This indigenous response capacity will be particularly important during the period of social dislocation and economic hardship that is sure to accompany economic restructuring throughout the region.

A.I.D. will also continue funding in FY 1991 and implementation through 1992 of the humanitarian assistance for Romanian children, begun in FY 1990. This initiative provides health and welfare services to sick, orphaned, and disabled children and provides physical, psychological, and social rehabilitation services to institutionalized infants, children, and adolescents.

2. Social Safety Net

Restructuring and stabilization programs in Central and Eastern Europe are causing large shifts in labor forces, incomes, prices, and state-provided social supports. At the household level, unemployment and reductions in real incomes are occurring. What is not known is how households are coping with these changes economically and socially and how these changes are affecting the populations' willingness to persevere through the transition to a more open and economically liberal society.

For political, economic and humanitarian reasons, Central and Eastern European governments are eager to mitigate the negative impacts of unemployment and reduced incomes in their countries, both during the immediate transition period and for the long run. Their success in this area depends on the soundness of the new employment and welfare policies and programs they adopt and the capabilities they develop to implement them.

With A.I.D. funding in FY 1990, the Department of Labor (DOL) began a program of assistance to develop job counseling and retraining centers and unemployment insurance in Poland. In FY 1991, a skills retraining program is beginning in Hungary. These and related labor market activities are aimed at increasing labor mobility and improving its productivity, thereby facilitating privatization. DOL can extend similar labor market assistance to

other Central and Eastern European countries in FY 1991 and the out years.

Apart from the labor market aspects of a social safety net program, A.I.D. is cooperating with other USG agencies to identify the need for social welfare reform as a result of the economic transition in Central and Eastern Europe. Through a proposed interagency agreement with the Bureau of the Census, A.I.D. will establish a relationship with the central statistical organizations of four countries in the region, have access to the original data tapes of their household surveys, and influence the design of future surveys. The objective of this agreement will be to identify the population characteristics of gainers and losers in the economic transitions of Central and Eastern European countries so as to design a regional program of social welfare/safety net reform in 1992.

3. Housing

Increasing the availability of housing and privatizing Eastern Europe's existing stock of state-owned housing will fulfill a basic human need, give individuals a tangible stake in the reform process, free up scarce public resources now subsidizing housing, stimulate private sector construction, and complement other assistance activities in public administration and development of financial institutions. Based on the results of studies undertaken in 1990, A.I.D. will support:

- decentralization of housing responsibilities to the municipal level,
- privatization of existing public housing,
- increased production of affordable housing by private developers and builders, and
- development of viable systems for construction and mortgage financing.

4. Health

Central and Eastern European health standards have been deteriorating for thirty years. Life expectancies are declining, crude death rates are on the rise, and a high percentage of the labor force is chronically ill. Emergency health care systems are so rudimentary that the leading cause of death for Eastern European children is accidents, poisoning, and violence.

While A.I.D. does not have the resources to help Eastern Europeans comprehensively address all of their health problems, we will develop selected interventions where the U.S. can bring particular expertise through hospital-to-hospital partnerships to bear in key problem areas, including:

- cardiovascular and cerebrovascular diseases,
- pediatric trauma and emergency medical services, and
- the medical implications of environmental degradation.

Equally important, A.I.D. will help Central and Eastern Europeans develop new health care financing systems and expand the role of the private sector in the provision of health services. This assistance will not only improve the quality of health care available to Central and Eastern Europeans, but contribute to efforts to mobilize domestic resources for investment and further the privatization aim of the governments of Central and Eastern Europe.

We have started this effort with emergency campaigns to provide critically needed medicines such as influenza and hepatitis vaccine. Our project to link U.S. hospitals with selected East European ones will be the second phase and health financing will follow shortly.

5. Environment

The severe degree of environmental degradation in Central and Eastern Europe requires that governments, businesses, and community groups there develop indigenous capacities for both near-term mitigation of critical environmental problems and long-term remediation and prevention through institution building and economic and legal reform. U.S. assistance will help Eastern Europeans to:

- reduce ambient pollution concentrations in key regions;
- restructure the economic and political framework to ensure that future economic growth is environmentally sound;
- incorporate environmental values in government and industry decision making;
- mobilize private initiatives for environmental improvements;
- develop the skills and institutional structure needed to ensure sound environmental management; and
- encourage regional cooperation to solve common environmental problems.

a. Private sector initiatives on the environment will include:

- technical assistance, training, and internships with U.S. companies to help East European industries reduce air and water pollution;
- private sector investment and trade opportunities in industrial environment and energy management;
- technical assistance and training to build the capacity of indigenous nongovernmental organizations to identify and apply solutions to environmental and conservation problems common to Central and Eastern Europe; and

- financial mechanisms to mobilize resources for environmental services.

b. Improved public environmental services will be implemented largely by the E.P.A., which has been assisting central and eastern Europe with environmental programs since FY 1990. Major initiatives will include:

- the Regional Environment Center in Budapest;
- the Krakow air and water quality programs; and
- T.A., training, and commodities for ministries of environment and other government institutions responsible for environmental policy, standards, regulations, monitoring, risk assessment, environmental health, pesticide management, etc.

IV. OPERATING GUIDELINES

Managing the new program of assistance for Central and Eastern Europe is a unique challenge in several respects:

- The program is a top priority of the President's and its success or failure will effect the security interests of the United States.
- The program has received an uncommon amount of attention from the Congress and the general public, and we can expect a high level of scrutiny during implementation.
- The large number of U.S. Government agencies involved in the program requires an unusual amount of interagency coordination.
- A.I.D.'s extensive experience in the third world is not sufficient. Some of the problems we face in Central and Eastern Europe are new, and we will have to develop new responses.
- As events unfold rapidly in Eastern Europe, A.I.D. must be able to respond more rapidly than usual with effective assistance programs.
- The newness of A.I.D.'s involvement in Central and Eastern Europe and the uncertain course of that region's development mean that budget planning levels for future years are especially difficult to predict.

Given these constraints, A.I.D. and the USG will have to tailor normal operating guidelines somewhat to fit the special circumstances we face in Central and Eastern Europe. In some areas, this has been accomplished. The Deputy Secretary of State was appointed by the President to be the Coordinator for Eastern European Assistance in January, 1990 to facilitate interagency cooperation. Similarly, after extensive consultations between Congress and State and A.I.D., the appropriation legislation for FY 1991 is much simpler than the SEED Act and has almost no earmarks, allowing us to allocate funds flexibly as new needs and opportunities become apparent.

Other special procedures are under development, and several are proposed in this section of this Action Plan. They are in the areas of regional programming, staffing, program and project documentation and approval, and procurement of goods and services.

A. REGIONAL PROGRAMMING

Rather than obligate funds bilaterally to recipient country governments, A.I.D.'s Bureau for Europe authorizes regional assistance projects and obligates funds into grants and contracts under these regional projects. In most cases the grants and contracts cover activities in more than one European country. This approach was adopted in FY 1990 for five reasons:

- 1. Given the fluid political situation in Eastern Europe, it was important to develop projects independently of each country's eligibility for assistance. We needed to be able to respond quickly to changing political circumstances. With regional projects up and running, any country in the region can access the goods and services provided by any project as soon as that country becomes eligible for assistance.
- 2. Similarly, the regional approach allowed us to avoid allocating assistance levels among the countries of the region. Without preset operational year budgets (OYBs), we could steer more or less assistance toward each recipient country during the course of each fiscal year, depending on how each country did in meeting the eligibility criteria outlined in Part II above (particularly in facilitating growth of the private sector - a key to economic reform) and on how effectively each country was utilizing our assistance.
- 3. We had to get started too quickly to establish country priorities in the normal way. The urgency of helping with elections and election campaigns, with emergency humanitarian assistance, with privatization activities which needed to be started immediately precluded long country analyses and studies. Our approach is to learn by doing and to let the country focus develop with experience.
- 4. The regional approach allows us to keep the design and contracting actions to a manageable number. By designing regional projects, we are able to have one privatization project, for example, instead of 6 or 7. Similarly, regional contracts can cover much more territory and can be centrally managed with far fewer contract officers.
- 5. Country programming can result in focusing assistance to the public sector rather than the private sector; the regional approach allows us to deal directly with the private sector and to freely use private sector intermediaries.

These five reasons are still valid. But there may come a time, probably within the next two years, when the first and third reasons will no longer apply. The situations in Bulgaria, Yugoslavia, and Albania, and perhaps those of the Baltic and even

the Soviet Union, will clarify, and we will know which countries of Central and Eastern Europe are eligible for assistance and to what extent.

B. PROGRAM BREADTH VS. FOCUS

The program described in Section III of this Action Plan is clearly very broad. In FY 1990 the Coordinators made the decision to offer a wide array of assistance to those countries of Central and Eastern Europe that were eligible for full participation in the program. That decision was based largely on the realization that we could not (and the recipient countries themselves did not) identify with confidence a small number of priorities for each country in the region. In that sense, the program is **demand driven**. That is to say, after designing each regional project, we will test its relevance and effectiveness in each participating country as well as each country's absorptive capacity during the course of implementation. In certain key areas, the amount of assistance delivered will depend on the absorptive capacity of the country and that country's preference for U.S. programs as compared to those of other donors such as the E.C.

It is likely that a few of the thirty-six projects active in FY 1991 will be underutilized and aborted after a year or two of implementation, either because they are not meeting real needs or because another donor or the host country itself is meeting the needs without U.S. assistance. It is likely we will discover that many of this first generation of projects will be heavily utilized in just a few of the countries of the region. In any case, the program will become increasingly focused over the next two years, first by winnowing out the regional projects for which there is little demand, and also by developing a clear and manageable set of priorities (perhaps four or five) for each country, where we now have twelve areas of emphasis for the region as a whole.

C. STAFFING AND THE MISSION IN WASHINGTON

A.I.D. will manage its assistance to Central and Eastern Europe from a Bureau for Europe and a Mission in Washington. Rather than establish a fully delegated field mission in each cooperating country in the region, the Bureau for Europe will establish a regional mission, located in Washington, with the same delegations of authority to approve and implement projects as any overseas field mission. AID Representatives with limited staff will be resident in each participating European country with a significant program to implement in order to coordinate-in-country affairs. The decision to establish one regional mission in Washington was made for several reasons:

- The regional nature of the program, and the fact that country-specific OYBs have not been established, requires that the program be managed centrally.
- Given the extreme limitations of A.I.D.'s budget for operating expenses, the Eastern Europe assistance program must be leanly staffed. There are efficiencies of staffing that can be realized by a regional approach. For example one housing officer can cover several countries with housing programs.
- The agency's lean OE budget also argues for locating the regional mission in Washington, rather than in some central location in Europe. It is cheaper to send officers on regular TDY travel to Europe than to station them there permanently.
- It is the Administration's expectation that U.S. assistance to central and eastern Europe will be a short-term program - perhaps three-to-six years. It would, therefore, not be cost effective to undertake the fixed costs (purchase or substantial alteration of buildings, installation of computer systems, etc.) of a full field presence for a short time. Furthermore, establishing a full field presence might send a misleading signal to host country governments that A.I.D. is there to stay.

1. Program Direction

The Assistant Administrator of the Bureau for Europe, assisted by the Deputy Assistant Administrator, will be responsible for overall program direction. The Bureau staff will be primarily concerned with coordination within A.I.D., relations with the Congress and with other agencies of the U.S. Government, and the interpretation of Administration policy. A Director and Deputy Director of the Mission in Washington will oversee the internal management of the program.

2. Bureau Staff vs. Regional Mission Role

In general, the Bureau for Europe will perform Washington-based support and liaison functions traditionally done by A.I.D. regional bureaus. These include overall program direction, as described above, relations with Congress, other U.S. Government agencies, the public, and other donors, and program evaluation and portfolio monitoring. The Regional Mission for Europe is, unlike conventional A.I.D. field missions, located in Washington continuously with the Bureau. Despite its location, its role parallels that of a traditional field mission: direct responsibility for program design, oversight, management and implementation, and relations with client countries. There are exceptions to this general split of responsibilities, stemming

largely from the fact that field missions and bureaus often have similarly structured staffs: if the mission is adjacent to the bureau such similarities can become redundancies, especially in a time of ceiling constraints. For example, because the Bureau has a very capable pool of technical expertise in its Office of Development Resources, we have not duplicated these capabilities in the Mission. Instead, many of the project managers usually found in Missions are in the Bureau's DR. Similarly, a large financial management unit was designed for and installed in the Mission. The Mission's controller requirements are more operational and immediate than those of the Bureau, and so the Bureau FM unit was eliminated, and the Mission's serves the bureau as well.

3. Project Development

The Europe program does have two project development units, because there are two separate functions which should not be integrated. They are project design and implementation, Mission functions, and project review, approval, and oversight, Bureau functions. They cannot be integrated because designers and implementers are and must be advocates, and thus cannot be objective reviewers. In sum, the Bureau has a PD unit within the Office of Program Development and Planning, whose functions are to review proposals from the Mission and to serve as advisor to the AA and DAA on project and program soundness, all standard functions for regional bureau PD shops. The Regional Mission likewise has an Office of Project Development, whose responsibilities are to work with project managers to design and implement projects and programs, and thus to help make them successful. These are likewise standard mission PD functions.

4. Project Management

Program Managers, or senior project officers, will manage the Mission's portfolio of regional projects, assisted by additional project officers and office support staff. Program Managers responsible for most of the program emphases of economic restructuring (described in Section III.B above) will be assigned to an Office of Economic Restructuring. Those responsible for the more technically-focused emphases such as democratic institutions, agriculture, energy, environment, etc., will work from the Office of Development Resources. As each Program Manager has responsibility for a sector of activity, he/she may have several projects under his authority.

Since the program will be managed from Washington, Program Manager and their staffs will travel regularly to Central and Eastern Europe (at least 25% of their time) to oversee implementation of their projects. This need for frequent travel underscores the importance of assigning an adequate number of

project officers to each office with line management responsibility.

5. Program and Country Coordination

An Office of European Country Affairs will consist of a Director, general Program Officers, and country Desk Officers. The Program Officers will prepare program documentation and program budgets, manage program-level evaluation, coordinate preparation of briefing materials and Congressional testimony, track the status of obligations, and monitor and liaise with other donor and lending agencies.

The country desk officers will coordinate and integrate activities of other offices to ensure a coherent and defensible program in their countries of responsibility. They will be the primary Washington points of contact for AID Representatives in the field. They will also serve a liaison role with senior bureau management, other USG agencies, Congress, and the public on all aspects of A.I.D. programs in their countries. In the event that A.I.D. begins programs of assistance in the Baltic states or the Soviet Union, two more Desk Officer Positions will be filled.

6. Field Representatives

Since the great majority of assistance will be programmed through regional projects managed in AID/W, field reps will be concerned mainly with facilitating implementation of contract activities in their assigned countries, representing A.I.D. in their respective country teams, reporting on implementation progress and problems to AID/W, and managing the logistics of AID/W visits to the field. A.I.D. Representatives have been assigned to Poland, Hungary, Czechoslovakia, Romania, and Bulgaria, and Yugoslavia. A position for Albania will be filled as soon as possible. Additional USDH staff are being assigned to the office of each AID Rep as the program in each country grows and issues of vulnerability and accountability warrant an increased in-country A.I.D. presence. FSN staff will be hired to assist each field representative as needed.

A.I.D. has also decided to establish a Regional Inspector General's office in Vienna to service the assistance program in Central and Eastern Europe.

D. PROGRAM AND PROJECT DOCUMENTATION AND APPROVAL

Assistance programs and projects must be carefully documented. And careful attention to the design of documentation and approval processes appropriate to the objectives and resources of an organization can contribute mightily to the organization's

success in fulfilling its mission. It is particularly important that A.I.D. develop procedures that allow for rapid development of projects and flexibility in allocating funding in response to changing opportunities. This section proposes such procedures for the approval of program directions and project activities. Noteworthy features include:

- preparation of an annual Action Plan and
- replacement of A.I.D.'s standard, four-stage project design process (concept paper - PID - Project Paper - Project Authorization) with two brief documents -- a Project Decision Paper and a Project Memorandum.

1. Program Approval

a. Document: Action Plan

An annual Action Plan will affirm or update approved U.S. Government strategy for Eastern Europe, identify areas of program emphasis for funding during the upcoming year, and present a work plan to A.I.D.'s Bureau for Europe.

b. Rationale:

The Action Plan must set a strategic focus for the program that limits the commitments that all actors in the interagency process will make for appropriated assistance funds. Such focus is important for two reasons. First, a diffuse program is very difficult to manage; constantly creating new projects and contracts to react to scattered new opportunities diverts management attention from the achievement of clear priorities. Secondly, the USG has learned over the years that the impact of a development program can only be measured if resources are concentrated to the point that they really make a difference. In a couple of years, agency management and Congress will press us for evidence of impact, and merely having spent the appropriated funds will be insufficient.

At the same time, the Action Plan must allow sufficient operating flexibility so as not to prevent us from responding on short notice to opportunities that are clearly consistent with our agreed priorities. Therefore, the approved Action Plan will identify areas of program priority but will leave it to the Bureau for Europe to subsequently determine what contracts and grants will best achieve our agreed purposes.

c. Contents:

- Affirmation or revision of regional strategy and program directions

- Identification of program emphases for the upcoming budget year to the project (authorization) level
- An operational year budget to the project level
- A work plan laying out a schedule of major program actions for the upcoming fiscal year.

Attached to the Action Plan will be a set of Sector Action Plans, each setting forth in 2 to 4 pages A.I.D.'s plans for one of the areas of programmatic emphasis identified in the Action Plan itself. Sector Action Plans will be kept current throughout the year and need not be specially revised to accompany the Action Plan.

d. Responsibility: Prepared by the Supervisory Program Officer

e. Timing: Prepared annually in August and approved in September

f. Review: Circulated concurrently for clearance within five working days. Review meetings will only be held if major issues are raised and unresolved in the clearance process.

g. Clearances:

For A.I.D.: Director, EUR/PDP
 Director, EUR/DR
 Director, EUR/RME
 DAA/EUR

For State: Deputy Director, D/EEA

h. Authority: Approved for A.I.D. by the Assistant Administrator for Europe and for State by the Special Assistant to the Coordinator for U.S. Assistance to Eastern Europe.

2. Project Approval

a. Document: Project Decision Paper

A Project Decision Paper will be prepared prior to development of each project. Projects will be regional in nature and may be designed for multiyear funding. A project may correspond roughly to one of the areas of program emphasis identified in the Action Plan, although more often several projects will be required to cover a program area.

b. Rationale:

The Project Decision Paper will assure European Bureau leadership and other USG agencies that the project under development is consistent with the program directions set out in

the approved Action Plan and that a sensible approach to design and implementation is envisaged.

c. Contents:

- project purpose
- project rationale, including relation to approved regional strategy (Action Plan)
- brief project description
- proposed LOP funding
- time line to the obligation of funds
- proposed grant or contract mechanisms
- potential problems, risks, vulnerabilities, and other issues
- procurement plan for any grants or contracts where the procurement process must begin before authorization of funds

Project Decision Papers should normally not exceed three pages in length.

d. Responsibility:

Prepared by the Program Manager with significant contributions from the Project Development Officer and, where a project or a component of a project is to be implemented by another USG agency, from a representative of the implementing agency.

e. Timing:

Project Decision Papers should be prepared at the beginning of the fiscal year for approval in the first quarter, soon after the annual Action Plan is approved. Inevitably, a few Project Decision Papers will be prepared later in the fiscal year in response to new developments and opportunities in Central and Eastern Europe.

f. Review:

Representatives of interested A.I.D. offices and bureaus and a representative of the Coordinator's office will be invited, at least three working days in advance, to an internal A.I.D. review of each project decision paper chaired by the Director of the Project Development Office. This will give A.I.D. Officers an opportunity to air differences before the project is reviewed at the interagency level.

USG agencies will be invited at least five working days in advance to participate in an interagency review meeting, chaired by the Deputy Assistant Administrator or his designee to review each Project Decision Paper. Written comments and issues will be solicited prior to the review meeting. The Program Manager for the proposed project will present the project concept briefly and will summarize issues identified up to that point. The Chair

will invite further discussion of the issues and the introduction of any additional issues. Mandatory participation and comment must include the A.I.D. Legal Advisor, Contracting Officer, Controller, and appropriate Project Development Officer. At the conclusion of the meeting, the Chair will state whether or not the proposed project is approved for final design and will summarize changes agreed to in the meeting that must be incorporated into the project before final authorization. A minute of the meeting will be prepared by the Project Development Officer, recording issues raised, important points made, and decisions reached.

g. Clearances: The minutes of the review meeting will be cleared by the offices and agencies that participated in the meeting.

h. Authority: Approved by the Deputy Assistant Administrator.

3. Project Authorization

a. Document: Project Memorandum

b. Rationale: The Project Memorandum fulfills the functions of both detailed design (replacing the lengthy Project Paper) and authorization. It can incorporate information contained in the concept paper by reference or attachment.

c. Contents:

- Purpose and summary project description
- Cost estimate with budget attachment
- Obligation plan, identifying the number and types of contracts and grants envisioned to accomplish the project purpose
- Implementation Plan, including a time line of critical actions over the life of the project
- Evaluation plan, including end-of-project status indicators
- Initial Environmental Examination
- Brief discussion of feasibility, sustainability, and implementation issues
- Identification of any normal legislative requirements which will not be followed
- Status of the Congressional Notification of the project
- standard authorization language.

Project Memoranda will normally not exceed seven pages in length (four pages where the entire project will be implemented by another USG agency), plus attachments. Among the attachments to

each Project Memorandum will be scopes of work for contracts and program descriptions for grants to be executed in the first fiscal year of the project. Also attached will be the minutes of the review meeting for the Project Decision Paper along with a statement that all decisions reached in that meeting have been incorporated into the project design.

d. Responsibility: Prepared by the Project Manager in coordination with the Project Development Officer. Additional help may be contracted.

e. Timing: Prepared individually for each project to be authorized, normally throughout the November-June period.

f. Review: If significant issues are raised in the course of clearing a Project Memorandum, a review meeting may be held. Such a meeting would be chaired by the Director of RME/PD, who would invite representation from any A.I.D. office or other USG agency relevant to the issues raised.

g. Clearances: Director, RME/PD
GC/EUR
Controller

h. Authority: Approved by the Mission Director

4. Reservation of Funds

a. Document: Project Implementation Order (PIO/T, PIO/C, PIO/P)

b. Rationale: A PIO will be executed for each contract or grant to be awarded under the project. Each PIO spells out the goods or services to be acquired and the means of procurement. The PIO also reserves funds from the authorized amounts for obligation under grants or contracts.

c. Contents:

- completion of standard agency PIO forms
- scope of work for contract technical services; program description for grants; procurement specifications for commodities

d. Responsibility: Prepared by the Project Officer in Consultation with the Project Development Officer

e. Timing: Prior to each procurement action

f. Clearance:
Team Leader
Controller, EUR/RME

Program Officer, EUR/RME

g. Authority: Approved by the Director of the EUR Bureau office in which the project is managed.

5. Obligation of Funds

a. Document: Grant or Contract

b. Rationale: In bilateral A.I.D. Missions, funds are normally obligated in a project agreement and committed in contracts and/or grants. As A.I.D. will have very few bilateral project agreements with host country recipient governments in Eastern Europe, the individual grants and contracts will obligate funds under this program.

c. Contents: Per agency guidance.

d. Responsibility: Grants drafted by Project Officer in consultation with the Project Development Officer. Contracts and Cooperative Agreements will be prepared by the Contracts Officer, with a scope of work or program description drafted by the Project Officer.

e. Timing: Procurement process begins upon receipt of completed PIO.

f. Clearance: Relevant Program Manager

g. Authority: Signed by Contracting Officer

E. PROCUREMENT OF GOODS AND SERVICES

A.I.D.'s business is to be conducted in a manner above reproach and with impartiality. Expenditures of public funds are subject to strict standards of conduct so as to avoid any conflict of interest or even the appearance of preferential treatment or bias in government-contractor relationships. Procedures that protect the integrity of the contracting process do require time to carry out, however, and there is an effective trade-off between the need to implement programs expeditiously and the need to proceed carefully.

The Bureau for Europe has a particular need to implement its programs quickly. And while it is no less important to guarantee the integrity of the contracting process in Eastern Europe than in any other area of A.I.D. activity, it is possible to tailor procedures to fit the particular needs and capabilities of the Bureau for Europe while safeguarding the public interest. This will be possible largely because of the close working relationship that project officers, contracting officers, and

other staff officers will have working together in the same office.

One way to expedite contracting is to limit or restrict competition or to award a contract on a sole source basis. But non-competitive or restricted competitive procurement require justification and authorization, steps that are themselves time-consuming. More importantly, however, because of the wide interest among potential contractors and grantees in participating in the Eastern Europe program and the intense scrutiny that Congress accords the program, the Bureau for Europe has adopted a policy of full and open competition whenever possible. (It will still be consistent with this policy to tap into the agency's existing indefinite quantity contracts or centrally funded "buy in" contracts whenever such instruments are appropriate.)

The Bureau of Europe will obligate its funds through contracts for technical services, contracts for commodity purchases, grants, and cooperative agreements. The following paragraphs propose procedures for expediting the contracting process for technical services. Very similar procedures could be developed for expediting the solicitation, review, and award of commodity contracts, grants, and cooperative agreements.

The first step in the procurement process is preparation and publication of a Commerce Business Daily (CBD) announcement that tells the business community that A.I.D. has need of specified services and that detailed solicitation documents are available upon request. Normally the CBD notice is not prepared until after a project is authorized and a PIO/T executed. In the Eastern Europe program, CBD announcements may be published before the authorization of funding where the project concept paper includes a discussion of the proposed contracting mechanism and where the CBD notice indicates that funds have not yet been authorized. Normally, A.I.D. allows 30-45 days from publication of the CBD notice to the deadline for receipt of expressions of interest. The Bureau for Europe will compress this to 15 days.

The Contracts Officer normally mails out detailed Requests for Proposals (RFP) within a week of the closing date for receipt of expressions of interest. The Eastern Europe program will compress this to 2 days, or until funds have been authorized.

From the time A.I.D. mails out RFPs until the deadline for receipt of proposals from offerors is normally 45-60 days. The Eastern Europe program will reduce this proposal preparation time to 30 days.

A.I.D. then usually requires 30-60 days to evaluate proposals against previously established criteria. The Bureau for Europe will evaluate proposals in 10 days.

The time allowed for discussions, negotiations with offerors, submission of best and final offers, and award of the contract will be reduced from the normal 45-90 days to 20 days for Eastern Europe projects.

The entire process, from CBD notice to contract award, should take only a third to a half of the 155-260 days normally required. In addition, the whole process can begin prior to the authorization of funds, for contracts where speed is critical. This accelerated process will be made possible by involving the contracting officer in the project development process from the beginning. In summary, the streamlined contracting process is as follows, starting from issuance of the CBD notice:

	<u>Normal Process</u>	<u>Streamlined Process</u>
CBD response deadline	30-45 days	15 days
RFP mailout	5 days	2 days
Proposal preparation by offerors	45-60 days	30 days
Evaluation of proposals	30-60 days	10 days
Discussions, negotiations, submission of best and finals, and award of contract	45-90 days	20 days
	-----	-----
TOTAL	155-260 days	77 days

It is important to note, however, that by late in the third quarter of FY 1991 these targets have not yet been achieved. At the end of the fiscal year, the Regional Mission for Europe will review actual performance against these streamlined guidelines to decide if the guidelines are realistic or not, whether or not to revise them, and whether further management changes (e.g. assignment of additional contracting officers) are needed to achieve them.

F. PROGRAM MONITORING, EVALUATION, AND AUDITING

The status of all ongoing projects will be reviewed in semiannual implementation reviews chaired by the Mission Director. The Office of Project Development (EUR/PD) will develop a monitoring system with standardized data collection, prepare materials to review, and coordinate the sessions. For each project, the implementation review will:

- summarize progress to date as measured against the project's implementation plan;
- identify current or prospective issues to be resolved;
- review plans for upcoming obligations or evaluations; and
- revise, where necessary, the implementation schedule.

EUR/PD will be responsible for recording decisions made at the implementation review sessions and for verifying that they have been acted upon.

EUR/PD will be responsible for establishing a program of project evaluations at the input-output and the output-purpose levels. EUR/DP will coordinate program evaluation to assess overall effectiveness of the program in achieving sector objectives, program objectives, and U.S. policy goals. To facilitate the latter process, A.I.D. will contract with a consulting firm during the summer of 1991 to establish a program evaluation framework. The framework will specify verifiable sector objectives for each of the fourteen areas of program emphasis and measurable indicators of achievement of the three program objectives and the fourteen sector objectives. The information system established to routinely collect data to measure achievement of these benchmarks should be consistent with, and to the extent possible draw upon, the data collected to measure the achievement of project outputs and purposes at the project level.

The Office of A.I.D.'s Inspector General will conduct an active program of audits of the Eastern Europe Assistance Program, both in Washington and in the field. Audit responsibility will include all programs and projects financed with A.I.D.-appropriated funds. In FY 1991 The IG will establish a Regional Inspector General's office in Vienna, initially to be staffed with three auditors.

G. DONOR COORDINATION

The main mechanism for donor coordination and the international exchange of information is the G-24, located in Brussels. In terms of policy coordination, the G-24 mechanism is operating more or less satisfactorily. In terms of country-level implementation, however, A.I.D. and the Coordinator's Office will have to take a more active role. It is becoming apparent that an A.I.D. Officer will be needed to establishing, with the help of PPC/DC, better information exchanges between A.I.D. and the other international donor and lender agencies. The U.S. has made efforts during the past year to promote better information exchanges and dialogue about implementation in recipient country capitals, with more active participation of the World Bank. U.S. Ambassadors and A.I.D. Representatives will need to devote continued attention to this issue in the year ahead.

There are significant potential benefits to improved coordination. Clearly A.I.D. can target new project designs more accurately on key unmet needs in Eastern Europe if we know the plans and capabilities of the other sources of assistance. Just as important, we can leverage the impact of our assistance by

providing grant technical assistance in parallel with much larger loans from the World Bank or EBRD for capital projects or financing facilities.

**ACTION PLAN FOR U. S. ASSISTANCE TO
CENTRAL AND EASTERN EUROPE
FORMER SOVIET REGIONAL
ACTION PLAN**

**PD-ABD-999
1 OF 1 (24X)
1991**