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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID/CAUCASUS

RESULTS REVIEW AND
RESOURCE REQUEST
ARMENIA

JUNE 1997

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ABBREVIATIONS

AIOC	-	Azerbaijan International Operating Company
CBIHA	-	Coordination Bureau for International Humanitarian Assistance (Georgian Government organization)
CEPAR	-	Center for Economic Policy Analysis and Reform (Georgia)
CEPRA	-	Center for Economic Policy Research and Analysis (Armenia)
CIS	-	Commonwealth of Independent States
CLAU	-	Caucasus Logistics Advisory Unit
CUG	-	Citizens' Union of Georgia
DOT	-	U.S. Department of Treasury
EBRD	-	European Bank for Reconstruction and Development
EC/ECHO	-	European Community Humanitarian Office
ECU	-	European Currency Unit
EPS	-	Electronic Payments System
EU	-	European Union
FMS	-	Financial Management System
FSU	-	Former Soviet Union
GANSP	-	Georgia-Armenia Nutritional Supplement Project
GDP	-	Gross Domestic Product
GIOC	-	Georgia International Oil Company
GOA	-	Government of Armenia
GOG	-	Government of Georgia
GTZ	-	German aid program
IBRD	-	International Bank for Reconstruction and Development (World Bank)
ICRC	-	International Committee of the Red Cross
IDP	-	Internally Displaced Person
IFI	-	International Financial Institution
IFRC	-	International Federation of the Red Cross
IMF	-	International Monetary Fund
IOM	-	International Organization for Migration
IR	-	Intermediate Result
MW	-	megawatts
MVD	-	Georgian State Police
NBG	-	National Bank of Georgia
NGO	-	Non-governmental Organization
NET	-	NIS Exchanges and Training Project
NIS	-	New Independent States of the former Soviet Union
OSCE	-	Organization for Security and Cooperation in Europe

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- PAROS** - Armenian Government's needs-based voluntary registration program for humanitarian assistance
- PVO** - Private Voluntary Organization
- SCF** - Save the Children Federation
- SIF** - Social Investment Fund
- SME** - Small and Medium Enterprise
- S.O.** - Strategic Objective
- STF** - Systemic Transformation Facility (IMF)
- STI** - State Tax Inspectorate (Armenia)
- STS** - State Tax Service (Georgia)
- TACIS** - Technical Assistance Program of the European Union for the former Soviet Union
- UNDP** - United Nations Development Program
- UNHCR** - United Nations Human Rights Commission
- UNICEF** - United Nations International Children's Fund
- USDA** - U.S. Department of Agriculture
- USGS** - U.S. Geological Survey
- VOCA** - Volunteers in Overseas Cooperative Assistance
- WFP** - World Food Program
- WTO** - World Trade Organization

**ARMENIA
RESULTS REVIEW AND RESOURCE REQUEST
FY 1999**

**PART I
INTRODUCTION AND OVERALL COUNTRY PERFORMANCE**

General

This R4 document represents an interim submission at the midpoint between the earlier, unapproved country strategy documents and a new regional strategy to be submitted to ENI/W in late winter/early spring of 1998. As such, it contains program elements outlined in the earlier strategy, as well as the introduction of some new concepts and programmatic thrusts. To the extent that these new emphases are not yet fully articulated in this document, USAID/Caucasus requests reviewers' indulgence, reflection and participation in the overall strategy development exercise which will commence in earnest in early fall with the arrival of new staff in the region.

Our thanks in particular to the R4 Swat Team of Dagnija Kreslins, Bobby Herman, Mervyn Farroe and Kevin Kelly without whose participation, energy and wisdom the preparation of this document would not have been possible in the time available.

Regional Overview

The last year has been a time of transition for USAID/Caucasus. The majority of USDH staff in the region left for new posts, and was replaced by new arrivals. With the support of ENI/W, the mission began a significant expansion, particularly in Armenia and Georgia. New building projects were identified and initiated at both sites to house an expanded USAID presence. In Azerbaijan, USAID's tiny FSN staff grew slightly, but their efforts were substantially enhanced by a more regular and intense schedule of staff travel to Azerbaijan from the regional office in Yerevan, particularly in support of humanitarian and democracy programs.

The last year saw little forward progress on peace in the stalemate between Armenia and Azerbaijan over the Armenian enclave of Nagorno-Karabakh. If anything, the situation grew warmer with Russian weapons transfers to Armenia and more frequent reports of shelling incidents on both sides of the border. With respect to Abkhazia, however, the Georgian government appears to have recommitted itself to a negotiated settlement, and is actively taking steps to encourage this result. Both conflicts require early solutions if the region is to maximize its opportunities for political and economic development over the next several years.

Armenia

Armenia's performance over the last year has been a decidedly mixed bag: a problematic Presidential election; the advent and departure under difficult circumstances of a new, highly reform-oriented Prime Minister; his replacement with a surprise candidate (the elected President of Nagorno-Karabakh); recommitment to accelerated, if potentially flawed, privatization efforts;

long-awaited progress on energy sector reform; and, recently, a precipitous decline in the value of the dram, i.e., almost 35% against the dollar over the last few months. Nevertheless, last winter marked a turning point in Armenia's post-Soviet experience; the lights stayed on in most places 24 hours per day, and the majority of the population was heated adequately for the first time in years. The country's renewed ability to cope with winter appears to have unleashed a springtime business booklet, particularly in the retail and service industries of Yerevan.

Armenia's ups and downs are reflected in the relative successes and failures of the USAID program in Armenia. The flawed Presidential election was clearly a major setback in the democracy and governance program; yet IFES redoubled its efforts to work with key counterparts in producing a Universal Electoral Code which recently passed its first reading in Parliament. If implemented properly, this law will go a long way toward redressing the technical deficiencies of earlier elections. NGOs are alive and well and growing stronger in targeted areas of the country. Over the next years NGO development efforts will be expanded nationwide and, through the Armenian Assembly, focused on connecting their efforts into local and national political processes. Perhaps the brightest spot in the DG portfolio is in rule of law, where USAID (together with the Council of Europe, the Dutch, the French, GTZ, OSCE and others) is closely engaged with all elements of the Armenian legal community on an ambitious plan for legal and judicial reform, and development of the law faculty at Yerevan State University.

On the economic reform side, in Armenia as in Georgia, USAID has had a somewhat fragmented "top-down", "bottom up" programmatic effort. VOCA, IESC and selected Save the Children sub-grantees have implemented bottom up efforts in small scale agriculture and entrepreneurship. One or two of these activities have been dismal failures, the balance qualified, if unfocused, successes. The USDA oversees a broader agribusiness support effort in Armenia; over the next year, USAID will be examining whether any additional USAID engagement in the agriculture sector is appropriate.

From a macro perspective, the Mission is implementing an effective bankers training program, and has worked closely with the Central Bank and commercial banks to create an electronic banking system. The new Minister of Finance (formerly the Deputy Governor of the Central Bank) has reiterated his predecessor's request for USAID assistance in establishing a Treasury function; in the Mission's view, this would be an important step in improving Armenia's ability to manage its fiscal resources effectively. Finally, USAID is committed to funding a major portion of an Armenian accounting conversion program; current plans are to begin with accounting conversion for commercial banks, and move on to accounting conversion for enterprises, including for energy enterprises.

Concurrent with the ENI/PER assessment of privatization performance in Georgia, USAID/Caucasus requested a similar assessment in Armenia, where a high percentage of the formal economy also remains in state hands. With political changes at the top of the Armenian government over the last several months, and no strong champion of economic reform in place, during this period, Armenia lost six or seven months in carrying forward privatization and related efforts. Recently, however, the Government took steps to accelerate the privatization of a lengthy list of enterprises, including bakeries, flour mills, hydropower stations, and other operations. In addition, the GOA has contracted with Merrill-Lynch to auction off 13 strategic enterprises for international investment. Bids are expected by the end of October for a range of investments including hotels, department stores, the cognac factory, and other properties.

The Mission, together with ENI/PER, believes that there is significant need for a comprehensive market reform program in Armenia as well as Georgia. Unfortunately, as of this writing, there is no consensus within the Armenian government that such a program is needed. The Mission is continuing to stir the privatization/capital markets pot, using ENI/PER staff available as a result of work in neighboring Georgia. By the end of this calendar year, it is hoped that based upon their experience with auction privatization, the GOAM may be ready to talk seriously to the donors about an expanded market reform program. Based upon this assumption, we have plugged funding against the privatization objective for future years; however, should we reach agreement with the Armenian government on a comprehensive market reform program, the entire country budget would probably need to be rejiggered to accommodate this effort.

FY 97 has been a turning point in the Mission's energy sector reform effort for Armenia. Collections rose dramatically over the last year, reaching 70% by recent calculations. An independent energy regulatory commission was established by Presidential decree, and the energy law passed its second reading in the National Assembly and will be signed shortly. The major tasks ahead involve the consolidation of distribution facilities into reasonable economic units, progress in moving the various components of the sector toward privatization and domestic and foreign investment, and assisting both the GOAM and the various generation, transmission and distribution entities in developing effective payments systems to sustain the sector, and provide predictable revenue streams upon which domestic and foreign investment will be based. With evidence of growing political will for reform, the energy sector will thus continue to be a major Mission focus over the coming years.

The Mission's submission shows a significantly reduced humanitarian assistance program for Armenia in future years for several reasons. First, natural gas procurement is projected to decrease and, in addition, has been shifted to the energy development budget because of the conditions which will be attached to this program. Second, no further grant-financed wheat is proposed for Armenia. This reflects the Country Team's view that PL 480 Title I concessional sales are more appropriate at this juncture in Armenia. Third, based upon last winter's experience and discussions since that time, the Mission estimates that it should be possible to reduce the kerosene distribution program further in FY 98, and is looking toward replacing it entirely with some other tightly targeted program in future years. In this connection, it should be noted that the Nagorno-Karabakh related refugee problem, so much in evidence in Azerbaijan, is virtually imperceptible in Armenia. Armenian refugees from Azerbaijan appear to have been fully integrated into local society, although some refugees undoubtedly comprise a slice of the PAROS list.

In place of humanitarian activities, the Mission is developing for Armenia (as for Georgia) a social sector/community mobilization initiative to enhance the sustainability of social services and provide catalytic financing for local communities' assumption of greater responsibility for the provision of desired social and other services. Funding for this initiative is targeted to begin in FY 98.

PART II

STRATEGIC OBJECTIVE RESULTS REVIEW

I.a. STRATEGIC ASSISTANCE AREA 1 -- A COMPETITIVE MARKET-ORIENTED ECONOMY

1. Overview and Factors Affecting Program Performance

The Economy

Real GDP grew by 6.9 percent in 1995 and 5.8 percent in 1996. Most of the growth was concentrated in trade, services, light industry, construction and agriculture. Inflation, as measured by the increase in the consumer price index, declined to an annual rate of 31.9 percent in 1995, and was 18.6 percent in 1996. Employment in the state sector was cut by more than 100,000 persons from 1994 to end 1996, to a total of 343,000 and may be expected to decline further in 1997 to around 260,000. Real wages in the public sector increased 39 percent between 1995 and 1996. Further increases are anticipated for 1997 in parallel to the decline in public sector employment.

With merchandise exports of \$ 290 million and imports of \$ 861 million, Armenia experienced a trade deficit of \$ 571 million -- a deficit which has grown more than four-fold since 1994. Imports expanded to provide food, humanitarian aid, energy, and raw materials. External capital inflows were sufficient to prevent rapid depreciation of the exchange rate. The exchange rate fell moderately from around Dram 406 per US dollar at the end of 1995 to about Dram 435 at the end of 1996. In June 1997, the dollar exchange rate is around Dram 500 per US dollar, reflecting strong recent depreciation of the Dram. The Central Bank's stated goal is to achieve net international reserves equivalent to about 2.8 months of imports of goods and non-factor services by the end of 1997, up from 0.7 months in 1994.

Fiscal Sector

Armenia's fiscal policy has been contractive in recent years. The consolidated budget deficit (including grants) fell from 16.4 percent of GDP in 1994, to 9.1 percent in 1995 and 8.6 percent in 1996. External financing of the deficit increased from 6.5 percent of GDP in 1994 to 10.5 percent in 1995 before declining to 5.8 percent in 1996. Most of the decline in fiscal deficits is attributable to significant cuts in public expenditures. Total expenditures amounted to 44.1 percent of GDP in 1994, 29.8 percent in 1995 and 26.1 percent 1996. Along with expenditure cuts, government revenues and grants also declined as a percentage of GDP. But, the declines in revenue were less than the expenditure cuts. Total government revenue and grants amounted to 27.7 percent of GDP in 1994, falling to 19.9 percent in 1995 and 17.7 percent in 1996. Overall, these figures mean that government's role in the economy is shrinking.

Armenia suffers a three-fold problem with taxes: (1) collections are poor because the administration is weak and corruption is rampant; (2) the tax base is narrow, relying very heavily on the public sector; and (3) the incidence of taxes on private sector profits is absurdly high, encouraging tax evasion by citizens, corruption by collectors, and spurring the growth of the informal economy at the expense of the formal economy. Nevertheless, growth in tax revenues

has almost kept pace with growth in GDP. The principal sources of tax revenues have been the Enterprise Profits Tax, the VAT, the payroll tax and the personal income tax. Together they accounted for more than 85 percent of tax revenues in 1994-95 and about 72 percent in 1996. Collections from the enterprise profits tax have diminished as a proportion of total tax revenue, falling from about 44 to 20 percent of GDP during 1994-96. The VAT accounts for about 25 percent of total tax revenue and the personal income tax for about 10 percent. Payroll taxes account for about 17 percent of total taxes. Customs receipts are low (about 7 %) and excise taxes have increased in importance recently. According to the IMF, in the first half of 1996, the state sector accounted for about 90 percent of tax revenues, while about 50 percent of the total output came from the private sector, implying a very poor sharing of the tax burden.

Armenia must simultaneously reduce taxes on business profits, broaden the tax base, and improve tax collections in order to finance projected expenditures. The current Budget for 1997 calls for total expenditures of about Dram 186 billion, total revenue of Dram 135 billion, and a budget deficit of Dram 50 billion. Taxes are expected to reach Dram 110 billion, which would be about 30 percent above the actual nominal tax collections in 1996, a very ambitious target. If the Budget were realized the deficit would be equivalent to about 6.7 percent of GDP in 1997.

Privatization

The pace of privatization of large and medium-size enterprises in 1996-97 has proceeded much slower than the GOA had planned. About 50 percent of small enterprises and only about 20 percent of medium and large enterprises have been privatized to date. The reasons for the delay include resistance from ministries that are reluctant to give up control over their enterprises or "sectors", the break down of the voucher program and lack of high level leadership to push the program through to completion. There have been recriminations about past abuses and the low valuations of some companies with the result that the Government is tightening privatization methods in such a way that the pace will be slower still.

Foreign Trade and External Finance

Medium and long -term economic growth depend upon securing peace and regional integration as rapidly as possible. Armenia's systems of communication by road and rail, as well as its oil and gas pipelines, depend on its neighbors. The rail line running from Yerevan through Baku to Russia and energy pipelines have been blocked by Azerbaijan since 1989. The rail route from Armenia through Georgia and the only currently functioning gas pipeline, originating in Turkmenistan, and running through Russia into Armenia have been repeatedly damaged as a result of sabotage associated with Georgian instability and Azeri-Armenian hostilities. Turkey supports Azerbaijan in the Nagorno - Karabakh conflict by embargoing trade with Armenia and by keeping its border with Armenia closed. However, this border is becoming increasingly porous, and there are also reports of a large informal market on the northeastern border of Armenia with Azerbaijan. If the regional conflicts were resolved, the prospects are favorable for significant regional growth linked to the development of the transit potential of the Caucasus, development of Caspian oil and gas, and the realization of the productive potential of Armenia's labor force. Given highly unequal natural resource endowments among the Caucasus nations, Armenia has the most to gain from an enduring peace. Armenia's top export markets in 1996 were Russia (27%), Iran (13%), Belgium (13%) and Turkmenistan (5%) indicating that penetrating Western markets has barely begun. Armenia's growing ties to Iran in merchandise trade must be a U.S. foreign policy concern.

Armenia's private sector will provide the engine for export and services-led growth, assuming regional peace, cooperation and integration. A liberal trade regime and WTO membership will allow private-sector firms to import needed inputs, add value, and export the products.

Realization of the private sector's potential requires accelerating privatization and improving enterprise governance very quickly. Now, about 10 percent of imports are capital goods. For the export-led strategy to succeed, the capital goods share of imports (i.e., investment) must sharply increase.

Armenia's total external debt stood at \$600 million at the end of 1996, which was equivalent to about 38 percent of GDP. Multilateral creditors hold about 60 percent of external debt and bilateral donors the rest. The debt service ratio amounted to about 12 percent of exports of goods and services at the end of 1996, slightly lower than the FSU average. The IMF's recent policy framework paper projects the external financing requirement for 1997-99 at about US \$1 billion, a third of which are expected as grants. Disbursements by the World Bank and the EBRD are projected at about \$75 million and \$30 million yearly during 1997-99, respectively. The second and third annual programs under the ESAF would provide financing of about \$48 million in both 1997 and 1998. Residual annual financing gaps are projected to be about \$110 million, yearly, in 1998 and 1999. These amounts are probably on the low side.

Financial Sector

The World Bank emphasizes that the key to future stability and growth of the Armenian economy lies in increasing domestic savings, which is essential to providing the resources for investment in productive enterprises and human resources. Foreign investment and donor aid cannot be counted upon indefinitely to keep the economy afloat. Moreover, we believe domestic savings and investment must occur first, before significant foreign investment will be forthcoming.

Armenia's domestic rate of saving is estimated to have been a negative 21 percent of GDP in 1996, attributable to very low per capita income and widespread loss of assets during the transition. Strenuous efforts are needed to raise both public and private savings. The GOA is making significant progress in reducing the fiscal deficit, which accounts for around 40 percent of the negative domestic savings rate. Improving the credibility of the banking system ranks among the top priorities for restoring positive private savings. Reforming Armenia's pension system is related and also important.

To attain long-term average growth of about 4-5 percent of GDP over 20-30 years, domestic savings must increase to 20-25 per cent of GDP. Such high rates of savings will not come quickly under current domestic political conditions and in the absence of regional peace. The aging population, which is partly attributable to migration of young Armenians in search of better opportunities, makes savings mobilization even more difficult.

2. Progress Toward Objectives, Expected Progress through FY 1999 and Management Actions.

2.1. SO 1.2 -- Increased Soundness of Fiscal Policies and Management Practices Progress Rating: 1

Performance Analysis

USAID/Caucasus' responsibility for achieving this S.O. was largely relieved by the tri-partite agreement among the State Department, U.S. Treasury and USAID executed in the summer of 1996 and which resulted in a 632(a) transfer of funds to the U.S. Treasury (UST). However, since the achievement of the IRs under this SO impinge very heavily upon overall market reform, a discussion of the strengths and weaknesses of UST assistance is required. Through 1996, UST provided advisors in the fields of national budget reform and debt management but had not yet fielded a resident advisor for tax collections and administration. The advisory assistance to help formulate a national budget law has been weak and no national budget law is in place.

Tax collections have been a weak areas of GOA performance under the IMF's ESAF. Corruption is pervasive in the tax agency and more apparent than in other parts of the public administration, largely because tax collections are so closely watched by key donors. Notwithstanding what we hope will be excellent advisory assistance by the new UST advisor, we doubt that the State Tax Inspectorate will suddenly become less corrupt and more efficient, when these are not government norms.

The UST advisor for debt management has done an outstanding technical job of establishing a regular, mostly transparent, T-bill auction. The rules are published, the offerings at auction are advertised in advance, and results posted within minutes of the auction. The number of instruments (30, 60, 91 and 182 day T-bills) has expanded rapidly and the GOA is financing a much larger fraction of its current deficit than was thought possible one year ago. In some respects, the T-bill program looks like it is 3 years old rather than just 18 months. However, given no effective supervision on the part of the USAID or Embassy, there have been developments in the program which may be technically justified but which are retarding the development of the financial sector and starving enterprises for credit. For example, the supply of T-Bills was allowed to outrun demand for a part of 1996 with the effect of driving up short term rates to 70% per annum and more. With these low risk earnings in hand, commercial banks had no incentive to learn how to become lenders to private borrowers for trade, operating capital or investment. Thus, to a degree, strides USAID has made to strengthen the Central Bank of Armenia and the commercial banking sector under SO 1.4 are being undercut by debt management activities under SO 1.2. Finally, there is little or no incentive for GOA financial authorities to dampen their enthusiasm for selling T-bills, since many of them also have interests in the commercial banking sector.

Expected progress Through FY 1999 and Management Actions

The management action is for USAID/W to reopen discussions with the Departments of State and Treasury, in Washington, to correct these identified supervision problems. In addition, USAID/C is contemplating an expanded assistance package to complete the privatization program and to do comprehensive market reform. Assuming adequate political will on the GOA's part to undertake such a program and to address corruption in tax administration, USAID would support efforts which are complementary to UST's to alter the tax structure. Whether we would

also support efforts to improved tax administration and collection would be subject to inter-agency agreement involving State, Treasury and USAID.

2.2. SO 1.3 -- Accelerated Development and Growth of Private Enterprise

Progress Rating: 1

Performance Analysis

USAID's economic growth strategy is a mirror image of Armenia's, i.e. export-led, private sector growth. While the strategy may be conceptually solid it is rendered futile by Armenia's inability to achieve regional peace, cooperation and integration. With its land transportation corridors largely blocked and with no significant natural resources, Armenia must import most raw materials at high cost and export finished product, be it agricultural or industrial, on the same costly routes. These unfavorable conditions mean that Armenia is a generally a high cost producer, with no obviously strong comparative advantage, trying to compete in a world where its competitors are far ahead in terms of having created suitable enabling environments to promote growth, investment and trade. We conclude that our SO level assumption was erroneous that a cease-fire was sufficient to facilitate an export-led, private sector growth strategy in Armenia.

Armenia's private sector will provide the engine for export- and services-led growth, assuming regional peace, cooperation and integration. A liberal trade regime and WTO membership will allow private-sector firms to import needed inputs, add value, and export the products.

Realization of the private sector's potential requires accelerating privatization and improving enterprise governance very quickly. Now, about 10 percent of imports are capital goods. For the export-led strategy to succeed, the capital goods share of imports (i.e., investment) must sharply increase.

The commercial legal framework needs to be completed and property rights clearly defined. Strengthening the banking system would lower the costs of investment finance. Improving basic public infrastructure services -- particularly energy, water and transport -- and the related regulatory framework would stimulate private investment. Enforcing public laws and regulations and improving transparency need to be emphasized. Judicial reform will contribute to the functioning of the commercial courts, raise public confidence in public institutions, control corruption, and curb excessive concentration of power in the state.

USAID provides assistance in substantially all areas of the enabling environment through its technical assistance providers, IRIS and ICMA. Thus, the speed with which Armenia gains entry to WTO specifically and creates a legal regulatory environment which would promote economic growth are directly linked to the work of these TA providers. Others, such as IESC and VOCA, engage at the micro or firm level and cannot be held accountable for IR level results. Of course, neither IRIS nor ICMA can be held responsible for the fallacious assumption that a simple cease fire would be enough to cause an export-led, private sector growth strategy to succeed.

SO Level Indicator: Private sector share of income in Yerevan was 67% in 1996, the 1996 target was 65% and the actual was 69%. The target for 1997 is 70%; by 1999 we expect that 80% of income in Yerevan will come from the private sector.

SO Level Indicator: Private sector share of GDP. In 1995, 50% of GDP was from the private sector, the 1996 target was 60%, the actual was 55%. The target for 1997 is 65%. By 1999, we estimate that 75% of GDP will originate in the private sector.

IR 1.3.1: Expanded Export Markets.

Indicator: Value of exports (including services) was \$304.4 million in 1995 and the 1996 target was \$333.5 million. Total exports reached \$365.3 million in 1996. The target for 1997 is \$400.6 million with a 1999 target of \$ 521 million.

Indicator: Private sector exports. The private sector share of exports was targeted to reach \$200 million in 1996; however, actual exports were \$219 million. The target for 1997 is \$241 million; the 1999 target is \$ 340 million.

IR 1.3.1.1: Increased Foreign Investment.

Indicator: The 1995 total was \$19.1 million, and the 1996 target was \$33.8 million, however the 1996 actual was \$22 million. The target for 1997 is \$50 million and for 1999 the target is \$75 million.

IR 1.3.1.1.3: Increased investor confidence.

This is judged by an index of country risk as reported by Euromoney magazine (higher number indicates better prospects). Armenia ranked low in 1995 with a score of 28, and we aimed for a 1996 target of 33, but the actual was 27.5, probably reflecting uneasiness about Armenia's September 1996 elections. The target for 1997 is 38, which may be too optimistic given the continuation of the status quo with Azerbaijan.

IR 1.3.1.3: Increased access to credit by domestic enterprises.

Indicator: Value of commercial loans to enterprises. The 1995 actual was \$84.5 million, and the 1996 target was \$89.6 million, however, the actual result was \$73.7 million. The target for 1997 is \$95 million and for 1999 the target is \$106.7 million.

IR 1.3.1.3.2: Improved management and technical capacity of selected domestic enterprises.

Indicator: Housing sector support services transferred from public to private sector. Housing sector support services include housing management, maintenance and repair, brokerage and insurance. In 1995, 40% of total housing units was serviced by the private sector, the 1996 target was 45%, and the actual was 49%. By 1999, we expect 70% of housing units to be serviced by the private sector.

R 1.3.1.4: Increased access to export markets and development of domestic markets.

Indicator: Membership in the World Trade Organization. WTO requirements for accession are not yet satisfied. WTO will require a total of 4 or 5 "working parties" for Armenia to complete the process whereas we had estimated 3 would be sufficient. This means that WTO is not yet comfortable with the breadth and depth of Armenia's reform of the legal and regulatory environment for trade. We had expected that accession would occur in 1998, current projections for the completion of the required working parties may push the target date for accession out to 1999 or 2000.

IR 1.3.1.5: Improved Framework for Economic Policies, Commercial Laws and Regulations for Economic Activities.

Indicator: Key economic policies are established relating to export market access. Key policies include protection of intellectual property rights and tariff rates and structures. In 1995, five key policies were established, the 1996 target was 25, and the actual was the same. The tariff rate structure was changed to zero/10 percent rates; the excise tax structure was unified to tax imported and domestically produced items equally; and bankruptcy and collateral laws were passed.

Expected Progress Through FY 1999 and Management Actions

USAID expects Armenia to accede to the WTO in the period which would facilitate trade and, "ceteris paribus", make Armenia more attractive to foreign investors. If so, this will be directly attributable to the work of our TA provider, IRIS. Given our finding that the most important environmental factor to private sector growth is a permanent peace with Azerbaijan and ensuing regional cooperation and integration, we can only justify substantial assistance funds for this SO through FY 99. If by the end of this period, Armenia has not secured permanent peace, USAID would be obliged to terminate assistance to this SO. In addition, USAID/C is contemplating an expanded assistance package to complete Armenia's privatization program and to do comprehensive market reform, assuming adequate political will on the GOA's part.

2.3. SO 1.4 -- A More Competitive and Market-Responsive Financial Sector

Progress Rating: 2

Performance Analysis:

Fragility of the banking system remains one of the most acute problems facing policy makers in mobilizing domestic savings, stimulating investment and achieving long-term growth of the economy. The Central Bank of Armenia (CBA) is making adequate progress strengthening the commercial banking sector by increasing capitalization requirements, closer bank supervision, and moving toward International Accounting Standards as rapidly as possible. Training commercial bankers in Western practices is also advancing well. There remains, however, too much insider activity between government authorities and bankers. A large fraction of citizens has lost substantial family savings, there is widespread distrust of banks and little confidence that the government can strengthen the sector, despite good efforts.

As discussed under SO 1.2, the GOA has aggressively marketed T-Bills to partially finance the fiscal deficit. One undesired result has been to sop up much of the liquidity in financial markets. For banks, T-Bills yield high returns at less risk than short term trade credits. At current market rates, few or no enterprises have investments which would justify borrowing at market rates. USAID's grantee, Eurasia Foundation, has trained 3 banks in commercial lending operations and has opened highly subsidized loan windows in those banks. Unfortunately, the World Bank is doing the same with its Enterprise Development project, though at somewhat higher interest rates. Worse yet, the EBRD may follow suit. Subsidized credit favors only a select few banks who in turn favor only a select few enterprises. These distortions enhance favoritism and insider deals. Furthermore, the expansion of subsidized credit means that there is no incentive to the GOA to temper its demand for private sector financing to cover its budget deficit.

USAID plays a very substantial role in financial sector reform in collaboration with, principally, the IMF. USAID's own IRM directly manages USAID investments to upgrade hardware and software and provide training to the CBA. IRM is doing an outstanding job. Barents Group is the most important TA partner on the Armenian scene with Bankers' Training and accounting conversion for commercial banks. Thus, USAID holds itself substantially responsible for the achievement of this SO.

Capital markets in Armenia need a solid legal foundation to avoid some of the excesses witnessed in other transition economies. Now, there is little demand for the shares of private-sector firms, a key requirement for functioning capital markets.

SO level indicator: The spread between deposit and borrowing rates narrows. The 1996 target was 30% and the actual comprised 28%. The target for 1997 is 25% and by 1999 the spread is expected to narrow to 17%.

SO level indicator: Deposits in commercial banks. Using a real banking system deposit index, it equaled 100 in 1995, and the target was 90 for 1996. The actual result was 92. The target for 1997 is 95.4. By 1999 we estimate that the index will be at 107.2.

IR 1.4.1: Increased Technical Efficiency of Financial Sector Transactions.

Indicator: Daily number of transactions (domestic and international). The total number of transactions in 1995 was 6,000, the 1996 target was 7,500, however, actual transactions dropped to only 2,436 in 1996. The explanation for this significant drop probably lies with a change in how transactions are counted. Now multiple transactions can be processed as one "packet". The target for 1997 needs to be revised to account for the greater technical efficiency.

Indicator: Volume of inter-bank payments. This is the monetary value of inter-bank payments, domestic and foreign. The 1995 value was \$1.8 billion, the 1996 target was \$2.5 billion and the actual was \$2.484 billion. The 1997 target is \$4 billion and the target for 1999 is \$8.5 billion.

IR 1.4.1.1: Payment and settlement system established and functioning.

Indicator: Proportion of all commercial banks using the electronic payments system. The 1996 target was 60% and the actual result was none. In March 1997, the commercial banks started to connect to the CBA's electronic payments system platform and currently 52% of banks use the system.

IR 1.4.3: Increased availability of financial services.

Indicator: Proportion of commercial banks offering basic financial services. The basic set includes: (1) lending to business customers; (2) deposit services to consumers and businesses; (3) interest rates and fees relative to the real rate of inflation; (4) provision of letters of credit to customers in trade; (5) terms and conditions for loans relative to the Armenian economy; and (6) hours of operation, customer service, and general bank appearance more Western-oriented. The 1996 target was 30% of all commercial banks and actual results were 15%. The target for 1997 is 65%.

Indicator: Banks in compliance with CBA prudential regulations. The target was 84% in 1996; the actual result was 87%.

IR 1.4.3.1.2: Increased capacity of indigenous organizations to provide training and technical assistance services.

Indicator: Number of "certified" bank staff in specific core banking service and management skills. The figures for 1995, target 1996 and actual 1996 are all zero. To date, 9 courses have been offered by the Bankers' Training program in which 24 bank employees have completed 2 or more courses. The CBA has agreed to require testing of senior bank employees, a powerful incentive to future training.

IR 1.4.3.2: Increased access to capital.

Indicator: Real value of loans increases. Using a real banking system loan index, the 1995 index equaled 100, and the 1996 target index was set to 77.4. The lower target reflected our estimate of the impact of a shrinking number of commercial banks. The 1996 index was 92.7, or better than expected. The 1997 target is TBD.

Expected Progress Through FY 1999 and Management Actions

USAID's efforts to create the Central Bank's platform for domestic and international payments and settlements, and the network of commercial banks connected to it, will be completed. Accounting conversion for commercial banks will be completed and provided there is restraint in the government's marketing of debt instruments, banks will be doing more commercial lending. Banks will learn to orient to their customers, both depositors and borrowers. These infrastructure and attitudinal changes, underpinned by strict Central Bank supervision of the sector, should build citizen confidence in the banking sector and government. Increased access to capital will have been assisted by the launch of the Trans Caucasus Enterprise Fund - Small/Medium Enterprise Loan Program which should begin lending operations in FY 1998. Given the size of the initial endowment, it seems unlikely that the Fund will require additional tranches in the immediate future. If Eurasia is unable to change its lending procedures, USAID will recommend terminating Eurasia's subsidized credit program as soon as possible and through donor coordination efforts make every effort to persuade the World Bank to move to market interest rates for small and medium sized businesses. If not, the new Trans Caucasus Enterprise Fund which proposes market oriented lending for both SMEs and micro-enterprises is unlikely to succeed in Armenia. USAID/W is also enjoined to dialogue with, and discourage, the EBRD or any other bilateral donor which proposes to underwrite subsidized lending. Provided Armenia moves fast, banking could become a sector of comparative advantage vis-a-vis its FSU neighbors, assuming there is permanent peace.

I.b. STRATEGIC ASSISTANCE AREA 1 --A COMPETITIVE MARKET-ORIENTED ECONOMY (continued)

SO 1.5 - A More Economically Sustainable and Environmentally Sound Energy Sector

1. Overview and Factors Affecting Program Performance

Armenia has moved slowly in terms of economic restructuring in the energy sector. However, in the past year there have been a number of forward steps which hold promise for the eventual reform of this sector: (1) Armenergo, the electricity monopoly, was broken up into separate companies according to function (generation, transmission, distribution); (2) the Government has increased tariffs and improved collection rates; (3) an independent regulatory body has very recently been established to set tariffs and create an appropriate framework for private investment; and (4) a comprehensive energy law was passed by the Parliament (June 9, 1997).

The trade embargo dramatically increases the cost of imported fuels which exacerbates Armenia's difficult balance of payments position. Additionally, the importation of natural gas through Georgia has sometimes been disrupted by civil disturbances and sabotage along the transport route. In order to reduce dependence on imported gas and improve the reliability of the country's electricity supply, the GOA relies heavily on the aging Armenia Nuclear Power Plant (Medzamor) which continues to be a major safety concern. Most of the sector infrastructure is past its economically useful life. Moreover, little of the collections are returned to power generation plants and sector debt is increasing. The economic climate needed to attract investments to sustain the sector has not yet been created. In sum, the overall conditions are still fragile. Reforms have been slow in coming and rapid changes are not seen as forthcoming.

2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions.

Progress rating: 1

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 1.5: A More Economically Sustainable and Environmentally Sound Energy Sector			X
IR 1: Increased Private Sector Participation in Energy Sector			X
IR 1.2: An Effective and Progressive National Regulatory Commission Established		X	
IR 1.3: Legislation Enacted that Promotes Private Sector Participation		X	
IR 2: Increased Economic Efficiency in Energy Sector			X
IR 2.3.2: Increased Exploration for and Development of Fossil Fuel		X	
IR 3: Reduced Environmental Hazards of Operating Medzamor Nuclear Power Plant		X	

Performance Analysis

Overall progress toward meeting this objective has been slow and somewhat below expectations. Although the major roadblock toward sector reform -- the lack of an independent energy commission -- has been overcome, the commission is still unfunded and not operational. Also, while collections within the electrical distribution sector have temporarily increased, this has been an irregular phenomenon, possibly caused by the ongoing consolidation of the electrical distribution companies. Moreover, rates are insufficient to sustain the sector, debt of the sector is increasing, and collections are not being traced back to fuel purchases or plant maintenance and investments with the result that capital infrastructure, most of it already depreciated, continues to deteriorate.

Residential heating systems largely rely on electrical power, about half of which is generated from burning natural gas because the gas distribution system has not been reinstated -- a highly inefficient approach for use of the natural gas. At the same time, the role of USAID providers has been important. Their technical assistance was responsible for a well written presidential decree that ultimately established the commission and an energy law that just passed the Parliament, as well as almost all reform progress to date throughout the sector. Additionally, a USAID TA provider has prepared a draft implementation plan for bankable, replacement power generation projects to enable close down of the nuclear power plant. USAID financed equipment procurement was critical and kept the dilapidated gas transmission main pumping station operating at least a minimum level.

IR 1: Increased Private Sector Participation in Energy Sector Progress

Progress Rating: 1

Private sector participation is needed to improve the management of the energy sector by bringing in market discipline and attracting needed capital resources. USAID's assistance has helped spur the legislative and regulatory reform needed for restructuring and corporatization of the energy sector. During FY 1997, Armenia privatized seven mini-hydroelectric facilities and is proceeding to privatize 21 more. These actions were a direct result of the conditionality prescribed in the Memorandum of Understanding (MOU) between USAID and the GOA by which USAID procured natural gas valued at \$15 million for the GOA. As a pilot effort, this sale of hydro-electric plants represented only 2% of the national generating capacity. Thus, progress is considered less than expected. However, the experience is invaluable as GOA prepares to sell larger plants and other segments of the sector. The Ministry of Energy was recently charged with developing a privatization plan for the sector. A privatization study and a draft implementation plan has been prepared by the USAID provider.

IR 1.2: An Effective and Progressive National Regulatory Commission Established

Progress Rating: 2

Armenia recently established an independent regulatory body to set tariffs and create a regulatory framework that will encourage private sector investment. The lack of this entity was considered the greatest and most important roadblock to energy sector reform. This Commission was established by a Presidential decree largely in response to a condition precedent for the disbursement of \$30 million for a new natural gas procurement by USAID. The primary purpose

of the Commission is to separate governmental policy from operational considerations, such as tariff setting and licensing. An adequate budget and overall funding for the Commission remains a crucial matter; and the Commission has not started operations.

IR 1.3: Legislation Enacted that Promotes Private Sector Participation

Progress Rating: 2

USAID assistance was instrumental in drafting energy legislation which just passed the Parliament. The law was needed to (1) effectively separate the responsibilities of the government (policy guidance) from the responsibilities of the newly established regulatory body (tariff setting, licensing, etc.) and energy enterprises (day-to-day operational and economic decisions); (2) lay the foundation for other sectoral regulatory agencies; and (3) to secure the rights of both investors and the general public.

IR 2: Increased Economic Efficiency in Energy Sector

Progress Rating: 1

Progress towards results is less than expected. While several equipment procurements have been completed and successfully installed, the measures have largely served to keep some productive and critical infrastructure intact and functioning while economic reform could get underway. The importance of these measures should not be minimized, but it would be an exaggeration to say they increased economic efficiency. The natural gas MOU did move the GOA to raise tariffs somewhat, and there have been improvements in electrical service metering, accompanied by some increase in collections in the distribution sector. Yet collections have recently fallen and are not reaching the electrical power generation plants.

IR 2.3.2: Increased Exploration for and Development of Fossil Fuel

Progress Rating: 2

In 1996, the GOA signed an oil and gas exploration contract with a private international enterprise, at no investment cost to the GOA. A USAID legal energy advisor provided preliminary assistance to the GOA in contracting procedures. The contract represents the transition from GOA feasibility testing and exploration throughout the country to private enterprise implementation. Three exploratory wells are to be drilled within one year in the most likely areas of the western part of Armenia; and results will be crucial to further exploration and development. Contract work is currently behind schedule by several months. Meanwhile, U.S. Geological Survey (USGS), a USAID funded partner, will begin training government staff to use rehabilitated seismic exploration equipment which will be accompanied by limited exploration by the GOA in prospective areas of eastern Armenia

A small private coal briquetting company has been established and is successfully operating. This venture resulted from early USAID provision of technical assistance in the region. Sufficient coal resources and capacity are known to supplant the imported kerosene for all the schools in approximately half of the earthquake recovery zone; and a substantive exploration and mapping effort by another USAID provider identified additional coal deposits.

IR 3: Reduced Environmental Hazards of Operating Medzamor Nuclear Power Plant
Progress Rating: 2

Improved operation of the Armenian Nuclear Regulatory Commission, particularly in terms of incident reporting, has occurred as a result of provider assistance. Design and procurements of fire safety systems is underway by providers. Still, Armenia relies heavily on Medzamor (ANPP). Overall, it supplies 40% of electricity demand and there is concern that fire safety improvements are still not in place. The U.S. donation of \$30 million in natural gas is timely and will enable Medzamor to be taken off line for maintenance and fuel adjustment.

Expected Progress Through FY 1999 and Management Actions

The absence of an independent regulatory Energy Commission was considered the primary obstacle to reform. Now that it has been established, at considerable time and effort, it is crucial that it continue to benefit from ongoing USAID assistance. The Commission needs to begin operations and to establish itself in the predominant role intended for it, by vision, plan and law. There is an enormous amount of work that the Commission needs to undertake, including licensing, regulations, tariffs, settlement disputes, and initiation of public utilities hearings. And most importantly, the Board and staff need ongoing training. Hopefully, by the end of FY 99 the Commission will be recognized and functioning effectively.

The GOA is on the verge of privatization, but still, there is no consensus on the approach to take. The draft privatization implementation study and plan developed by our providers will be useful in GOA working group discussions that will get underway soon. If consensus is reached on the approach and implementation begins in FY 1998, by the end of FY 99 several large power stations, possibly including Yerevan Thermal Power Plant, could be engaged in the privatization process. However, because of large World Bank loans associated with completion of Hrazdan 5 it is unlikely to be privatized by end of FY 99.

With continued USAID support by the end of FY 99, consolidation of electrical distribution companies will probably have occurred and some may be privatized, and the gas distribution sector will have been prepared for privatization.

Though by FY 99, private sector participation to sustain the energy sector may only have begun, USAID anticipates that the economic environment may be somewhat improved. There should be noticeable increases in economic efficiency because of higher tariffs; consolidation of electric distribution; moderately improved metering and collections. However, infrastructure will probably continue to deteriorate unless costly capital improvements are made with the help of multilateral donor organizations and private sector investment. USAID will continue to improve its coordination with other donors and leverage its assistance wherever possible.

By FY 1999, environmental hazards from Medzamor should be reduced by the installation of fire safety measures and well trained, more experienced operators who have benefited from USNRC and IAEA study tours and training programs.

II. STRATEGIC ASSISTANCE AREA 2: EMPOWERMENT OF CITIZENS THROUGH DEMOCRATIC POLITICAL PROCESS

1. Overview and Factors Affecting Program Performance

The period beginning in September of 1996, has proven difficult at best for the Republic of Armenia's continuing transition to a democratic rule-of-law society. Seriously flawed presidential elections in September, followed by civil unrest and a government crackdown, represented a significant setback following the previous six months' signs of growing stability and political openness.

The September 1996 events in Armenia were, in part, the result of progress that had been made in the period leading up to the presidential elections on a number of democratic fronts - both on the institutional and grass-roots sides. On the institutional side, the presidential election law, including the composition of the Central Election Commission, was a vast improvement over previous years' election regulations, and allowed for a truly fair playing field. On the civic side, the most important development was the comparative growth in political maturity of the opposition parties. As opposed to the July 1995 Parliamentary elections, in which each of 13 parties ran disorganized campaigns based on individual personalities rather than platform issues (as well as lacking a key 14th opposition party, the ARF [Dashnak], which was banned from the elections all together), five opposition parties formed a coalition, the National Accord, which advocated one platform, ran behind one candidate, and conducted a fairly effective campaign. Finally, in the pre-election period, the media was generally (other than State outlets) free from government interference, and the majority of independent print and electronic media outlets presented balanced coverage of candidates and issues. Though arguable as to what extent, each of the above three developments contributed to the government's response -- ballot count tampering -- to a surprisingly unanticipated election day outcome.

Overall in the last year, there have been similar achievements bounded by disappointments in the key areas of USAID's democracy and governance program. Since January of 1996, when USAID/Caucasus began its democracy program in Armenia, the strategic focus has been on promoting the development of citizen participation and the reform and restructuring of the legal environment. Since inception, significant progress has been made toward achievement of the first objective, limited progress on the second.

In the civic sector, a modest growth in political and civic consciousness in the capital city of Yerevan (1/3 of the population of the country) and the secondary cities of Gumri and Vanadzor, has been achieved. Increased access to information has been a critical factor in that progress; though print media consumption has declined due to the high cost of newspapers, nearly twenty independent television stations have popped up throughout the country, more than 2/3 of which broadcast their own news programs. Though many of these stations face some pressure from local officials and "mafia", they continue to broadcast with little to no central government interference. During the pre-election and election period, most private stations broadcast campaign programs on an even fee basis, and many continued to broadcast election events -- including evidence of intimidation and fraud -- despite pressure from (plainclothes) police and local politicians.

There has also been a significant increase, and more importantly, deepening, of the non-governmental (NGO) sector. Though the Ministry of Justice roster has listed more than 1,000 registered NGOs for more than a year, the last six months have seen the evolution of a handful of organizations that are focused not just on humanitarian assistance, but on advocating for change: on the legal front, the media front, and on human rights. Though the connection to constituents is still relatively weak, a small core of Armenian NGOs are beginning to get a real sense of what their role could and should be in society, in lobbying government, the private sector, etc., to protect and promote rights and needs.

In the legal reform sector, much activity can be outlined, but little depth of change can be measured. Important pieces of legislation, many reflecting international norms, have been drafted and/or passed, but the development of mechanisms for appropriate implementation is lagging behind. Though a new government commission has been formed to focus on the issue, little has been accomplished over the last year in judicial reform. The judiciary, in part due to constitutional restraints (the President is still responsible for appointing directly or indirectly all judges), still lacks independence from political influence, and is rife with corruption. However, progress can be seen in the development of a certain independent consciousness among at least a significant minority of Armenia's judges; there appears to be serious political will on the part of these judges to push for the necessary reforms of the institution itself, and to take it upon themselves to learn what skills necessary to take on their appropriate role within a legitimate rule-of-law framework.

2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions

Note: Evaluating progress towards strategic objectives aimed at promoting democracy and good governance (DG) requires a qualitative rather than a quantitative approach. Per USAID/Caucasus' first Strategic Framework for Armenia, DG indicators were established which would require significant survey data for measurement; due to limited staffing and financial resources for the DG Office, no surveys were conducting during the reporting period. Therefore, this "R4" is based on an anecdotal narrative approach, rather than actual data measurements.

2.1. SO 2.1 -- Increased, better informed citizens participation in political and economic decision making

Progress Rating: 2

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 2.1: Citizen Participation		X	
IR 2.1.1: Improved availability of and access to information		X	
IR 2.1.3: Increased public confidence in citizens' ability to affect change		X	
IR 2.1.4: Increased public confidence in the political process			X

Performance Analysis

USAID programs have been effective in supporting gradual but significant progress towards the objective.

On the side of the development of an informed citizenry, USAID assistance has focused mainly on support of independent television. The majority of Armenians, some 80% by recent polls, get their news from television; this is due in large part to the expense of print media, but also to the increasing professionalism and broadening scope of available electronic media. USAID programs have focused on the key needs of the media sector in Armenia, as identified by host country counterparts themselves. This includes increasing professionalism of journalists and technicians, providing the skills necessary for the development of a financially viable independent media sector in a market economy, as well as improving the legal and regulatory environment aimed at promoting and protecting press freedom.

Though significant improvements can be seen in the variety and quality of independent news coverage on the political side, little is yet available, both due to government and media disinterest and/or incompetence, to provide the population with accurate and appropriate information regarding the economic life of the country. USAID will address this issue by ensuring that DG and Economic Restructuring contractors and grantees work together to provide options for the government, business and media communities to best share critical economic data with a broader spectrum of the public.

As in most democratic societies, informed citizens need a vehicle in which to promote their concerns regarding the nation's key political and economic decisions. Concerned and active citizens need the skills, and enabling environment, in order to advocate for their needs at all levels and branches of government, on law, policy, enforcement, and basic access to information on how and why decisions are being made. The growth of the "third" or NGO sector in Armenia has been rapid, but plagued by cultural, political and economic obstacles. The majority of NGOs, many of which came into being following the 1988 earthquake, have been focused on humanitarian projects, often effective on a person-to-person basis, but rarely effecting any larger national policy change or reform.

There is also still a certain degree of misunderstanding, and occasionally well-deserved skepticism, among the population regarding the role and agenda of local NGOs. Many NGOs are seen, often correctly, as vehicles for either funneling "dirty" money, or garnering "clean" money for "dirty" purposes. USAID programs to support the development of the NGO sector have focused on establishing a skills basis for sustainable organizational development, including skills for lobbying government, but also on the ethics of public voluntary work, and the importance of public education and outreach. Significant progress can be seen in the area of NGO-government dialogue on real policy issues, but the connection to constituencies is still lacking. USAID programs in this sector have begun to focus towards this issue.

Finally, informed citizens who wish to participate in their nation's political and economic life need a certain degree of confidence in their elected political institutions to be assured that calls for change are heard, and more importantly, implemented. For these institutions to be responsive

and effective, an open, pluralistic political environment, fair election process, and most importantly, an independent and effective legislature are necessary.

USAID programs in these areas have been limited, and both due to this fact and an obvious, albeit changeable, lack of political will, not significantly effective. On political pluralism, programs had focused on providing a broad range of political parties with the skills necessary for building platforms, constituencies, and cooperation. Though effective on a surface level, the programs, which have since the September 1996 elections been "on hold", did not achieve significant depth, which, given 70 years of history, would require a good deal more time to effect than one or two years.

In terms of electoral legal and regulatory reform, USAID programs were in fact effective -- to a degree. USAID assistance on revision of the election law resulted in a vastly improved draft from previous years; USAID assistance on revising the administration process also resulted in significant simplifications and design efficiency improvements. However, in the end, political will was lacking to fully implement these changes.

USAID does not, however, intend to curtail election reform activities. Though the window of opportunity on this issue was severely reduced after not one, but two elections gone bad, there is now some measure of opportunity -- in large part due to the "smashing" the GOA has taken from the international community -- to finally get a "clean" election. The next parliamentary elections are scheduled for 1999. In the interim, USAID assistance will focus on intensive training for the full scope of election administration personnel in election law, and most importantly, election administration ethics: "why do it right, and what are the real and long-term consequences of doing it wrong?". Though there is nothing USAID, or any other outsider, can do to guarantee free and fair elections if the political will is absent, we can build upon small successes at lower levels to instill a gradual evolution, if not for the government as an institution, then at least within the minds and behavior of the individuals responsible.

IR 2.1.1

Through USAID assistance, eight independent television stations have formed a commercial network which produces a national news program "Storaket", aired on more than twenty local stations, and viewed by as many as 25% of the population in any given week. This news program included un-censored coverage of the pre-election campaign period, and its aftermath. Access to this kind of information led thousands of citizens to public protest. In addition, the network has been effective, due to USAID training, in garnering local and (two) multinational advertisers. The sharing of advertising revenues has begun to allow the network member stations to withstand financial, and to a certain degree, political pressure from local authorities and "mafia".

USAID support of the national journalists' association, the Yerevan Press Club (YPC), along with other donors' support, has provided the human (training) and financial resources necessary for the YPC to set up a media support center, which provides access to on-line data and communications to member journalists, and contracts legal consultants to draft and lobby a local media-developed law on the press, law on broadcasting (television and radio frequencies and regulations), and a law on "freedom of information". The YPC has been successful in engaging

the National Assembly Committee on Media and Communications, which has put a hold on two laws which would have severely restricted the rights and freedoms of the press.

Though the media in Armenia have become significantly more independent, and comparatively more professional, there is still a need to develop real investigative journalism, as well as greater attention to the substance of political and economic events, rather than merely the personalities. USAID will implement a new program of training and hands-on experience for up to half of the nation's media professionals (approximately 200 out of 400) that will cover the basic and advanced issues, both journalistic and technical, in print, radio and television news production.

Finally, USAID intends to address the issue of print media on a more comprehensive scale than heretofore. Though the majority of the population gets their news through the television, the highly literate population in various surveys has noted the major reason for this as not choice, but lack of ability to pay for high-priced newspapers. Newspapers are high-priced due to the continuing monopoly of the State on printing and distributing mechanisms. USAID, while taking a cautious approach due to the political and financial pitfalls experienced elsewhere in the NIS, intends to develop a program to install a private printing press in Armenia on a competitive basis through a loan mechanism. This press, and subsequent alternative distribution system(s), will allow a consortium of interested newspapers to produce more copies more cheaply, and distribute more broadly, giving more citizens -- particularly those outside the capital -- greater access to non-State-sponsored news and information.

IR 2.1.3

USAID progress towards achieving this intermediate result has met expectations, though some mid-course corrections may be appropriate to assure continued progress.

Based in large part on USAID and other donors' support of the NGO sector in Armenia, there are now a significant number of serious and reasonably effective local organizations supporting reforms in the social, political, and economic sectors. In addition, due in large part to USAID training and support, a number of key local NGOs have been able to successfully engage and dialogue with key parliamentary and ministry leadership to advocate for changes in policy and law. A few examples include a campaign of some 50 NGOs to the Ministry of Justice and National Assembly Committee for State and Legal Affairs for changes in the law on public organizations. The "lobbyists" were successful in removing some fairly onerous sections of the original Ministry draft law, i.e., those which provided opportunity for government persecution based on political standing. In addition, the example in the above IR section regarding the YPC's efforts to lobby for change on media laws has been supported by USAID providers in the NGO sector.

However, it is apparent that these are only first steps in learning and practicing advocacy: to date, most attempts by local NGOs at advocacy have been addressed to issues which affect the NGO directly, rather than issues which affect their identified constituencies. Though USAID-supported training has included this as a key issue in preparing NGO leaders, it is both a practical and philosophical aspect to public advocacy that will take time and continued effort to achieve real depth in individual community members, and for the community as a whole.

Finally, in order for citizens to take more of an interest in the grass-roots mechanisms for change, they need to know what their rights and responsibilities are to effect those changes. USAID has addressed the issue of civic education only on a limited basis to date, particularly, focusing on voter education programs. However, elections are not the only key area for citizen participation; the majority of the population still has little sense of how their rights -- and responsibilities -- have changed, now that they are ostensibly living in a democracy. This is a key issue that USAID intends to address in terms of civic education not only for those of voting age, but for the next generation, that must be prepared to carry out the changes that have been wrought in this country on paper, but not yet in reality. Providing young adults with basic knowledge of their constitutional individual and economic rights will help to ensure that USAID programs -- not just in the democracy arena but all development sectors -- will have an effect which will last beyond the life of U.S. foreign assistance programs to the region.

IR 2.1.4

USAID has been unable to achieve significant progress towards this intermediate result, that is, increased public confidence in the political process.

USAID programs towards this objective prior to the most recent elections focused on political party development, election administration reform, and to a limited degree, parliamentary development. Though some progress was made, a lack of political will on top of a still very nascent democratic culture prevented lasting impact from being achieved.

Arguably, USAID assistance in the area of political party development can be seen to have both contributed to the maturing of pluralism in this country, but also indirectly to the GOA's actions during the September 1996 election. Training for political parties -- opposition and government where interest was voiced -- centered on constituency building, platform development, and dialogue issues. Though no absolute connection can be made, following USAID-funded training workshops and seminars, five opposition parties coalesced into an opposition coalition -- one which presented a candidate who, with the bulk of the opposition behind him, presented a serious challenge to the incumbent. This unprecedented development occurred approximately two weeks prior to the actual election date. Prior to the establishment of the coalition, GOA officials, particularly election officials, had been overwhelmingly cooperative with international observers, and international and local media. The change in environment occurred immediately following the opposition's announcement.

Following the election and its aftermath, a determination was made to put a moratorium on these types of programs, until such time as a full assessment of the role and potential impact of such programming in this new political environment could be determined. However, given recent steps on the part of the GOA and some elements of the opposition to come together in dialogue, it appears likely that a resumption of this type of programming on a limited basis, focused particularly on cooperative political action and constituency representation issues, will be able to positively impact on the development of political pluralism, and thus, provide opportunity for citizens to develop confidence in political parties' ability to represent their interests.

USAID assistance on electoral reform began in February 1996 and focused on a redrafting of the existing election laws and regulations, as well as support of voter education programs. Though

the election law and regulations were improved, and voter education campaigns were measurably effective (from 40% invalid ballots in 1995 elections to less than 20% in 1996), the overall election process was extremely disappointing. Whatever the motive, elections were seriously flawed, and the results highly questionable. It is useful, however, to maintain some perspective on this issue: it has taken most democracies in the Western world decades to establish a system of fair and effective elections.

Though political will and appropriate legal environment are requisites, so is time -- the Armenians held their first democratic election less than six years ago. Given this fact, and the U.S. foreign policy interest in the successful transition of Armenia to a democratic state, it is important USAID maintain its commitment to promoting real change in the system now during this window of opportunity prior to the 1999 parliamentary elections. Given reasonable political will, whether for real change or to satisfy international partners, USAID targeted assistance in this area can have significant impact over the long haul.

USAID has not focused assistance on the parliament (National Assembly) as an institution, rather, assistance has been dedicated to individual committees responsible for key pieces of legislation. The reasoning lies in the legal and political composition of the institution: 1) the parliament, constitutionally, is subordinate to the executive branch, can be dissolved by the President, and works part-time even when functioning; and 2) the July 1995 parliamentary elections were seriously flawed, seating an 80% ruling coalition majority. USAID intends to limit institutional assistance to the National Assembly until such time as new elections are held, though we will continue to support individual committees with evidenced political will for reform.

Expected Progress through FY 1999 and Management Actions

Independent print and electronic media coverage nationwide, providing professional quality news covering political and economic events and information; 80% of the population with access to these resources;

NGOs in all three major regions of the country -- north, Yerevan and south -- engaging constituents on political, economic and social issues, and advocating successfully for change with government; 30% of laws passed by the National Assembly voted with and contributed to by local NGOs;

Free and fair parliamentary elections held by mid 1999.

2.2. SO 2.2 – Legal System that Better Support Democratic Process and Market Reforms

Progress Rating: 2

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 2.2 Legal Systems that Better Support Democratic Processes and Market Reforms		X	
IR 2.2.1 Enactment of effective and fair laws/regulations that protect civil and economic rights		X	
IR 2.2.3 Fair, Equal and Timely Enforcement of Laws			X

Performance Analysis

USAID programs targeted to support achievement of this strategic objective have met expectations, given the expected political and technical constraints.

USAID assistance has had significant impact on a variety of key legislative acts in the reporting period, including but not limited to, the Civil Code, Criminal Code, Election Code, "NGO" Law, Media Law, etc. There has been an increase over the reporting period in the receptivity of Armenian law drafters to implement recommended revisions, more so within the parliament than within originating ministries. A few key partners within the National Assembly have demonstrated political will to put in place laws that reflect international norms, while attempting to incorporate a degree of Armenian cultural context -- a difficult task, particularly in light of IFI rapid turn-around conditionalities for loans and credit.

However, whatever progress is made on "paper" will not be sustainable without the mechanisms in place to properly implement these laws, including the (re)education of the legal practitioners responsible, and the citizens affected. Judicial and legal reform is arguably the most difficult sector in which to achieve sustainable results within those countries burdened by a Soviet legacy of rule by arbitrary political whim. Not only laws, but behavior and mindset must be completely realigned.

USAID has only recently begun to develop a comprehensive approach to legal and judicial reform in Armenia. Though U.S. expertise is necessary and effective, it cannot on its own adequately meet the needs of a nation adjusting to a new civil law system, aiming for accession into European conventions and alliances. Therefore, USAID has focused its resources on developing joint programs with key European partners, including the German bi-lateral donors and the Council of Europe, in addition to traditional partners such as the World Bank. Though the task at hand for Armenians to redesign the judicial system is daunting, a multilateral approach in assisting in the process can assure both avoiding duplication and wasting U.S. resources. This approach must provide the models and skills necessary for Armenia's transition to a functional, effective, and fair system of enforcement, which will safeguard human rights, as well as provide confidence to both domestic and foreign investors that justice will be meted out evenly and efficiently.

IR 2.2.1

USAID has played a significant role, in cooperation with German providers, in the drafting of the new Armenian Civil Code, the central piece of legislation for a European style market economy legal and regulatory framework. Though initially based on the Russian Civil Code, through the efforts of USAID consultants, many of the drawbacks of the Russian model have been revised; in particular, issues such as defining legal entities and mortgage. USAID is also committed to providing appropriate (re)training materials to all Armenian legal practitioners focused on what the new Civil Code means in practice. We will be funding commentaries, a common European method, written by the Code's drafter, and will support their dissemination throughout the country. In addition, USAID on-going programs for continuing legal education (CLE) for attorneys and judges will focus closely on this legislation, which, due to its nature as an economic "constitution" which outlines behavior in a market economy, presents the most difficulty for more senior practitioners to whom the concepts of legal market activity are still somewhat vague, if not alien.

Other important laws and regulations USAID assistance has had positive impact on include legislation related to NGO and Mass Media enabling environments. Please see SO 2.1 for more detail.

IR 2.2.3: Fair, Equal and Timely Enforcement of Laws

Though USAID expectations for progress toward this intermediate result were relatively modest, i.e., real change to come within an outside estimate of ten years, even less progress than had been targeted has been achieved.

In large part, the lack of progress has been heretofore due to lack of political attention, more than political will, in addition to basic constitutional constraints. Though there is language within the constitution which establishes a separation of powers, reading in-between the lines -- i.e., the President is responsible for appointing directly or indirectly all judges, the Constitutional Court can be appealed to only by the President, 1/3 of the Parliament or candidates for high office, etc. -- the judiciary is not effectively independent.

USAID has provided a significant amount of material assistance to the Constitutional Court. This, however, has not resulted as yet in any pronounced improvements in the professionalism or independence of the nation's highest Court. The Court is however committed to expanding its jurisdictional powers to allow for individual citizens to appeal, and as such, USAID intends to support a multi-donor sponsored training program for the Armenian Constitutional Court, focusing on critical issues for the Court's development, i.e., case management, Human Rights, Economic transition issues, etc.

USAID has also recently begun a three phase program for the training of lawyers and judges in commercial law practice. The first phase has been completed as of this writing, which was a train-the-trainers program, designed to familiarize a core group of judges and attorneys both with commercial law practice on an international model, and with adult education methodologies. These trainers will now be expected to conduct partnered training with American and/or European experts for their colleagues, focusing on new Armenian legislation, particularly, the new Civil Code. The third phase will include an expansion of the audience to include non-legal

practitioners, such as government employees, NGOs and media representatives on an on-going basis, presented by the Armenian trainers.

The above program was designed solely by USAID, with limited Armenian counterpart input, due to the inability of Armenian partners to focus on the issue of retraining for the bar and judiciary during the better part of the reporting period. The program noted above was intended as a stop-gap measure, to assure that at least some progress was made on this front that would be of use to the Armenian institutions and partners when they reached a stage where they were ready to focus on this issue. Recently, the Armenian President issued a decree establishing a Committee for Reform of the Judiciary, which includes representatives from the executive, legislative, and judicial branches. Now that a coordinating body has been established, with which USAID and other donors can efficiently work, a multi-donor program of assistance for the judicial system as a whole, including technical and material assistance, re-training, methods and mechanisms for recertification, etc., is in the planning stage.

In addition, USAID has begun a program to focus on the key issue for long-term sustainability of legal and judicial reform in Armenia, that is, reform and restructuring of the State University Law Faculty. USAID assistance is focusing on training and re-training of existing faculty and post-graduate students, in key areas such as commercial, international, and human rights law, the development of appropriate new curricula, and the establishment of a modern on-line information retrieval system which will leapfrog the Law Faculty into a modern legal research facility. In order for legal reform to be sustainable, this institution must have the capacity to effectively prepare Armenians to become private lawyers, defense attorneys, judges and prosecutors, within a democratic market-oriented, rule-of-law framework.

Finally, the criminal justice system in Armenia is still based solely on Soviet legacy, including the primacy of the Procuracy, and the corruption and intimidation tactics of the law enforcement agencies. Due to a lack of apparent political will within any of these institutions for change, USAID has yet to engage with the leadership therein to discuss possible assistance programs. However, because of recent personnel shake-ups within the Procuracy, compounded with the critical timing for reforming the criminal justice system before or at least at pace with the development of the market economy -- and most importantly privatization -- in order to avoid the Russian experience, USAID will be at a minimum incorporating limited numbers of reform-minded representatives from these institutions in training programs, and at a maximum providing direct assistance on a limited basis focused on re-training issues.

Expected Progress through FY 1999 and Management Actions

Full Civil Code, Code of Civil Procedure, Criminal Code, Code of Criminal Procedure, and Administrative Code drafted and passed, including key elements of international norms for compliance with European and WTO conventions;

Wide dissemination of newly passed legislation to legal practitioners, educational institutions, NGOs and the Media;

Establishment of an indigenous training facility with the capacity to retrain practicing judges and lawyers in new Armenian legislation and normative acts, including preparation for re-certification;

Legal and practical limitations placed on the Procuracy in the process of criminal justice.

III. STRATEGIC ASSISTANCE AREA 3 -- STRENGTHEN THE CAPACITY TO MANAGE THE HUMAN DIMENSION OF THE TRANSITION

1. Overview and Factors Affecting Program Performance

An economic embargo imposed by Turkey and Azerbaijan and the severe economic dislocation resulting from the collapse of the Soviet Union continue to be the major factors influencing the quality of life in Armenia. A 60% drop in economic output between 1992 and 1994 led to falling household incomes and living standards, accompanied by a severe reduction in the capability of the government to provide social services and maintain public infrastructure. The economic embargo disrupted normal trade links, increased transportation costs and added to the burden of procuring energy supplies already made more expensive by the dissolution of the Soviet Union. These economic crises followed on the heels of a severe earthquake in December 1988 which took 25,000 lives and left 100,000 homeless. In addition, Armenia had to absorb 300,000 refugees and 77,000 internally displaced persons (IDPs) as a consequence of its conflict with Azerbaijan. The total numbers of refugees, IDPs, and families living in temporary shelters have declined significantly, helped in part by large-scale migration particularly to Russia and other parts of the NIS. However, approximately 13% of the total population (adjusted for migration) or 400,000 persons are estimated to fall into the category of 'most vulnerable'. Among these are people with disabilities, a large number of pensioners, children, earthquake survivors and single parent families.

While economic growth has finally resumed, due mainly to rising activity in the trade and retail sectors, and inflation has been cut dramatically, deprivation remains widespread. The cost of food alone vastly outstrips the average wage so that many Armenians have come to rely upon remittances from the diaspora, humanitarian aid, income from the informal sector, and kinship support networks in order to survive. In the foreseeable future, economic growth will not be sufficient to bring about widespread poverty reduction, and in the course of economic restructuring income disparities and inequities are certain to increase.

The Government of Armenia (GOA) is in agreement with the international donor community that NGOs/PVOs and local civic groups have a vital role to play in identifying social needs and implementing activities to benefit vulnerable groups. However, these organizations presently lack the experience and capacity to perform this role. In order to enable donors and the central government to move beyond provision of direct humanitarian assistance and to develop a more sustainable approach, it is essential to bolster this indigenous capacity.

2. Progress Toward Objectives, Expected Progress through FY 1999 and Management Actions

2.1. SO 3.1 -- Reduced Human Suffering and Crisis Impact

Progress Rating: 2

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 3.1: Reduced Human Suffering		X	
IR 2: Urgent Basic Needs Met for Vulnerable Households through Intervention		X	
IR 2.2: Improved Identification of Vulnerable Households	X		
IR 3: Vulnerable Households Meet Their Own Basic Needs		X	

Performance Analysis

The purpose of this strategic objective is to reduce the human suffering in Armenia caused by a number of factors: severe earthquake in 1988; near collapse of the economy following the break-up of the Soviet Union; a trade embargo occasioned by the conflict with Azerbaijan; and slow pace of reform which has contributed to poor economic performance. By a variety of different measures, living standards for the vast majority of Armenians have plunged during the last decade. Along with rising poverty and unemployment rates, the Armenian citizenry has suffered the ill effects of the collapse of the country's already deteriorated health care system. Medical treatment options have become beyond the reach of most people.

There will continue to be a need for humanitarian intervention by either the GOA or the international community until economic growth is sustainable and its benefits more equitably distributed. There has, however, been substantial progress in reducing human suffering, in part due to better targeting of aid resources to the most vulnerable segments of the population. Since 1996, the USG has pursued a more focused approach to the provision of humanitarian aid and implementation of transitional/development activities. It has simultaneously actively promoted greater self-sufficiency, community mobilization, and civic action at the grass-roots level. U.S. PVOs have strived to target the most vulnerable households and to strengthen nascent indigenous NGOs and communities to ensure maximum impact of USG humanitarian assistance programs in Armenia.

The long-term solution to widespread deprivation in Armenia continues to be sustained economic growth. Increased local entrepreneurship and the attending promise of economic renewal bode well for the country's ability to provide for the basic needs of its citizens.

IR 2: Urgent Basic Human Needs Met for Vulnerable Households through Intervention

Progress rating: 1-2

USAID provided large-scale humanitarian support to the people of Armenia in the form of kerosene and wheat. Provision of 64,000 metric tons of bulk wheat to the GOA not only served to meet critical food needs, it was also designed to support the restructuring of the food sector

by conditioning delivery on the GOA privatizing at least 25 bakeries and 5 flour mills. While the targeted enterprises were not privatized during FY 1996, the government has recently signaled its intention to reform the food sector by scheduling these enterprises plus an additional 95 state-owned agricultural enterprises for privatization.

Due to the economic embargo, Armenia has not been able to import the heavy fuel oil (mazout) traditionally used to heat homes, businesses and institutions. Particularly hard hit are the most vulnerable of Armenia's population who cannot afford to purchase various alternative fuels for home-heating purposes. USAID directly intervenes through a nationwide kerosene distribution program, which enabled 213,000 vulnerable households (or approx. one-third of the population), determined using systematic criteria, to meet their basic heating needs during the 1996/1997 winter. This program also provided heat to approximately 38,000 households with poorly insulated temporary shelters in earthquake zones and to 1,500 schools throughout Armenia.

Finally, USAID humanitarian relief programs delivered food and non-food aid to over 30,000 IDPs and refugees living on the northeast border region, and provided a food commodity mix to urban-based pensioners, people displaced by the earthquake, and single-female headed households -- over 100,000 individuals in total.

IR 2.2: Improved Identification of Vulnerable Households

Progress Rating: 3

Accurately targeting humanitarian aid has been a challenge since international organizations began operating in Armenia in 1993. By virtue of USAID's funding of the PAROS system, Armenia has developed the most comprehensive vulnerability targeting system anywhere in the NIS. A vulnerability index is calculated using a sophisticated formula, which takes into account income, land and livestock ownership, family size, housing quality and a host of other variables. PAROS-generated vulnerability lists are used for commodity distribution by almost all humanitarian aid agencies working in Armenia. As of this year, nearly 90% of the Armenian population has registered under this voluntary program (up from 80% in 1995). Further refinements of the PAROS program have led to improved capability to identify and assess vulnerable households. The GOA recognizes the value of PAROS, and USAID anticipates that by the beginning of 1998 the program will be fully funded and administered by the government.

IR3: Vulnerable Households Meet Their Own Basic Needs

Progress Rating: 2

In an effort to reduce Armenia's dependence on humanitarian assistance, USAID has begun to shift its focus toward a more development-oriented program. Transitional/development activities managed by Save The Children Federation (SCF) under an umbrella grant have been introduced and advanced in part through micro-enterprise creation and training, citizen participation, and NGO capacity building. During FY 1996, support has been directed to approximately 100 community development micro-projects nationwide. The projects have given rise to community action groups and benefitted thousands of urban and rural dwellers by improving, for example, access to potable water, irrigation for crops, and health/sanitation. Income security has also been increased as a result of a series of micro- and small business development projects which provided full- or part-time employment for 6,352 individuals. Under this same World Vision program, 248 businesses received small grants while some 500 micro-entrepreneurs received business and marketing training.

During FY 1996, USAID support was instrumental in bolstering the institutional capacity of local NGOs and increasing public awareness of the sector by providing technical assistance and training through local grant programs and an NGO Training Center. USAID has also strongly encouraged U.S. PVOs to form genuinely collaborative partnerships with local counterparts to implement projects. As a consequence, program development and management skills have been transmitted to indigenous organizations and institutions. Counter-balancing this positive trend toward more capable local NGOs is regressive legislation dealing with the non-governmental sector. The new law, approved by parliament this past year, is likely to chill the climate for creation and growth of indigenous NGOs. Rather than encouraging the development of the NGO sector, the law serves the interests of the GOA by identifying organizations for taxation purposes.

Expected Progress Through FY 1999 and Management Actions

Through 1999, USAID will support the objective of reduced human suffering by supporting international organizations (i.e., UNICEF) while providing other forms of assistance designed to improve the policy, legal and regulatory environment. It considers the PAROS program an unqualified success that will continue to enable the GOA and other providers to target more effectively the most needy segments of the population. The social cost of restructuring the economy imposes a tremendous burden on the vulnerable population, particularly as the prices of essential goods have risen sharply. Though the vulnerable population will remain dependent on some form of humanitarian assistance for the foreseeable future, eventually the cycle of dependence must be broken by reducing unemployment/underemployment, increasing local production and formulating options for increased income generation. There is sufficient anecdotal evidence, as well as limited data including estimates of the thriving informal sector, to suggest that the most acute stage of the humanitarian crisis has passed. While the impasse over Nagorno-Karabakh will continue to make life difficult for many Armenians, it seems fair to conclude that most citizens would prefer to see improvements in their standard of living resulting from implementation of long-overdue economic reforms rather than subsistence survival inherent in humanitarian relief. Accordingly, USAID will introduce a new strategic objective that will build on the non-humanitarian work already started under the SCF Umbrella Grant. It will expand opportunities for local NGOs, community action groups and micro-entrepreneurs to develop

grass-roots structures and businesses that can help improve the sustainability of benefits and services, while reducing dependence on humanitarian assistance.

USAID will also look towards larger social sector efforts, which would include, but not be limited to, an integrated rehabilitation of the social, economic and administrative policy environment and infrastructure in ways which: 1) tangibly contribute to local economic and social stabilization through the creation of employment opportunities and individual/family income; 2) result in more cost effective, sustainable and administratively functional municipal government; 3) prioritize and effectively address social needs and targeted service availability, access and delivery; and 4) encourage community organization and active participation as an integral element of on-going municipal and national reform.

USAID/C will look to develop and implement a multi-sectoral approach which programmatically links a number of Caucasus strategic objectives.

IV. STRATEGIC ASSISTANCE AREA 4 -- SPECIAL INITIATIVES AND CROSS-CUTTING PROGRAMS

1. Overview and Factors Affecting Progress

Armenia's development portfolio's achievement was strengthened by Global Net activities during FY 1997. SO teams, involved in development, generated a brisk and constant demand for SO 4.0 services. Where our humanitarian relief (SO 3.0) activities have become involved in development issues, greater use is being made of training and health sustainability cross-cutting activities. Training and other support activity impacts have met expectations. Another relatively successful cross-cutting initiative was the Eurasia Foundation grant program which provided funds to numerous organization in a wide range of sectoral areas. Though special initiatives are included in the USAID portfolio, their significance is less relevant because these activities are not integrated in or considered as contributing to SO results.

In the training area, a primary factor affecting progress is USAID's ability to have continued access to academic and non-governmental business and other organization circles to permit open training recruitment of these leaders and potential leaders, together with the candidate pools found in Government of Armenia institutions. Other lesser factors include the ability of citizens to travel outside Armenia for extended time periods and the readiness of government officials to integrate training initiatives identified by USAID/C into their on-going GOA programs of restructuring and reform.

No less than ten percent of discretionary funding in FY 1998 and FY 1999 will be allocated to expand and deepen the impact of SO 4.2 (training) to support the Mission development portfolio. This represents an increase for program support in the range of up to five to seven times over previous Georgia assistance budgets, and twice the levels over previous Armenian assistance budgets.

2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions

2.1. SO 4.1 Special Initiatives

Hospital Partnerships:

Two Hospital Partnerships were active in Armenia in 1996: the partnership with the Emergency Scientific Medical Center (EMC) at the Boston University Medical Center and the University of California at Los Angeles. Both partnerships have completed one year of a two-year, reduced funding Graduation Phase of support.

The programs focussed on nursing leadership and skills development (including the use of Telemedicine Consulting), and neo-natal intensive care improvement. Future work by the partnership will expand the neo-natal program to include general women's health and establish

a Nursing Learning Center and Resource Center to introduce continuous leadership training into the profession.

Family Planning:

Not-for-profit community organizations involved in public health and family welfare will be strengthened by the proposed Family Planning initiative. Plans are to develop a procurement and marketing capacity for community-based private sector commodity suppliers for essential contraceptives and drugs. For-profit and not-for-profit firms and institutions will be strengthened and encourage family planning education in schools and the public fora.

Sanitation, Infectious Disease and Water Quality:

Not-for-profit organizations which provide services under the broader scope of preventive public health will be supported where opportunities exist to mobilize community initiative and collaborate in achieving public goals. This program will undertake such initiatives where opportunities exist to advance community sponsored action such as review of regulatory and legislative actions, explore the potentials for special management and revenue districts, building and development controls, and improvement of utilities and waste management.

Eurasia Foundation:

The Eurasia Foundation administers small grants and business loans in support of indigenous organizations (and U.S. organizations) which carry out all programs in three USAID strategic assistance areas. Eurasia Foundation small grants supported 64 activities in Armenia with FY 96 Carry-over and FY 97 funds. This grant program strengthened NGOs concerned with gender and ethnic issues and independent television stations with an award packets consisting of technical information, and training in station management, journalism advertising, library and data base operations and data base development. Other grants focussed on the use of the Internet to expand organizational links with the outside world. The grant program emphasizes sustainability of entities receiving initial support by conducting several conference programs annually.

Slightly more than half of the awards were in support of the Eurasia Foundation Small Business Loan program. Business plans were prepared for medicinal plant remedy production, tourism, the Textile Industry and rural mini-hydropower enterprises. Eight grants were given to enterprises to strengthen business consulting services; eleven grants were made for textbook purchases, translations, curriculum design and other publications for new entrepreneurs; and another eight grants were made to educational institutions to develop and deliver education programs in economics, business, the securities markets and related topics.

For further discussion of the Eurasia Foundation's small business loan program see the section of this document on Strategic Assistance Area I. Economic Restructuring, SO 1.4. The Foundation's programs in the future will be moved to SO 4.1 as a Special Initiative.

2.2. SO 4.2 Cross-Cutting Programs

Exchanges and Training:

Since FY 1993, the ENI/NET project and subsequent Global/Net activity has been the primary training implementor in Armenia . Using FY 1996 Carry-over and FY 1997 resources, to date 75 Armenians travelled to the United States for short term training and 3 others attended third-country training. The training complemented other USAID activities in the country portfolio. Specifically, trainees completed programs in: national budgeting and municipal financial management, banking supervision, horticulture and agribusiness, media technical skills and airport management. For the latter part of FY 1997 training activities are planned for banking supervision, municipal financial management, the organization of small and medium size enterprises, enterprise accounting standards and a study tour for Energy Regulatory Commission Board members and staff. An additional 20 individuals received project related training under the USAID umbrella Global/Net agreement on the basis of fee-for-service.

In FY 1998, USAID/C will begin implementation of the 21st. Century Fund (The Fund) program which is a newly proposed regional program designed to address the immediate and longer-term education and training needs of potential young leaders in Caucasus, while working with the partner nations to develop the indigenous capacity to meet these needs in the future. It will serve to upgrade requisite technical/intellectual capabilities of a select group of citizens in Armenia, Georgia and Azerbaijan which will become part of the vanguard of reform in these struggling post communist societies.

The initiative will offer pro-reform practitioners and young academics the opportunity to observe, implement and study the workings of a democratic, modern pluralistic society, with the aim that they will put that knowledge to work in their own countries. The Fund will focus on fostering the integral, relationship between education, government, business and other non-governmental institutions to ensure a better understanding of their respective roles in the local community. A small group of leading U.S. institutions, which uphold an exemplary standard of excellence, will be chosen to act as partners in executing the programs of the Fund.

Mission expects the education and training programs under the Fund to help advance the cause of reform in discrete areas in the short-term while helping to lay the foundation for the democratic and free-market transformation of Armenia. Training a cadre of reform-minded young policy makers, civil society activists, and academics is unlikely to produce major national level impact over the next few years, but as has been the case in other regions of the world, a remarkable number of these Western-trained and educated individuals come to occupy prominent positions in government and the private sector.

However, in considering the two-year time frame envisioned in this document, the Fund should accomplish some of the following:

Creation of a "Sentinel System" that identifies promising, pro-reform young professionals in business, government, academia and the NGO/PVO sectors;

Establishment of a US-based training/education program;

Establishment of a program in a partner Armenian academic institution, the purpose of which would be to prepare students for long-term (e.g. Ph.D) training or educational opportunity in the US or Europe. The program could include technical assistance for curriculum development and for bringing in American faculty for semester or one-year stints.

Formation of an alumni association for graduates of US-based training/education programs so that they may continue to network and draw upon their common experience.

V. PARTNERSHIP FOR FREEDOM

Though Armenia is not currently planned to actively engage in the Partnership for Freedom (PFF) in FY 1998-99, there are several activities in the USAID portfolio which lay the groundwork for Armenia's future participation in PFF. For example, the USEA is establishing a partnership between U.S. and Armenian utilities which coincides with the spirit of the PFF program. This is a pro-bono program for U.S. utilities and is a direct cooperative effort by two operating organizations. Additionally, several activities planned in the economic restructuring and privatization arena could contribute to elimination of trade impediments/barriers and enhance capital investment partnerships. USAID's most promising PFF activity will be the FY 1998 initiation of the 21st Century Fund (training program) which will establish partnership training and exchange opportunities and initiate at least two institutional partnerships by the close of FY 1999.

PART III

STATUS OF MANAGEMENT CONTRACT

In the early summer FY 1996, USAID/C presented Armenia and Georgia Strategic Planning Documents for approval and the required R4 Submissions. Extensive USAID/Washington reviews resulted in the preparation of an Armenia and Georgia R4 reporting cable and management contract with USAID/C Representative. Though many of the issues and concerns identified in the R4 cable were addressed and revised strategic documents were sent to USAID/W, ENI senior management, in consultation with the new USAID/C representative, concluded that a new management contract would be prepared after USAID/C's new management team was able to review USAID/C's program portfolio in the Caucasus. Thus, no changes in Strategic Objectives are proposed in the R4 Submission, but analysis, results and hypotheses are presented to lay the groundwork for a new Regional Plan and individual Country Strategic Plans.

Significant revisions in the developmental outlook and focus of the USAID program in the Caucasus will be necessary based on new opportunities for growth which are regional in nature. This view, however, is coupled by continuing irredentist tendencies and barriers in the regional environment for ethnic peace and varying governmental perspectives. In Armenia, we have not achieved the benefits we should expect to enjoy given our efforts in Economic Restructuring Objectives, and have only marginally achieved our objectives under Democracy and Governance, but we believe that the program emphasis should be continued in the new strategy and the time-frame for phase out extended. Only with a degree of parallel progress on similar fronts and in each of the three countries will we begin to see sustainable progress.

Issues and Concerns

Overall Focus: Our Strategic Objective Plans for each country currently do not reflect a regional perspective. USAID/C will prepare new regional and country strategic plans which reflect USAID/W and Mission revised thinking. The document for Armenia and Georgia will also have a major redesign of Strategic Assistance Area 3 currently focused on humanitarian crisis (SO 3.1) toward social reform and community mobilization (SO 3.2); an increased emphasis in our Cross-cutting Initiatives (SO 4.2 - Training); and general shift of peripheral activities to focus on privatization, trade and investments in SAA 1 and SAA 2, to compliment the regional cooperation focus.

Process, Systems and Reporting: In the past year USAID/C has done much to resolve the weaknesses. We have undertaken an aggressive program to train FSN staff and to encourage attendance at workshops and conferences which contribute to staff development and overall Mission management. We have pursued an intensive program of consultation with partners, clients and colleagues through monthly "Working Group" conference sessions (in Democracy and Governance, Economic Restructuring, and Training) thus building alliances and opening up discussions of customers' needs. There has also been a marked improvement in collaboration and communication with our donor colleagues and U.S. Embassies. We have requested and received support from the USAID/W Bureau of Management to review our structure and management operations and await the results of this review. Prior to the visit, the Mission began an aggressive program of PSC and US Direct Hire staff recruitment; however, several of the most urgent positions remain unfilled, and our efforts will continue. Reporting and monitoring still remains an issue which we will resolve in the near future by hiring a USPSC Monitoring/Assessment/Evaluation Officer and by setting aside funds in current budgets for data collection and surveys.

Too little time and so much to do - USAID/C is not reengineered to the lowest staff levels. We have undertaken the internal examination and training necessary to expand delegations of authority to Mission sub-offices in Georgia and Tbilisi and among our FSNs in Yerevan. In March 1997, USAID/C also took back program responsibilities, formerly handled by our Country Desk, but continues to rely on the desk for advice and input into the NMS.

PART IV

RESOURCE REQUEST

I. Resource Request by Strategic Objective (SO)

See Appendix A

II. Prioritization of SOs

As USAID/C intends to prepare a Caucasus Regional Strategic Plan and individual country plans this coming year, USAID/C has prioritized the SOs based on the analysis of assumptions and results presented in this R4. The SO prioritization presented below is preliminary and may change as strategies are finalized.

- 1) SO 4.2 (Cross-cutting-Training) - USAID/C will give the highest priority to implementing the new 21st Century Fund.
- 2) SO 2.1/SO 2.2 - Though in terms of overall funding, democracy and governance activities are not the largest, SO 2.1 is ranked high and essential. For any USAID strategy to succeed in Armenia continued efforts should be directed to establishing a pluralistic society which embraces democratic principles, has a representational, effective parliament, impartial judiciary system.
- 3) SO 1.3/new SO 1.1 - In the new Caucasus Regional Strategy special emphasis will be given to privatization and how it can affect regional cooperation in the areas of trade, transport and communications.
- 4) SO 1.4 - Nascent progress and relatively positive projections in this SO, warrant USAID continued involvement in financial sector and capital markets reform/restructuring. As this SO is closely related to accomplishment of the Caucasus Regional Strategy it is ranked third.
- 5) SO 1.5 - USAID involvement in the energy sector remains critical and successes will be linked to the Caucasus Regional Strategy.
- 6) SO 3.2 - Given USAID's desire to move from humanitarian assistance to social sector community mobilization programs, this activity is ranked sixth.
- 7) New SO 2.3 and phase down of SO 3.1 are not ranked.

III. Field Support Requirement from AID/W Offices

USAID/Caucasus will complete development assistance strategies for 3 countries during the Fall of 1997. This design program was planned in last year's R4 to be undertaken in late 1996 and early 1997. For this reason, and because the anticipated augmentation of permanent staff levels will not have their intended impact by this time, the Mission contemplates the need for from four to six temporary assignments of experts, each of up to six weeks duration. These services will be sought from technical support offices of the ENI and Global Bureaus.

The Mission anticipates the likely authorization of specially earmarked initiatives in the area of health and family planning which will be designed and managed by the USAID/W, and require little if any participation by the Mission. Where local conditions are favorable, USAID/C could authorize programs which have a world-wide focus and are accompanied by appropriate support services which will conserve mission resources.

IV. Work Force and Operating Expenses

The current year has been marked by multiple changes within the mission. Within the first two months of FY 1997 the entire senior management staff changed, an Office of Financial Management established. Also, USAID/W (in conjunction with the new regional management team in Armenia) agreed to fund the refurbishing of an annex in the US Embassy compound in Armenia for use by USAID/C, and move the USAID/C satellite office in Tbilisi, Georgia to a non-condemned building and examine expanding USAID/C occupied space in Baku.

The unusual situation of having three new office configurations, with the additional costs of filling USDH positions (delayed in one case due to a State/USAID tandem couple), combined with the ICASS issues, has skewed numbers in an interesting manner. Please note that to the best extent possible, the requests for FY98 and the targeted level for FY99 for the three USAID/Caucasus budgets are straight lined.

An overwhelming issue for USAID/Caucasus is that as this understaffed mission moves into an intensified implementation phase, more staff (local and offshore) are required. After the May 1997 Management Review Team visit to the region, led by Rose Mary Depp, USAID/C was advised that future staffing levels and workforce requirements will be adjusted.

The summary tables in Annex #3 show current and projected OE requirements by major cost categories as of May 2, 1997 and workforce requirements as of June 9, 1997. Please note that the OE requirements were based on smaller workforce levels. The estimated additional costs for the new levels is approximately \$1.6 million in FY 1998 and drops to a lower increased amount in FY 1999. These additional costs have not been incorporated below due to uncertainty of when adequate office space will be available for new staff or when the additional costs will actually be incurred.

V. Environmental Compliance and Issues

The Armenia program for FY 97-99 anticipates the likely limited authorization of commodity procurement and delivery of natural gas and kerosene to heat schools and the poorly insulated shelters of the most vulnerable population during winter months. USAID/C will, as in the past, prepare appropriate environmental analyses in accord with CFR 216, and will assure the implementation of risk-minimization actions by the GOA prior to deliveries. Other authorizations to be sought by USAID/C are likely to consist solely of technical assistance activities which qualify for a Categorical Exclusion.

**FY 1997-FY1999
COUNTRY RESOURCE REQUEST BY SOs
ARMENIA**

Last revision date:
13-June-97

PF#	Proj.#/Comp.	SOs	ACTIVITY	FY 97 Plan 13-June-97	FY 98 Plan	FY 99 Plan	FY 99 Plan (-6%)	FY 99 Plan (-20%)
		1.1	Increased transfer of state-owned assets to the private sector	\$0	\$1,000,000	\$3,000,000	\$2,820,000	\$2,400,000
		1.2	Increased soundness of fiscal policies and fiscal management practices	\$0	\$0	\$0	\$0	\$0
		1.3	Accelerated development and growth of private enterprises	\$11,950,000	\$9,500,000	\$11,000,000	\$10,340,000	\$8,800,000
		1.4	A more competitive and market-responsive private financial sector	\$3,450,000	\$4,600,000	\$4,600,000	\$4,324,000	\$3,680,000
		1.5	A more economically sustainable and environmentally sound sector	\$6,400,000	\$19,500,000	\$15,765,000	\$14,819,100	\$12,612,000
		2.1	Increased, better informed citizens' participation in political and economic decision making	\$3,075,000	\$5,700,000	\$5,700,000	\$5,358,000	\$4,560,000
		2.2	Legal systems that better support democratic process and market reform	\$1,550,000	\$3,100,000	\$3,300,000	\$3,102,000	\$2,640,000
		2.3	More effective, responsive and accountable local government	\$0	\$600,000	\$1,000,000	\$940,000	\$800,000
		3.1	Human suffering and negative consequences of crises are reduced	\$45,100,000	\$6,000,000	\$1,000,000	\$940,000	\$800,000
		3.2	Improved sustainability of social benefits and services	\$227,000	\$2,500,000	\$7,000,000	\$6,580,000	\$5,600,000
		3.3	Reduced environmental risks to public health	\$0	\$0	\$0	\$0	\$0
		4.1	Special Initiatives	\$5,848,000	\$4,500,000	\$3,635,000	\$3,416,900	\$2,908,000
		4.2	Cross-cutting programs	\$1,000,000	\$2,000,000	\$2,000,000	\$1,880,000	\$1,600,000
			TOTAL	\$78,600,000	\$59,000,000	\$58,000,000	\$54,520,000	\$46,400,000
STRATEGIC ASSISTANCE AREA 1: A COMPETITIVE MARKET-ORIENTED ECONOMY								
		SO 1.1	Increased transfer of state-owned assets to the private sector					
TIE	5.7	1.1	Privatization - IQC and/or Contract - TBD		\$1,000,000	\$3,000,000	\$2,820,000	\$2,400,000
			SUBTOTAL FOR SO1.1	\$0	\$1,000,000	\$3,000,000	\$2,820,000	\$2,256,000
		SO 1.2	Increased soundness of fiscal policies and fiscal management practices					
		1.2	Fiscal Reform - TBD		\$0	\$0	\$0	\$0
			SUBTOTAL FOR SO1.2	\$0	\$0	\$0	\$0	\$0
		SO 1.3	Accelerated development and growth of private enterprises					
TIE	5.7	1.3	Small New Business - IESC	\$500,000	\$500,000	\$500,000	\$470,000	\$400,000
TIE	5.7	1.3	Privatization - IQCs and/or Contracts		\$3,000,000	\$3,000,000	\$2,820,000	\$2,400,000
PRT	5.7	1.3	Identify Investment Opportunities - TBD	\$500,000			\$0	\$0
IFI	8.1	1.3	ICMA -contract amendment	\$1,500,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
TIE	9.7	1.3	U. Md. Univ Res Corp - IRIS(CEPRA)	\$2,450,000	\$1,000,000	\$1,500,000	\$1,410,000	\$1,200,000
EF	11.5	1.3	Transcaucasus Enterprise Fund	\$7,000,000	\$4,000,000	\$5,000,000	\$4,700,000	\$4,000,000
			SUBTOTAL FOR SO1.3	\$11,950,000	\$9,500,000	\$11,000,000	\$10,340,000	\$8,272,000
		SO 1.4	A more competitive and market-responsive private financial sector					
TIE	9.2	1.4	TA Accounting Conversion	\$1,000,000	\$2,000,000	\$2,000,000	\$1,880,000	\$1,600,000
TIE	9.2	1.4	Electronical Banking Systems - IRM	\$750,000	\$500,000	\$500,000	\$470,000	\$400,000
TIE	9.2	1.4	Financial Sector TA Training - KPMG	\$1,500,000	\$1,500,000	\$1,500,000	\$1,410,000	\$1,200,000
TIE	9.7	1.4	Admin: Tech Support/Field Mgt./PD&S	\$200,000	\$600,000	\$600,000	\$564,000	\$480,000
			SUBTOTAL FOR SO1.4	\$3,450,000	\$4,600,000	\$4,600,000	\$4,324,000	\$3,459,200
		SO 1.5	A more economically sustainable and environmentally sound sector					
TIE	2.1	1.5	Assessments/Refitting - BR	\$2,150,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
TIE	2.2	1.5	Power Sector Loan - HB	\$885,000	\$0	\$0	\$0	\$0
PRT	2.2	1.5	Energy - IIE	\$500,000	\$500,000	\$500,000	\$470,000	\$400,000
PRT	2.2	1.5	Partnerships/Training - USEA	\$200,000	\$500,000	\$750,000	\$705,000	\$600,000
		1.5	Natural gas procurement		\$14,000,000	\$10,015,000	\$9,414,100	\$8,012,000
TIE	2.5	1.5	Advisory Services - HB	\$2,365,000	\$3,000,000	\$3,000,000	\$2,820,000	\$2,400,000
TIE	2.6	1.5	Admin: Tech Support/Field Mgt./PD&S	\$300,000	\$500,000	\$500,000	\$470,000	\$400,000
			SUBTOTAL FOR SO1.5	\$6,400,000	\$19,500,000	\$15,765,000	\$14,819,100	\$11,855,280
STRATEGIC ASSISTANCE AREA 2: EMPOWERMENT OF CITIZENS THROUGH DEMOCRATIC POLITICAL PROCESSES								
		SO 2.1	Incr., better inf. citizens' participation in political and econ. decision making					
PRT	7.1	2.1	Political Civic Orgs - TBD		\$1,500,000	\$1,500,000	\$1,410,000	\$1,200,000
PRT	7.1	2.1	Political/Civic Orgs - NDI	\$300,000	\$500,000	\$500,000	\$470,000	\$400,000
PRT	7.1	2.1	Political/Civic Orgs - IFES	\$450,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
PRT	7.1	2.1	Political/Civic Orgs - JunAch	\$350,000	\$0	\$0	\$0	\$0
PRT	7.1	2.1	Political/Civic Orgs - AUA (Civic Ed. in Media)	\$125,000	\$0	\$0	\$0	\$0
PRT	7.2	2.1	Independent Media - INTERNEWS	\$750,000	\$700,000	\$700,000	\$658,000	\$560,000
PRT	7.2	2.1	Independent Media - Printing Press	\$800,000	\$0	\$0	\$0	\$0
PRT	7.5	2.1	PVO/NGO Program - AAA NGO Center	\$300,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
PRT	7.5	2.1	PVO/NGO Program - TBD		\$1,000,000	\$1,000,000	\$940,000	\$800,000
			SUBTOTAL FOR SO2.1	\$3,075,000	\$5,700,000	\$5,700,000	\$5,358,000	\$4,286,400
		SO 2.2	Legal systems that better support democratic process and market reform					
PRT	7.4	2.2	Rule of Law - ABACEELI	\$500,000	\$500,000	\$500,000	\$470,000	\$400,000
PRT	7.4	2.2	Rule of Law - IQC	\$650,000	\$1,500,000	\$1,000,000	\$940,000	\$800,000
PRT	7.4	2.2	Rule of Law - Monopoly/Corruption	\$200,000	\$500,000	\$1,000,000	\$940,000	\$800,000
PRT	7.7	2.2	Admin: Tech Support/Field Mgt./PD&S	\$200,000	\$600,000	\$600,000	\$572,000	\$480,000
			SUBTOTAL FOR SO2.2	\$1,550,000	\$3,100,000	\$3,300,000	\$3,102,000	\$2,481,600
		SO 2.3	More effective, responsive and accountable local government					
PRT		2.3	Local, Municipal Government - TBD		\$600,000	\$1,000,000	\$940,000	\$800,000
							\$0	\$0
							\$0	\$0
			SUBTOTAL FOR SO2.3	\$0	\$600,000	\$1,000,000	\$940,000	\$752,000

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PFF#	Proj.# Comp.	SOs	ACTMITY	FY 97 Plan 13-June-97	FY 98 Plan	FY 99 Plan	FY 99 Plan (-6%)	FY 99 Plan (-20%)
STRATEGIC ASSISTANCE AREA 3: STRENGTHEN THE CAPACITY TO MANAGE THE HUMAN DIMENSION OF THE TRANSITION								
		SO 3.1	Human suffering and negative consequences of crises are reduced					
	1.2	3.1	PVO Cauc/Compr. Human - SCF Umbrella CA	\$2,150,000	\$1,500,000	\$0	\$0	\$0
	1.2	3.1	PVO Cauc/Compr. Human - Kerosene (FDD)	\$65,979	\$0	\$0	\$0	\$0
	1.5	3.1	Armenia Crisis Response - Gas	\$30,000,000	\$0	\$0	\$0	\$0
	1.5	3.1	Armenia Crisis Response - Wheat	\$8,200,000	\$0	\$0	\$0	\$0
	1.5	3.1	Armenia Crisis Response - Kerosene	\$3,934,021	\$3,500,000	\$0	\$0	\$0
	1.5	3.1	Armenia Crisis Response - Vulnerable ID Mech (PAROS)	\$300,000	\$500,000	\$500,000	\$470,000	\$400,000
	1.6	3.1	Multilateral Human Assistance -TBD		\$500,000	\$500,000	\$470,000	\$400,000
	1.6	3.1	Multilat. Human Asst. - Food for work (WFP)	\$100,000	\$0	\$0	\$0	\$0
	1.6	3.1	Multilat. Human Asst. - Logistics Support (WFP/CLAU)	\$150,000	\$0	\$0	\$0	\$0
ID/WQ	1.6	3.1	Multilat. Human Asst. - Health (UNICEF)	\$200,000	\$0	\$0	\$0	\$0
			SUBTOTAL FOR SO3.1	\$45,100,000	\$6,000,000	\$1,000,000	\$940,000	\$752,000
		SO 3.2	Improved sustainability of social benefits and services					
		3.2	PVO - Social Reform/ Community Mobilization		\$2,000,000	\$6,000,000	\$5,640,000	\$4,800,000
	1.9	3.2	Admin. Tech Support/Field Mgt./PD&S	\$227,000	\$500,000	\$1,000,000	\$940,000	\$800,000
			SUBTOTAL FOR SO3.2	\$227,000	\$2,500,000	\$7,000,000	\$6,580,000	\$5,264,000
STRATEGIC ASSISTANCE AREA 4: CROSS-CUTTING PROGRAMS AND SPECIAL INITIATIVES								
ID/WQ	4	4.1	Vaccine Pharm. Proc. Workshop - BASICS/PATH	\$248,000		(\$335,000)	\$0	\$0
P 2/	4	4.1	Medical Partnerships (AIHA)	\$560,000	\$500,000	(\$500,000)	\$0	\$0
FP	4	4.1	Family Planning (TBD)	\$840,000		(\$800,000)	\$0	\$0
		4.1	Health Directives			\$1,635,000	\$1,536,900	\$1,308,000
EUR	10	4.1	EURASIA	\$4,200,000	\$4,000,000	\$2,000,000	\$1,880,000	\$1,600,000
							\$0	\$0
Exch	12	4.2	Buy-in Global Trng. Contract - Admin. (AED)	\$1,000,000	\$2,000,000	\$2,000,000	\$1,880,000	\$1,600,000
			SUBTOTAL FOR SO4	\$6,848,000	\$6,500,000	\$5,635,000	\$5,296,900	\$4,237,520
PERFORMANCE FUND & TRANSFERS/ALLOCATIONS								
PF		XXX	Performance Fund	\$0	\$5,000,000	\$5,000,000	\$4,700,000	\$4,000,000
		XXX	Transfers or Allocations					
T/A		1.2	Treasury IAA	\$950,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
T/A		1.5	Nuclear Safety (DOE) 632(a)	\$6,000,000	\$5,000,000	\$5,000,000	\$4,700,000	\$4,000,000
T/A			USIA Training and Exchanges - Partnerships	\$1,500,000	\$750,000	\$1,250,000	\$1,175,000	\$1,000,000
T/A			USIA Training and Exchanges - Exchange		\$2,250,000	\$2,250,000	\$2,115,000	\$1,800,000
T/A			Peace Corps	\$1,100,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
T/A		2.2	Law Enforcement		\$2,000,000	\$2,000,000	\$1,880,000	\$1,600,000
T/A			EXIM Trade and Investment Support		\$3,000,000	\$3,000,000	\$2,820,000	\$2,400,000
T/A			Science Centers 632(a)	\$500,000	\$1,000,000	\$1,500,000	\$1,410,000	\$1,200,000
T/A		1.5	Nuclear Safety (NRC) 632(b)	\$500,000			\$0	\$0
T/A		3.1	Humanitarian Transport - S/NIS/C	\$2,000,000			\$0	\$0
T/A			USDA Cochran Fellowships	\$100,000			\$0	\$0
T/A			USDA - Export and Extension	\$3,250,000			\$0	\$0
T/A			NSFCRDF	\$500,000			\$0	\$0
			SUBTOTAL FOR PERFORMANCE FUND & TRANSFERS / ALLOCATIONS	\$16,400,000	\$21,000,000	\$22,000,000	\$20,680,000	\$16,544,000
TOTAL (Armenia)				\$95,000,000	\$80,000,000	\$80,000,000	\$75,200,000	\$64,000,000

PFF CODES:

- FP Family Planning
- EUR Eurasia Foundation
- EF Enterprise Fund
- PRT Project Related Training
- FE Foundation Endowments
- ID/WQ Infectious Disease/Water Qual.
- TIE Trade Impediment Elimination
- IFI IFI Loan Support
- Exch Exchanges
- P 2/ Partnerships 2/
- PF Performance Fund
- T/A Transfers Allocations

PROJECT SUMMARY			FY 97 Plan 13-June-97	FY 98 Plan	FY 99 Plan	FY 99 Plan (-6%)	FY 99 Plan (-20%)
		110-0001 Special Initiatives	\$45,327,000	\$9,500,000	\$8,000,000	\$7,520,000	\$6,016,000
		110-0002 Energy	\$6,400,000	\$19,500,000	\$15,765,000	\$14,819,100	\$11,855,280
		110-0003 Environment	\$0	\$0	\$0	\$0	\$0
		110-0004 Health Care	\$1,648,000	\$500,000	\$1,635,000	\$1,536,900	\$1,229,520
		110-0005 Private Sector	\$1,000,000	\$4,500,000	\$6,500,000	\$6,110,000	\$4,888,000
		110-0006 Food Systems	\$0	\$0	\$0	\$0	\$0
		110-0007 Democratic Reform	\$4,625,000	\$9,400,000	\$10,000,000	\$9,400,000	\$7,520,000
		110-0008 Housing	\$1,500,000	\$1,000,000	\$1,000,000	\$940,000	\$752,000
		110-0009 Economic Restructuring	\$5,900,000	\$5,600,000	\$6,100,000	\$5,734,000	\$4,587,200
		110-0010 Eurasia Foundation	\$4,200,000	\$4,000,000	\$2,000,000	\$1,880,000	\$1,504,000
		110-0011 Enterprise Funds	\$7,000,000	\$4,000,000	\$5,000,000	\$4,700,000	\$3,760,000
		110-0012 Exchanges & Training	\$1,000,000	\$2,000,000	\$2,000,000	\$1,880,000	\$1,504,000
		Transfers	\$16,400,000	\$16,000,000	\$17,000,000	\$15,980,000	\$12,784,000
		Performance Funds	\$0	\$5,000,000	\$5,000,000	\$4,700,000	\$3,760,000
TOTAL COUNTRY			\$95,000,000	\$80,000,000	\$80,000,000	\$75,200,000	\$60,160,000

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GLOBAL FIELD SUPPORT REQUIREMENTS - USAID/C

ARMENIA

Request From	Action Officer	Global Program	Global Proj. No.	Funding Amount (\$000)		Account	Sector Directorate	Strategic Objective
				1998	1999			
ENI/ED	Schraeder	ICMA/MDM - Armenia	940-1008	\$1,500	\$1,500	FSA	E/G	1.3 Accelerated Dev.
ENI/DGSR	Wallace	AVSC	936-3068	\$800	\$800	FSA	POP	4.1 Special Initiatives
ENI/DGSR	Wallace	JHPIEGO	936-3045	\$835	\$835	FSA	POP	4.1 Special Initiatives
ENI/DGSR	Liefert	Admin. of Justice	598-0669	\$650	\$650	FSA	D/G	2.2 Rule of Law

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**Annex 3. Work Force Table,
Operating Expense Budget Table**

The summary tables below show current and projected OE requirements by major cost categories as of May 2, 1997 and workforce requirements as of June 9, 1997. Please note that the OE requirements were based on the original, smaller workforce levels. The estimated additional costs for the new levels is approximately \$1.6 million for the first year dropping to a lower additional amount. These additional costs have not been incorporated below due to uncertainty of when there will be space available for new people or when the additional costs will actually be incurred.

Operating Expense (\$ '000)

	FY97	FY98	FY99 Requested	FY99 Targeted
Armenia	2,951.9	2,885.5	3,226.8	2,050.7
Azerbaijan	155.8	460.1	423.9	382.0
Georgia	618.5	801.3	886.0	670.0
Total	3,726.2	4,146.9	4,536.7	3,102.7

Armenia Staffing

	USDH	OE/Int	OE/loc	Prog	Total
FY 1997	14	4	27	22	67
FY 1998	14	3	27	45	88
FY 1999	14	2	27	45	88
Request	15	3	39	30	87

Please note that current occupied levels are well below the workforce level above. The above staffing levels include much needed support staff that will come aboard over the next six months. This will allow USAID/C - Armenia to function as a full regional mission without relying on multiple other missions for support. These levels will also allow Armenia to better implement and monitor the highly politically sensitive Armenian Program as it moves into a heavy implementation phase.

Georgia Staffing

	USDH	OE/Int	OE/loc	Prog	Total
FY 1997	1		4	8	13
FY 1998	1		4	8	13
FY 1999	1		5	8	13
Request	3		6	18	27

Due to the difficulties in travel between Azerbaijan and Armenia, Georgia acts as a travel "hub" and interlocutor for connecting to the USAID/C Azerbaijan satellite office. This, in addition to a large program portfolio, creates additional difficulties. With this in mind, USAID/C intends to staff Georgia to a level so that it can operate the program, to a large extent, independent of Armenia. However, administrative and program support services (Controller, EXO, Legal, etc) will be provided via the USAID/C Armenia office.

Azerbaijan Staffing

	USDH	OE/Int	OE/loc	Prog	Total
FY 1997			2	4	6
FY 1998	1		2	4	7
FY 1999	1		4	4	9
Request	1		4	7	12

The 907 restrictions, and the potential lifting of some of the restrictions, make it difficult for USAID to appropriately plan the workforce levels. However, it is hoped that a country coordinator will be in place in early FY98. This will allow USAID to better monitor and implement the current program.