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FOR
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VILNIUS, LITHUANIA

RESULTS REVIEW

FY 1998

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Part I: Factors Affecting Program Performance and Close Out Plan

The most crucial factors affecting program performance in Lithuania are the continued positive economic performance, the rise of GDP levels to about 1990 levels, Lithuania's improved credit ratings by international lenders, and the political will to complete the difficult and complex economic policy reforms still facing the country. Generally, economic prospects are good, the institutional capacity to formulate and introduce policy reforms is improving, and Lithuanian policy makers are increasingly sensitive to the subtleties of economic weaknesses. In January, a new moderate President was elected in Lithuania. Adjustments are being made in cabinet structures and there is a strong call to continue market reforms and promote business expansion. The Government of Lithuania (GOL) elected in 1996 continues to pledge major economic reforms consistent with the USAID strategy in fiscal matters, the financial sector, and in energy pricing and safety.

Nonetheless, there are some worrisome aspects of macro-economic imbalances and citizen participation through non-government organizations has a long way to go. The GOL has shown signs of making many promises that are not being implemented, which may undermine credibility and support in the electorate, donors, and foreign investors.

In 1996 and 1997, the USAID program shifted to a policy focus. This has been a learning phase and a time to build trust between implementors and counterparts. The last modifications of the strategic assistance will be in place by May with the recruitment of a senior advisor to the Minister of Finance. USAID/Vilnius believes we are focused on the right issues, the rate of progress for reform is approximately on target, and there is a need to ensure that the policy and institutional changes are irreversible and self sustaining after graduation from USAID assistance.

Based on the economic progress, the level of democratic reforms, and approval of the Baltic American Partnership Fund to develop the NGO sector, USAID/Vilnius does not propose to extend the graduation date. If some of the major policy reforms are affected by an economic crisis, the Mission will notify ENI immediately to begin to reconsider narrowly focused close out objectives in economic reform. A small adjustment in budget is requested in FY 99 to accommodate close out costs that will occur during the last 18 months before close out in September 2000.

1. Link Between USAID Strategy and Mission Program Plan

Linkage to the US National Interest: At the time of the 1998 R2 submission, the Mission Program Plan (MPP) was not in final. Several key areas of the USAID program directly support or contribute to the achievement of several of the likely areas of focus for the MPP. These areas are: Economic Prosperity and Democracy and Human Rights.

USAID activities contribute to economic prosperity by contributing to broad based growth, promoting market reforms leading to open markets, and improving environmental conditions. The USAID strategic objectives directly support the reforms in macro-economic policy, the regulatory environment, and institutional strengthening to ensure long term sustainable

economic growth. According to the EBRD assessment, Lithuania's economic reform ranks 2.9 out of 5.

The Strategic Goals of the Democracy and Human Rights program are to promote American values. According to the Heritage Foundation, overall progress in broader democratic reform has been impressive and similar to conditions in Western Europe and the U.S., and warrant a ranking of 4.5 out of 5. Basic human rights, rule of law, free speech and free, fair and peaceful multi-party elections are firmly in place.

2. The Macroeconomic Setting for Transition

Macroeconomic developments in Lithuania are broadly positive, characterized by accelerating growth (6%), relatively low unemployment (6.7%), 8% inflation, low real interest rates and rising real wages (more than 30% in 1997). There was an upsurge in private investment and foreign direct investment reached \$1 billion. The economy is entering into its fourth year of expansion, labor productivity and real wages are increasing and consumer confidence is on the rise. The Parliamentary elections of November 1996 and the Presidential elections of January 1998 have put into office a coalition Government that firmly supports market-oriented reform (See Table 1. Selected Economic Indicators).

Macroeconomic stability has been restored, although the economy remains vulnerable to external imbalances. Rapid growth has been financed by large capital inflows. Exports rose from \$1 billion to \$5 billion, although imports rose faster to \$6-7 billion. This, together with an upsurge in consumer demand, has triggered a sharp widening of the current account deficit. In 1998, higher public sector wages and privatization-related capital inflows could fuel a consumption boom and trigger an unsustainable external position. Over-heating remains a distinct possibility should external pressures persist.

The other risk is that of a currency assault, either because of perceived policy inconsistency or because of sudden changes in market sentiment. Recent events in East Asia demonstrate the vulnerability of small, open economies to capital outflows.

Policy confidence and credibility will hinge very much on the Government's ability to deliver on its ambitious structural reform agenda. At the top of this list is the country's large cash privatization program. Cash privatization is needed to create a nucleus of strategic stakeholders that can establish market-oriented corporate governance standards and practices. Included in this year's privatization list are a state bank, the telecommunications company, the national airlines and the largest shipping and energy concerns. But cash-privatization has started slowly and both insider-interests and founding-Ministries seem determined to keep it on a slow track.

Public expenditure reforms have been promised. The direct tax system is slated to be overhauled and excise rates are to rise. The Prime Minister and the Minister of Finance are supporting the adoption of new budgeting procedures with better links between public spending and performance. The Government wage bill is growing and is crowding out pressing public investment and social sector rehabilitation requirements. If these areas are

Table 1: Selected Economic Indicators, 1991 to 1997

	1991	1992	1993	1994	1995	1996	1997 Est.
<u>Percentage Change</u>							
Nominal GDP (IMF Estimate) (billion litas)	.4	3.2	11.2	22.2	31.1	40.4	47.5
Nominal GDP (Govt. Estimate)	.4	3.4	11.1	16.9	23.8	31.4	36.6
Per Capita GDP (US\$)	265	493	696	1147	1,604	2,116	2,466
Per Capita GDP at PPP exchange	na	5,174	4,049	4,203	4,471	4,766	na
Revised GDP Growth Rates	-6.0	-19.6	-17.1	-11.3	2.3	5.1	6.0
Official GDP/NMP Growth	-13.1	-37.7	-24.2	1.7	3.0	4.2	6.0
GDP as a share of 1990 levels (official data)	86.9	57.4	39.9	40.3	41.5	43.0	45.6
GDP as a share of 1990 levels (revised data)	94.0	75.6	62.7	55.6	56.8	59.8	63.3
Gross Capital Formation (% of IMF GDP)	22	18	23	19	23	21	22
Domestic Savings (% of IMF GDP)	24	16	18	15	12	12	13
Consumer Prices (mid year %)	225	1,020	410	72	39	13	8.4
Real Wages (% change)	-19.0	-17.2	-45.3	20.6	5.4	11.2	37
Broad Money (% change)	143	245	100	64	31	-2.0	34
Credit to the economy (% change)	na	532	165	106	-49	-11.7	36
Real Wage Rate (% change)	-19.9	-17.2	-45.3	20.6	1.2	7.5	34.5
Unemployment rate (%)	0.3	1.3	4.4	3.8	6.6	6.2	6.7
Trade Balance (\$ mill)	na	101	-180	-212	-675	-793	-1,152
Exports of goods and services	na	1,142	2,256	2,410	3,290	4,334	4,937
Imports of goods and services	na	1,041	2,436	2,622	3,965	5,127	6,089
Current Account (% GDP)	na	5.6	-9.5	-3.2	-10.3	-9.1	-10.5
Official reserves in months of import cover	na	0.5	2.0	2.7	2.5	2.0	1.9
Gross external debt	na	59	285	600	1051	1562	2133
Debt/GDP	na	3.1	11.1	14.0	17.6	19.9	23.3
Debt Service to Exports	na	0.0	0.3	1.9	3.0	6.3	12.4
<u>Percentage of GDP</u>							
Government Revenue (MOF)	na	na	31.6	32.5	32.5	29.6	31.5
Government Expenditure (MOF)	na	na	30.9	34.3	34.3	32.2	33.6
Financial Balance (MOF)	na	na	0.5	-1.9	-1.8	-2.6	-2.1
Net Lending (MOF)	na	na	6.6	3.5	2.8	1.7	0.9
Fiscal Balance (MOF)	5.0	0.8	-6.1	-5.4	-4.6	-4.3	-3.0
IMF Fiscal Balance Estimate	11.5	13.7	-3.1	-4.2	-3.3	-3.6	-2.7

Source: Department of Statistics (1997), IMF (1996 and 1997), Ministry of Finance, Bank of Lithuania, EBRD (1998) and Starkeviciute (1997).

addressed, Lithuania's long-term competitiveness will be enhanced.

While the financial system was battered in 1995-96, confidence is returning, although banks remain thinly capitalized. The exit from the currency board arrangement is moving forward cautiously with new policy instruments being introduced. This process has made some investors wary. The Bank of Lithuania has committed itself to liberalizing access to the financial markets, to supervise an orderly consolidation of the private banks and has pledged to combat inflation and maintain a stable currency if provided the autonomy to do so. Almost half of the banking system's assets are in poorly performing state banks, kept afloat by exemption from prudential requirements and state-directed deposits. In the private banks, the share of doubtful loans is decreasing, but exceeds 10%. Weakness in the banking system explains why there are so little financial resources in the economy.

Capital markets are developing rapidly and have become one of the most vibrant parts of the financial market. In 1997, the capitalization of the Lithuanian stock market exceeded 25 percent of GDP, or almost twice the level of assets in the domestic banks. The capital markets have begun to play an important role in facilitating enterprise restructuring and enterprise expansion. Further capital market development will occur with the introduction of a modern trading system, use of new institutional investment vehicles, and an overhaul of corporate governance standards. Tax-barriers to pension funds and investment funds will continue to hinder market development, but should be resolved in 1998.

The recovering energy sector faces major challenges. A decision on the relicensing of the Ignalina Nuclear Power Plant is pending and power tariffs have increased to cover approximately 90 percent of generation and transmission costs. The large Butinge offshore oil facility needs to attract rescue-financing to survive. The lack of a sound legal framework in the energy sector acts to inhibit privatization efforts and provides politicians scope for interfering in all aspects of the sector. The “unbundling” of electricity generation and transmission facilities to a string of local companies has created some competition in addition to coordination problems. The district heating infrastructure needs to be replaced as it approaches the end of its technical life.

Legal reforms are proceeding apace, but the Government needs to provide basic legal building-blocks, such as a commercial code. Legal reforms are proceeding faster than the courts can digest them, although in certain areas, such as bankruptcy legislation, both the laws and legal processes are making positive strides. Crime rates continue to rise, bombings and nuclear theft are concerns, and corruption is frequently cited but rarely sanctioned.

Poverty and social exclusion are seen as increasingly serious problems, particularly since a relatively large number of pensioners, small farmers and industrial employees subsist at the distant margins of the economic recovery. In 1997, Government increased minimum wages and public pensions to reduce poverty levels, and in fact, reported “absolute” poverty fell to seven percent of the population. There are clearly limits to the degree to which transfer payments can solve inherently structural poverty problems. The desire to increase SODRA payments and minimum wages will have to be traded-off against the dilemma of a growing beneficiary pool and a rapid decline in the number of SODRA contributors.

Structural reform progress will make a significant contribution towards the last stages of Lithuania's transition to a market-oriented economy. If progress is made, Lithuania will be able to avoid a macroeconomic "crisis of confidence" and political sentiment will continue to support the market-oriented GoL. But these structural reforms are contentious, complex and technically demanding reforms. The GOL must demonstrate the political will to make the difficult decisions; marshal the technical capacity for durable structural policy choices; and create the institutional capacity to enforce new policies.

There are strong reasons to be optimistic. Economic prospects are excellent. Most forecasters predict economic growth in the 6-7 percent range for several years to come, with low inflation and low unemployment at the same time. Good economic times provide a favorable backdrop to policy reforms that buttress market processes. Furthermore, the Government's track record in macroeconomic stabilization and structural reform is good, and the democratic institutions needed to advance change are firmly in place. Lithuania is determined to shed its "runner-up" label and gain entry into international organizations, such as the European Union, NATO and the World Trade Organization. The commitment to joining the international economy will serve Lithuania well by reinforcing economic reforms.

3. Democracy Setting for Transition

Democratic reforms have been extensive in Lithuania. The protection of basic human rights has been established and guarantees of free speech are in place. Free and fair elections have been held, and power has transferred peacefully in 1992 and again in the 1996 Parliamentary elections. Good working relationships have been established across political divisions. In 1998, Valdas Adamkus was elected President as an independent centrist. The President and Prime Minister are in the early stages of an evolving political relationship, but both are committed to economic reform. While democratic freedoms largely comparable to Western Europe are in place in Lithuania, the NGO sector continues to be seriously constrained by key structural and functional weaknesses which constitute a major impediment to Lithuania's emerging democracy.

NGOs, while relatively abundant, are fledgling, and maintain a low profile. Effective civic participation of NGOs remains the weakest unfinished element of institutionalized democracy in Lithuania, and will be the primary focus of the recently created Baltic American Partnership Fund, a \$15 million endowment founded by USAID and the Soros Open Society Institute to support NGO development in the three Baltic States over the next ten years. With rare exceptions, NGOs currently play a limited role in public debate on policy and decision making. Legislation and tax policy still present barriers to NGO growth. Technical and management constraints are systemic, and financial viability is not anticipated for the majority of NGOs. The Prime Minister has recently appointed a Working Group to amend the Lithuanian Law on Charity and Sponsorship and he has shown a willingness to broaden the scope of the Group's objective to include NGO and international donor organization input.

Decentralization and public administration reform have not been a high priority for the GOL, although an active debate regarding local community empowerment has begun. Structural reform to strengthen the independence of the judiciary is limited, constitutional and civil law

reforms are still needed, but the current transition process is well underway. A transformation of the judiciary can be expected through in-service and modernized University training over the next ten years.

4. Summary

In summary, economic progress has been generally good (see results sections) in the key areas of the USAID assistance program (fiscal, financial, and energy pricing and safety reform), and continued progress is predicted over the next few years. Democratic reforms at the structural level are superior, while the level of democratic reforms as evidenced by the weak non-government organization sector, continues to be shallow. The areas that warrant watching are tax policy reform, the growth in the current account deficit, the progress on cash privatization, privatization of the two state banks, the economic and political debate about the closing of the Ignalina Nuclear Power Plant, and a possible vulnerability to a currency crisis.

5. Close Out Plan

Lithuania is making significant progress in a number of areas and USAID assistance can be closed out with continued progress in several key areas. Graduation from assistance with FY 99 as the final year of funding for economic activities has been approved by the USG and is supported by the GOL. By the proposed final year of obligation in FY 99, the United States will have provided about \$65 million in technical assistance, training, and grant funds to Lithuania. An additional portion of the regional Baltic American Enterprise Fund (\$50 million) and the Baltic American Partnership Fund (\$15 million) will be allocated to Lithuania. The USAID office will close by September 2000 and the last direct hire will leave by the fall of 1999. Annex 1 contains a full listing of the current activities and planned close out dates.

Before September 2000, the emphasis will be to assist the Government of Lithuania to complete crucial economic policy reforms in the following three areas. The objectives and assistance package have not changed significantly from the FY 97 R4.

- **Improve Fiscal Management:** The objective remains to correct deficiencies in government policy and practices, and achieve the following results: 1) fiscal policy is sound, a treasury system is in place, and government budgets closely match revenue flows, 2) budget management capacity is in place at the Ministry of Finance, 3) tax policies are fair, simple, and broad based and the Ministry of Finance has the capacity for economic analysis of tax policy, and 4) tax administration capacity is professional.
- **Strengthen the Financial Sector:** To achieve a more stable financial environment, USAID will focus on achieving results to: 1) restore confidence in the banking system, maintain stability in the currency after the currency board is ended, establish a strong capacity in monetary policy, bank policy, and complete some residual efforts to strengthen bank supervision at the Central Bank, privatize one state bank; and 2) strengthen the capital markets, implement continuous trading, ensure creation and use of regulatory oversight structures and supervision, shift the capital markets from

passive investment to attract foreign capital, and provide for a transparent stock exchange that can absorb 800 soon-to-be privatized companies.

- **Improve Energy Policy Reform and Safety:** To achieve a more stable and safe energy supply for Lithuania will require continued reform. USAID assistance at graduation will have achieved: 1) a sound decision regarding the relicensing of the Ignalina Nuclear Power Plant, 2) price reform, energy sector restructuring, and implementation of regulatory reform methodologies so that energy prices are set at least at 95% of the full cost of production, 3) the Energy Pricing Commission has the capacity to recommend economically sound energy tariffs, and 4) enhanced and self-sustaining Baltic energy cooperation with a least-cost plan is developed for alternative energy sources.

As a post-AID mechanism for the Baltics to complete the reform process in democracy:

- **A Baltic American Partnership Fund (BAPF)** will be established by USAID and the Soros Foundation to strengthen the capacity of NGOs to promote the expansion and deepen gains achieved in the economic and democracy sectors of the Baltic Republics. The BAPF will be a \$15 million, 10 year endowment with a U.S. based policy Board of Directors and country based program management. This endowment will serve as a US legacy in the region. The Foundation will be fully funded by the end of FY 98. ENI Bureau should investigate the feasibility of supplementing the current planned funds for the Foundation through reflows from the Baltic American Enterprise Fund.

Selected special initiatives which were started with FY 97 funding will be completed during FY 99 including 1) regional environmental monitoring, 2) enterprise development, and 3) training.

The number of activities will decline from the FY 95 level of 55 to 10 in FY 99. The key activities which are tracked at the Intermediate Results Level will be:

- Fiscal policy reform in broad fiscal policy and budget management
- Fiscal policy reform in tax policy
- Financial sector reforms in the central bank
- Financial sector reform to establish a viable capital market
- Energy price and regulatory activities, relicensing of Ignalina Nuclear Power Plant
- Establishment of the Baltic American Partnership Fund for NGO development

Documenting the results of the U.S. assistance efforts remains as described in the FY 97 R4. The main activities in addition to routine reporting are a) annual macro-economic analysis of trends and progress, b) lessons learned and impact reports (1998-2000), c) selected program evaluations, and d) a directory of participants in training and technical assistance to serve as a reference for Lithuanian officials and Parliamentarians.

Part II: STRATEGIC OBJECTIVE RESULTS REVIEW

The results review for strategic objectives and special initiatives approved in the 1997 Modified Strategic Plan are summarized in Table 2. The following sections of the R2 contains a narrative analysis of the progress in Lithuania, performance of US implementors and their contribution to the country's progress, expected progress in 1998-2000, summary performance data tables for the last year, and the performance data table for graduation. The sections are: Strengthened Fiscal Management (S.O. 1.2), A More Stable Financial Environment (S.O. 1.4), Improved Energy Policy and Safety (SO 1.5), and Increased, and Better-Informed Citizen Participation in Political and Economic Decision making (S.O. 2.1). Cross-cutting Programs and Special Initiatives include: 1) Regional Environmental Monitoring, 2) Improved Enterprise Capacity, 3) Participant Training Project for Europe and 4) Regional Rule of Law (DOJ/CEELI).

Table 2. Summary of the performance assessment for strategic objectives

STRATEGIC OBJECTIVE	PERFORMANCE ASSESSMENT (Met, surpassed, or fell short)
SO 1.2 Strengthened Fiscal Management	Met. At the IR level, performance exceeded expectations for budget, treasury, debt management; met targets for fiscal management and tax administration, and fell short in tax policy.
SO 1.4 More Stable Financial Environment	Met. At the IR level, performance targets exceeded performance for capital markets and part of the banking sector. Performance fell short for the privatization of state banks.
SO 1.5 Improved Energy Safety and Policy	Met. At the IR level, performance was exceeded for energy pricing, fell short for nuclear safety and Regional energy planning.
SO 2.1 Strengthened NGO Sector	Met. At the IR level, performance was exceeded for NGO-public cooperation.

Strengthened Fiscal Management (SO 1.2)

Fiscal management in Lithuania remains one of the major obstacles to business growth and economic stability. USAID's efforts to strengthen fiscal management cover all the primary systems in place at the Ministry of Finance, such as tax, budget, fiscal policy and the treasury. Overall, most of the strategic objective met expectations and strong progress is expected in 1998. 1997 saw mixed results in fiscal management, strong progress on budget reform and treasury systems, and continued problems on tax policy.

Performance Analysis

Tax Policy and Administration Developments: After a sudden drop in revenue, the GoL instituted a number of ad-hoc measures to raise tax collections and improve administration. As a result, revenues did increase and exceeded the rate of GDP growth. However, the piecemeal approach left the tax system unreformed and still plagued by evasion and avoidance, a large number of tax exemptions, and relatively high nominal personal and social tax rates. Despite slow progress to simplify the tax system, to remove or limit certain exemptions, and enhance enforcement and improve collections, some progress was made. Fines were reduced on tax evaders and tax inspectors began to discern between honest mistakes and tax evasion. The tax police began routine inspections and took 250 cases to court. However, the tax system is driving a large part of the economy underground. Economic activity in the "gray market" remains a problem, but is estimated at up to 40 percent of total output, down from 45%.

Budget Reform Developments: A high share of annual public spending was for civil service wages and transfer payments. There continued to be little public investment and spending on the social sectors remained both inadequate and poorly linked to priorities. Public pensions were substantially increased, but remain far below poverty-levels and cover a high number of beneficiaries. Municipalities were assigned spending priorities without an adequate funding base, while government budget control and oversight is weak. With spending obligations exceeding revenue, the GoL has rapidly accumulated public debt and is augmenting the budget with quasi-fiscal outlays. It has greatly reduced domestic borrowing, replacing it with foreign borrowing.

Public Expenditures Developments: The GoL's strategy is to improve management of public expenditures and express caution in expanding the public debt while reforming the tax laws and tax administration. At the same time, the GoL made many promises after the November 1996 elections to provide tax breaks to businesses. In early 1997, the GoL did adopt a tight expenditure stance but then prepared laws aimed at providing new investment incentives, tax breaks for small enterprises, and government credit guarantees. There are, however, proposals from the MoF to simplify the current tax system, to remove or limit exemptions and to enhance a fair and transparent collection system.

U.S. Contribution

Tax Policy and Administration: Tax policy reforms over the past year fell short of

expectations and considerable work remains to simplify the tax laws, reduce the tax burden, and broaden the tax base. USAID, working through the Harvard Institute for International Development (HIID), supported critical efforts aimed at rationalizing the tax system and broadening the tax base. A USAID advisor worked to broaden the tax base through development of a new personal income tax law and business income tax law. These draft laws, currently under review in the GoL, provide a clear definition of income, reduce the number of exemptions and unify rates for corporate and household income tax. The draft personal income tax has been greatly simplified and now applies only to wage earners and individuals conducting certain independent professional activities, which will allow for greater transparency and even application. The draft corporate income tax law has reduced special exemptions, such as double benefits for investment of profits in long term capital assets. There is a new transfer pricing provision as well as a greater flexibility for taxpayers to deduct reasonable expenses.

HIID and USAID tax policy efforts are strengthening the MoF's capacity to analyze and assess alternative tax policies and tax laws, develop viable tax policy options that will increase the effectiveness of the tax system, enhance transparency and reduce compliance costs. The advisors introduced tax reform initiatives including developing analytical models for empirical analysis of alternative tax laws, bringing draft laws in line with international principles, developing capacity to draft and implement tax legislation, and harmonizing tax legislation based on international tax treaties. With US Treasury assistance, the MoF also made a concerted effort to improve tax compliance. The US Treasury's tax administration project focused on increasing tax collectors' skills through a series of seminars on collection techniques, indirect methods of audit, criminal investigation, taxpayer service, and other topics.

Budget Reform: The progress made in a short period of time indicates that USAID and U.S. Treasury met their objectives for the past year. At the end of 1997, the new US Treasury advisor initiated a budget system development project to a) improve the legal framework for public expenditures, b) design the consolidation and regularization of budgets and budgeting procedures from the national budget, SODRA, local budgets and the largest public enterprises, c) phase out use of off-budget expenditures; and d) improve systems for budget monitoring. Through active participation in the GoL Budget Commission, he reviewed the current budget law and proposed a strategy for budget reform and introduced concepts of program budgeting, budget formation, budget transparency, and public hearings on budget formation. A primary accomplishment was the decision by the MoF to adopt program budgeting as the country's official policy and to initiate the approach with 1998 budget.

Public Expenditures: Solid progress was made in improving the efficiency and effectiveness of public expenditures, with progress meeting expectations. The U.S. Treasury, together with IMF and Danish advisors, collaborated successfully and helped the MoF establish the core of a treasury operation, which helped consolidate funding control. A cash-management system was set-up and linked short-term cash availability with public sector treasury bill operations. The cash-management system has helped the GoL avoid the buildup of wage, pension and other public expenditure arrears. With the assistance of a US Treasury advisor, Lithuania received an investment grade credit rating from S&P. This increased foreign investor

confidence and helped the country improve access to international capital markets.

USAID helped the MOF's Fiscal Policy Department develop their capacity for macroeconomic analysis and forecasting and improved fiscal policy analysis. A set of macroeconomic forecasting techniques were developed and staff trained. As a result, the MoF was better able to exercise fiscal control and make short term expenditure and revenue forecasts. The advisor assisted and trained MoF staff to analyze the linkages between fiscal policy, structural policy and macroeconomic vulnerability. The main accomplishment of the work was a heightened recognition of the risks associated with macroeconomic over-heating. As a result, the GoL took steps to reduce over-heating in the early part of 1998, most notably by running a budget surplus.

Other Policy Efforts: USAID implemented an initiative to increase Parliament Members' knowledge on economic reform by organizing a series of seminars on diverse economic topics. Seminars on tax policy and budget reform, banking and energy reform, were evaluated by Members of Parliament as an excellent means to expand their knowledge in these areas. Members of Parliament have requested that USAID continue this unique seminar series for at least one more year in order to address crucial fiscal policy issues.

Future Steps & Program Closeout: The Mission will provide assistance to the MoF in all five IRs through graduation. The assistance will focus on developing capacity at the MoF to conduct effective policy without outside consultants. This will be done not only through technical assistance, but also by implementing self-sustaining in-service training for all MoF employees. Tax policy assistance will focus on revamping the tax system so that it meets public sector needs, is conducive to private sector development and mobilizes sufficient revenue in a fair and equitable fashion. This will include passage of the personal income tax law, corporate income tax law, changes to the VAT law, and elimination of exemptions. Additional assistance may be needed from the EU on tax harmonization. Although expectations are that the reform process will be completed, government commitment will be the main determinant on the pace of reform. Additional efforts will be needed from USAID advisors to work with the reform oriented MOF, and also to persuade the Prime Minister's office and the Parliament to adopt economically sound tax policy reform initiatives.

As the revenue situation improves, there will be scope for more effective and efficient public expenditure policies. USAID's assistance in budgeting should improve the link between public expenditures and performance of GoL agencies and state funded projects. While this may not yield immediate economic benefits, it is expected to enhance fiscal credibility and help address the problems associated with poor budgeting, such as frequent budget revisions and large gaps between budget and actual expenditures.

Overall, prospects for assistance in fiscal management are realistic within the graduation time frame. The GoL is oriented towards reforms, especially in the budget policy area. Additional work convincing the GoL to adopt reforms in tax policy will be required, which adds a level of uncertainty on self-sustainability by close-out. There will be no needed managerial or resource readjustments, as USAID already distinguished budget and tax policy as areas of particular reinforcement.

OBJECTIVE: 1.2 STRENGTHENED FISCAL MANAGEMENT			
APPROVED: 1996		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: S.O. STRENGTHENED FISCAL MANAGEMENT			
INDICATOR: TAX REVENUE AS A PERCENTAGE OF OFFICIAL GDP			
UNIT OF MEASURE: PERCENT SOURCE: MINISTRY OF FINANCE INDICATOR DESCRIPTION: REPORTED GOVERNMENT TAX REVENUE DIVIDED BY GDP COMMENTS: GOVERNMENT REVENUES WERE OVER 41% OF GDP IN 1991 AND HAVE FALLEN STEADILY THROUGH 1996. GOVERNMENT POLICY AIMS BOTH TO RAISE THE SHARE OF REVENUES IN THE REPORTED GDP AND TO ELIMINATE HIDDEN ECONOMY ACTIVITY (AND SO EQUATING REPORTED AND ACTUAL GDP)	YEAR	PLANNED	ACTUAL
	1995	BASELINE	24%
	1996	24%	21%
	1997	26%	21%

OBJECTIVE: STRENGTHENED FISCAL MANAGEMENT			
APPROVED: 1996		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: SO 1.2.1. TAX POLICY REFORMS ARE IMPLEMENTED			
INDICATOR: LEVEL OF GRAY MARKET ACTIVITY			
UNIT OF MEASURE: PERCENT SOURCE: MINISTRY OF FINANCE INDICATOR DESCRIPTION: PERCENT OF THE ECONOMY THAT IS NOT ACCOUNTED FOR IN OFFICIAL GOVERNMENT STATISTICS COMMENTS: DURING TRANSFORMATION PERIOD DUE TO UNFAVORABLE CONDITIONS MORE THAN HALF OF BUSINESS ACTIVITIES WERE DRIVEN UNDERGROUND. A LOT OF GOVERNMENT EFFORTS ARE CONCENTRATED TO ELIMINATE HIDDEN ECONOMY ACTIVITY.	YEAR	PLANNED	ACTUAL
	1995	BASELINE	50%
	1996	48%	45%
	1997	40%	40%

OBJECTIVE: 1.2 STRENGTHENED FISCAL MANAGEMENT			
APPROVED: 1996		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: S.O.1.2.3. IMPROVED PUBLIC DEBT MANAGEMENT			
INDICATOR: SUSTAINABLE ACCUMULATION OF EXTERNAL DEBT			
UNIT OF MEASURE: PERCENT	YEAR	PLANNED	ACTUAL
SOURCE: MINISTRY OF FINANCE	1995	BASELINE	15%
INDICATOR DESCRIPTION: OFFICIAL DEBT TO GDP	1996	25%	25%
COMMENTS: GOVERNMENT HAS TIGHTENED ITS DOMESTIC AND EXTERNAL BORROWING POLICY. THIS IS COMMENDABLE, ESPECIALLY CONSIDERING THE RAPID RATE AT WHICH PUBLIC DEBT WAS ACCUMULATING AND THE RATHER LIMITED DEVELOPMENT IMPACT OF PAST BORROWING.	1997	28%	21%

OBJECTIVE: 1.2 STRENGTHENED FISCAL MANAGEMENT			
APPROVED: 1996		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: S.O. 1.2.4. TREASURY FUNCTION IS IMPLEMENTED			
INDICATOR: TREASURY SUBSYSTEMS OPERATIONAL AND USED			
UNIT OF MEASURE: YES/NO	YEAR	PLANNED	ACTUAL
SOURCE: MINISTRY OF FINANCE	1995	BASELINE	SYSTEM DESIGNED, PREPARED FOR IMPLEMENTATION
INDICATOR DESCRIPTION: SPECIFIC ELEMENTS OF THE TREASURY SYSTEM ARE IMPLEMENTED AND OPERATIONAL	1996	SIX MINISTRIES LINKED TO THE SYSTEM	THREE MINISTRIES LINKED TO THE SYSTEM
	1997	TWELVE MINISTRIES LINKED TO THE SYSTEM	TEN MINISTRIES LINKED TO THE SYSTEM
COMMENTS: MINISTRY OF FINANCE ESTABLISHED THE CORE OF TREASURY OPERATION WITHIN THE MINISTRY, WHICH HAS HELPED CONSOLIDATE FUNDING CONTROL. IT IS PLANNED THAT ALL MINISTRIES WILL BE LINKED TO TREASURY SYSTEM IN 1998.			

TABLE SO 1.2: PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.2: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	1996		1997		1998		1999		2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.2	Strengthened Fiscal Management	1. Tax revenue as a percentage of official GDP	Definition: Reported government tax revenue divided by GDP. Unit: Percent	1995	24.0%	24.0%	21.0%	26.0%	21.0%	29.0%		31.0%		33.0%	
IR 1.2.1	Tax Policy Reforms are Implemented	1. Level of grey market activity	Definition: Percent of the economy that is not accounted for in official government statistics. Unit: Percent	1995	50%	48%	45%	40%	40%	33%		29%		25%	
IR.1.2.2	Improved Tax Administration	1. Level of uncollected taxes	Definition: Delinquent taxes divided by expected tax collections. Unit: Percent	1995	70%	50%		45%		40%		35%		30%	
IR1.2.2.2	Improved Tax Administration	2. Level of tax arrears	Definition: Tax arrears divided by GDP. Unit: Percent	1995	45%	24%		21%		18%		15%			
IR1.2.3	Improved Public Debt Management	1. Investment grade credit rating	Definition: S&P rating Unit: Show actual ratings	1995	No rating	New indicator	BB-	BB	BBB-	BB+		AA-			
IR1.2.3	Improved Public Debt Management	2. Sustainable accumulation of external debt	Definition: Official debt to GDP. Unit: Percent	1995	15%	25%	25%	28%	21%	32%		35%		37%	
IR 1.2.4	Treasury Function is Implemented	1. Treasury sub-systems operational and used	Definition: Specific elements of the Treasury system are implemented and operational. Unit: Yes/No	1995	System designed, prepared for implementation	Six Ministries linked to the system	Three Ministries linked to the system	Twelve Ministries linked to the system	Ten Ministries linked to the system	All Ministries linked and govt deposits securitized					

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
				YEAR	VALUE	1996		1997		1998		1999		2000			
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual		
IR 1.2.5	Improved Budget Process used by the Ministry of Finance	2. Ratio of actual expenditures to budgeted	Definition: Actual government expenditure divided by government proposed budget Unit: Percent	1995	N/A	81%		85%		90%		95%					
IR 1.2.5	Improved Budget Process used by the Ministry of Finance	3. Performance targets defined for main spending ministries	Definition: Performance targets are what the ministries will accomplish with the resources they are provided Unit: Number of ministries	1995	0	0	2	0	4			6					
COMMENTS/NOTES Data on delinquent taxes and tax arrears is being not calculated because of limited human resources at the Ministry of Finance																	

A More Stable Financial Sector (SO 1.4)

Forging a market-oriented financial market has been a major constraint to transition in Lithuania. The past year saw the banking sector fully recover from the banking crisis with strong growth in deposits and bank equity while non-banking financial services also experienced tremendous growth. USAID Lithuania's efforts have been aimed at formulating the policy and institutional underpinnings of a market-oriented financial system. The strategic objective has met expectations for the year. Institutions have been strengthened, confidence is increasing, and growth is strong. Although progress has been strong, the shallowness in the financial sector makes it vulnerable to internal and external shocks which could erase the progress achieved over the past few years.

Performance Analysis

Banking Sector Developments: The Bank of Lithuania continues to emphasize the need for an orderly departure from the currency board and to develop ways of formulating and implementing appropriate monetary policy. The Bank adopted a monetary policy program in early 1997 comprised of three primary stages: development and introduction of monetary policy instruments; a revision in the currency law and repegging the currency. The Governor has made it clear that the exchange rate for the Litas will remain fixed in terms of the U.S. dollar at least through early 1999. After that time, a transitional process of pegging the Litas to the Euro, if appropriate, will begin. The uncertainty of the move to a new peg leaves Lithuania vulnerable to future currency speculation. Bank examinations and credit union inspections continued on schedule.

The banking sector further restructured which will lead to better stability in the long-run. After an 18 month delay, the GoL decided to merge the defunct State Commercial Bank with the State Savings Bank. Although preferable to allowing the bank to continue operating, the merger is a sub-optimal solution and not as good as outright liquidation. There is concern that the State Savings Bank will be weaker as a result and there remains a risk of losses from political lending. The GoL remains silent on any discussion for privatizing the State Savings Bank, but plans to sell the State Agricultural Bank by July 31, 1998. The bad loan portfolio of the state banks increased to just under 30% and the State Agricultural and State Commercial Banks have been granted an exemption by the Parliament from Central Bank prudential requirements. State banks make up just under 50% of the assets in the banking sector, unchanged from a year ago.

In contrast to the state banks, the private banks continued to improve, with deposits and assets growing and bad loans dropping to 11% of loans outstanding. Innovation Bank, one of two banks closed during the 1995 crisis, was officially closed and asset liquidation initiated. Although raising the potential for increased public concern, the BoL took quick actions to close down the problem bank Tauro Bankas. The Deposit Insurance System provided payments within 60 days, alleviating depositor concerns. This system continues to increase its capital base and has all the laws, regulations and operations of a fully-fledged system. A Polish bank (Kredyt SA) and a French bank (Societe General) were granted licenses for branch offices.

Capital Markets Developments: The Stock Market attracted considerable domestic and foreign investor interest during the year. The Exchange's equity turnover increased by 600% to almost \$250 million while government T-bills comprised an additional \$125 million in trading. Market capitalization, the value of the companies listed on the Exchange, increased by almost 70%. The processing of market orders underwent considerable changes which increased the market's attractiveness. Exchange transaction fees were lowered by 40% to 80%. The placement of orders was facilitated by extending the time for trading and changing the rules to allow for multiple setting of prices. Also, the cap on the maximum amount of shares that could be offered was lifted. In 1997, the Exchange handled three-quarters of cash privatization revenue, making it the primary method of cash-based privatization. The capital markets organizations developed a working group to advance the capital markets and prepared a strategic plan with major goals and cooperative systems.

Other Financial Sector Developments: In 1997, Parliament passed the collateral law for movable property. A new mortgage registry will record all real estate and movable property agreements, thereby providing greater safety in lending and broader use of movable property as collateral. After the Bank of Lithuania granted permission for banks to provide loans in foreign currency without restrictions on usage, the leading private commercial banks introduced five year mortgage loans. The Lithuanian Environmental Investment Fund started operating in 1997 and has received about 40 applications for review. Credit union numbers increased from 11 with assets of \$300,000 to 24 with assets of \$800,000.

U.S. Contribution

Banking Sector Assistance: All three indicators (deposit levels, length of time deposits and bank capital levels) under this IR achieved their targets, indicating that progress is meeting expectations. To strengthen monetary policy, Treasury advisors were crucial to developing policy formulation procedures as well as using policy instruments. With the advisors' assistance, the BoL introduced repos and deposit auctions to control liquidity levels; staff began liquidity forecasting to evaluate the need for BoL actions; the Governor became more proactive with the media, holding regular press conferences and briefings; staff improved communication and teamwork to implement decisions; and the BoL prepared initial procedures to formulate and implement policy decisions. In bank supervision, advisors helped inspectors deal with new financial products, better evaluate and measure risk, and draft a credit union inspection manual. A Treasury advisor at the Ministry of Finance developed alternatives for resolving the State Commercial Bank's problems. Although his recommendation of liquidating the State Commercial bank was not followed, the GoL is using his fall-back idea of merging the bank and is using the advisor to ensure the process works well. The advisor helped the MOF to begin privatizing the State Agricultural Bank, set-up the deposit insurance system, and make sure that it worked during its first test - the closure of Tauro Bankas. Follow-up efforts resulted in Lithuania's deposit insurance scheme being registered with the U.S. FDIC, bringing Lithuania into a select group of some 30 countries.

Capital Markets Sector Assistance: Within this intermediate result, results met expectations. Trading volume and turnover exceeded targets by several hundred percent. The number of companies listed in the blue-chip group fell short of target, but did increase during the year.

USAID advisors helped the Securities Commission prepare the capital adequacy rule and implement its requirements. This rule allows the Commission to monitor the risks of brokerage activities and resulted in the closure/merger of five brokerages to avoid future problems. In cooperation with the Commission, advisors prepared rules to License Financial Brokers and Brokerage Firms and drafted rules on dealing with Preemptive Rights of Shareholders and Identification of Insider Trading, both of which were adopted. These rules safeguard shareholder rights and increase market transparency. In early 1998, the Commission passed the Rule on Tender Offers and the Rule on Discretionary Accounts for Investment Management and Consulting Firms. Other advisors prepared the rules and framework for operation of investment funds and accounting rules for investment funds and brokerages. In March 1998, the contractor issued a tender for software for a continuous trading system at the Exchange

Other Financial Sector Assistance: USAID advisors assisted the Ministry of Justice to draft the Movable Property Collateral Law and train bankers and government officials on its use. Credit union assistance led to the establishment of six new credit unions, the strengthening of existing ones, the formation of a National Credit Union Association, and the development of a system to track the health of each credit union.

Future Steps & Program Closeout

The focus of future assistance will be to consolidate the banking sector and capital markets reforms. Monetary policy assistance will focus on introducing additional policy instruments, improving the policy decision making process, and setting the stage for the BoL to peg the Litas to the Euro. Resident advisor presence is expected to end in March 1999 with plans for intermittent assistance for an additional year. Bank supervision assistance will continue through March 1999 to identify and resolve potential risks associated with new products. Transfer of the banking activities to another donor is not expected. Ministry of Finance banking assistance will end in July 1998. Treasury's advisor will promote State Agricultural Bank privatization and attempt to ensure that the merger of the State Commercial Bank into the State Savings Bank provides expected results, rather than make problems worse. Transfer to another donor on this work is not expected, though the EU may provide limited assistance.

Capital markets assistance will be successfully completed in early 1999. The assistance will focus on improving liquidity, safety and investor confidence by implementing the revised Law on Securities, preparing additional legislation, and implementing a continuous trading system along with new trading rules and monitoring systems. Continued assistance may be needed to the Securities Commission to deal with new products and to control market risk. USAID will work to identify sources of support if needed and is confident that a strong regulatory and trading foundation will be in place on schedule. Credit union strengthening will continue through mid-1999. The Canadian program will assist credit unions after the completion of USAID assistance. In support of the LEIF, USAID will provide a consultant to identify and assist prospective applicants to obtain project financing. This will allow the EU to disburse initial capital to the LEIF which can then provide the loans.

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--MINI PERFORMANCE DATA TABLES SO 1.4 (FILE: LIR2MINI.PDT)

OBJECTIVE: 1.4 MORE STABLE FINANCIAL ENVIRONMENT			
APPROVED: 1996		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: A MORE STABLE FINANCIAL ENVIRONMENT			
INDICATOR: REAL INTEREST RATES			
UNIT OF MEASURE: PERCENTAGE SOURCE: BANK OF LITHUANIA MONTHLY BULLETIN JANUARY 1998 INDICATOR DESCRIPTION: CALCULATED BY TAKING THE AVERAGE NOMINAL INTEREST RATE FOR DOMESTIC CURRENCY TIME DEPOSITS AS REPORTED BY THE CENTRAL BANK AND SUBTRACTING ANNUAL INFLATION COMMENTS: INFLATION FOR 1997 WAS 8.4% AND LOWER THAN EXPECTED. INTEREST RATES FELL SLIGHTLY DURING THE YEAR AND LEVELED OFF AT THE END. INFLATION IS EXPECTED TO STAY IN THE SINGLE DIGITS FOR 1998 AND REAL INTEREST RATES WILL HOOVER AROUND ZERO. IN ADDITION, THE REAL LEVEL OF DEPOSITS ROSE 32% DURING THE YEAR, LED BY INCREASING CONFIDENCE IN THE BANKING SYSTEM AND BETTER REAL RATES THAN DURING THE EARLIER YEARS OF THE TRANSITION PROCESS.	YEAR	PLANNED	ACTUAL
	1995	BASELINE	-16%
	1996	-15%	+1.1%
	1997	-12%	-0.8%

OBJECTIVE: 1.4.1 MORE STABLE FINANCIAL ENVIRONMENT			
APPROVED: 1996		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: INCREASED CONFIDENCE IN THE BANKING SECTOR			
INDICATOR: LEVEL OF LONG-TERM TIME DEPOSITS			
UNIT OF MEASURE: PERCENT SOURCE: BANK OF LITHUANIA MONTHLY BULLETIN JANUARY 1998. INDICATOR DESCRIPTION: PERCENT OF TIME DEPOSITS THAT ARE FOR LONGER THAN THREE MONTHS COMMENTS: NOT ONLY IS A GREATER PERCENTAGE OF TIME DEPOSITS LONGER THAN THREE MONTHS, BUT IN 1997, BANKS BEGAN TO OFFER TIME DEPOSITS FOR LONGER THAN TWO YEARS, INDICATING EXPECTATIONS OF STABILITY. TIME DEPOSITS, HOWEVER, MADE UP APPROXIMATELY 22% OF ALL DEPOSITS IN 1997, DOWN FROM APPROXIMATELY 27% IN 1996.	YEAR	PLANNED	ACTUAL
	1995	BASELINE	15%
	1996	17%	25.7%
	1997	20%	33.1%

OBJECTIVE: 1.4.1 MORE STABLE FINANCIAL ENVIRONMENT

APPROVED: 1996

COUNTRY/ORGANIZATION: USAID/LITHUANIA

RESULT NAME: INCREASED CONFIDENCE IN THE BANKING SECTOR

INDICATOR: REGISTERED SHARE CAPITAL

UNIT OF MEASURE: USD

SOURCE: BANK OF LITHUANIA MONTHLY BULLETIN
JANUARY 1998.

INDICATOR DESCRIPTION: SHARE CAPITAL REGISTERED
WITH THE CENTRAL BANK

COMMENTS: ALL PRIVATE BANKS MEET MINIMUM
CAPITAL REQUIREMENTS. BANKS CONTINUE TO ISSUE
NEW CAPITAL, SO THAT THEY CAN SERVICE LARGER
CLIENTS AND PROVIDE LARGER LOANS. BOTH DOMESTIC
AND FOREIGN INVESTOR INTEREST CONTINUES TO BE
STRONG, WITH BANK EQUITY ALSO BEING HEAVILY
TRADED ON THE STOCK EXCHANGE.

YEAR	PLANNED	ACTUAL
1995	BASELINE	94 Million
1996	138 Million	190 Million
1997	163 Million	207 Million

OBJECTIVE: 1.4.2 MORE STABLE FINANCIAL ENVIRONMENT

APPROVED: 1996

COUNTRY/ORGANIZATION: USAID/LITHUANIA

RESULT NAME: CAPITAL MARKETS ESTABLISHED AS A VIABLE ALTERNATIVE TO THE
BANKING SECTOR

INDICATOR: TRADING VOLUME

UNIT OF MEASURE: USD

SOURCE: NATIONAL STOCK EXCHANGE OF LITHUANIA
4TH QUARTER BULLETIN FOR 1997

INDICATOR DESCRIPTION: ANNUAL TURNOVER OF
EQUITY MARKET.

COMMENTS: THE 600% INCREASE IN VOLUME WAS
UNEXPECTED BUT HIGHLIGHTS THE GROWTH THAT CAN
BE ACHIEVED. IN 1997, THE LITHUANIAN CAPITAL
MARKETS RECEIVED A SIGNIFICANT INCREASE IN BOTH
DOMESTIC AND FOREIGN INVESTOR INTEREST. THIS WAS
A RESULT OF IMPROVED INFORMATION, RECOVERY IN
THE ENTERPRISE SECTOR, CONTINUED STRENGTHENING
IN THE BANKING SECTOR AS WELL AS IMPROVED
REGULATORY OVERSIGHT.

YEAR	PLANNED	ACTUAL
1995	BASELINE	37 Million
1996	50 Million	47 Million
1997	65 Million	240 Million

TABLE SO 1.4 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.4: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS									
				YEAR	VALUE	1996		1997		1998		1999		2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.4	A More Stable Financial Environment	1. Money Supply as a Percent of GDP	Definition: Money Supply will be measured by M2. Measurements done at year end. Unit: Percent	12/95	18%	18%	14.8%	22%	17.3%	27%		35%		40%	
		2. Real Interest Rates	Definition: Average nominal interest rates for domestic currency time deposits as reported by the Central Bank minus annual inflation reported by the Statistics Department. Unit: Percent	1995	-16%	-15%	+1.1%	-12%	-0.8%	-10%		-5%		-2%	
		2. Long-term commercial debt as a % of total debt	Definition: The value of loans granted to residents for more than one year as a percent of all loans outstanding. (average for end of each quarter) Unit: Percent	1995	15.2%	17%	15.3%	19%	33.4%	22%		25%		25%	
IR 1.4.1	Increased Confidence in the Banking System	1. Real level of deposits	Definition: Level of deposits adjusted for inflation. Unit: Litas	12/95	4,630 million	4,865 million	4,208 million	5,060 million	5,565 million	5,300 million		5,500 million		5,800 million	
		2. Level of long-term time deposits.	Definition: Percent of time deposits that are for longer than three months. Unit: Percent	12/95	15%	17%	25.7%	20%	33.1%	25%		28%		30%	

Improved Safety and Policy of the Energy Sector (SO 1.5)

USAID's Energy Strategic Objective is created to assist the GoL to foster a regulatory environment for the energy sector that enables private investment to provide low cost reliable energy and address issues resulting from the eventual closure of the Ignalina Nuclear Power Plant (INPP). Improving energy safety and policy contributes to strengthening Lithuania's public financing and to forging a viable commercial financial sector. Although many problems still exist, 1997 was a year of major reform and restructuring in the energy sector. The Mission's expectations fell short in achieving IRs in nuclear safety and Baltic regional cooperation, but were exceeded in the energy pricing field.

Performance Analysis

Collections: Energy losses and payment arrears continued to be two of the energy sector's main problems. Electricity losses declined from 15.5% of total consumption in 1996 to 13.2% in 1997. Heat losses were reduced from 20.6% of power generated in 1995 to 15.5% in 1996 and are estimated to have declined further in 1997. Despite this, energy losses resulting from inefficiencies and power-theft remained quite high. To reduce payment arrears, the Lithuanian power company Lietuvos Energija (LE) applied sanctions to customers with payments past due of 30 days. The LE discontinued electricity supplies to 15,800 customers and the total outstanding electricity and heating debt fell from 250 million litas (4 litas = 1USD) in April to 170 million litas in October. The utilities' debt for fuel and gas also fell, and 1997 was the first year since independence that Russian gas suppliers did not threaten to withhold gas from Lithuania during the winter heating season. In 1997, the GoL announced that it would assume 775 million litas in debts of LE. The outstanding debt of LE to the State Budget of 70 million litas and the 180 million litas owed to the budget by INPP would also be absorbed by the GoL budget.

Regulatory Framework, Restructuring and Privatization: The GoL enhanced the competitiveness of the energy sector and started to bring tariff structures in line with the opportunity cost of energy resources. The Parliament passed revisions and amendments to the Energy Law, Municipal Law, Law on Prices and the LE Restructuring Law and empowered the Energy Pricing Commission (EPC) as a permanent body with authority to review and set power tariffs. According to the LE Restructuring Law, district heating operations were restructured into 10 municipal and six regional heat supply companies. This was the first stage of "unbundling" companies from the LE. The 16 new independent companies were authorized to set their own utility tariffs which are approved by the EPC. In 1997, the EPC, which increased its staff to 30 specialists, authorized a modest increase in electricity tariffs from 15.2 to 15.9 cents per kWh. Residential heating tariffs rose by 30% to 66% across the country and the 18% VAT rate was applied to energy sales. As a result, electricity, heat and gas prices cover approximately 90% of operating costs. During the fall, the GoL waived the application of VAT to district heating and then partially suspended price hikes for consumers. Social subsidies for low income customers for energy in 1997 were estimated at 510 million litas. As the economy continued to recover, Lithuania's energy projects attracted initial external financing. The Mazeikiu Nafta oil refinery borrowed \$90 million and increased its output from 3.7 million tons to 5.6 million tons. Loans of over \$100 million were received

for the implementation of the Butinge's oil terminal project and negotiations were started with foreign investors for further investments into Butinge.

Nuclear Safety: The safety of the Ignalina Nuclear Power Plant (INPP) continued to be a major issue in 1997. The Safety Analysis Report (SAR) identified over 70 safety measures in need of improvement. The GoL has declared that all recommendations will be implemented and estimated that the work will cost \$150 million. Six “urgent” safety upgrades were undertaken while Unit 1 was closed for routine maintenance, and despite concerns raised by the Review of the SAR (RSR), it was restarted. The NSA/EBRD agreement states that VATESI will make the re-licensing decision regarding the first reactor by mid-1998. To help VATESI with this process, a team of international donors formed the VATESI Licensing Assistance Program (LAP) and a new version of the Lithuanian Least Cost Power Development Program was issued.

U.S. Contribution

Energy Pricing: USAID's advisors are strengthening the EPC to become a competent, regulatory body, free from political influences. USAID experts worked with the EPC on implementation of tariff increases and public education on the energy tariff setting process. This was the first year when price adjustment methodologies, developed with USAID assistance, were used for tariff calculations and became the basis for the EPC's work. Based on US training, EPC staff established the Commission's Bulletin called “Energy Prices” and implemented a new strategy for handling energy consumers' complaints. USAID's work in the energy regulatory field is closely coordinated with the EU-PHARE program, which is working on the new energy law. An example of this coordination is the joint USAID/EU session on Energy Pricing Reform and Restructuring topics conducted for Parliament members in October.

Other Policy Efforts: USAID and the Lithuanian Energy Institute launched a special study on the trends in the energy sector since 1990. This excellent synthesis is the first such comprehensive assessment in Lithuania. The study has been provided to counterpart institutions to assist in formulating sound energy policies. USAID believes that building such relationships between government agencies and local think-tanks is one of the key ways of improving policy reform that will be sustainable after graduation from USAID support.

Nuclear Safety: In consultation with other donors, USAID funds the U.S. Nuclear Regulatory Commission's (NRC) work with the Lithuanian Nuclear Regulatory Body VATESI on redefining their role and developing their capabilities. NRC focused on helping VATESI to conduct a Western-type review of the SAR and provided training in regulatory practices, inspection techniques, RSR review findings, regulatory issues review and other areas. The NRC also assisted VATESI in developing a Regulatory Regime Policy Statement, defining the regulation of nuclear facilities, and a new formal Regulatory Guidance Document dealing with Graphite - Pressure Tube Gap Closure for VATESI. The latest document defines VATESI's position on the safety basis for operation up to Point of Gap Closure, and the necessary plant measurements and analysis needed to adequately confirm the status of pressure tube gaps. During 1997, the NRC has continued to provide VATESI access to most NRC-sponsored

computer codes. The NRC is also one of the major players at consultative meetings of the Licensing Assistance Program's Steering Group. As of March 1998, VATESI completed 45% of the regulatory licensing review process. As a result of slow progress, VATESI requested the EBRD to postpone the relicensing decision deadline until May 1999. The licensing review process is behind schedule mainly because of a one-year delay in the SAR preparation, limited absorptive capacity and previously ineffective work of the small VATESI staff.

Baltic Regional Cooperation: USAID assisted the planning departments at each of the Baltic energy companies and Dispatch Center Baltija to advance the understanding of planning methods and their value in system planning and operations. Although a final regional electricity plan was to be prepared in 1997, efforts resulted only in a draft plan. This happened because unexpected additional efforts and funds were needed to modify the UPLAN model in order to meet the unique requirements of the Baltic region. However, the Baltic utilities established two permanent energy planning working groups with standing responsibilities, one for long-term system planning and another for system operations. This was a major achievement in the Baltic transition to self-sustaining regional energy planning because it provides channels for and promotes improved cooperation and communication between these countries. It is a useful forum to address the current and developing issues facing the Baltic power systems.

Future Steps & Program Closeout: USAID's prospects in achieving the S.O. are solid. The I.R. in the energy regulatory area should be achieved in two years, as planned. Nuclear safety and Baltic regional cooperation projects face some problems and the I.Rs in these areas will probably be achieved with some delay, but before close-out.

Efforts will be made to strengthen the EPC's capabilities to undertake increased responsibilities as the Commission becomes one of the most important players in energy and privatization fields. EPC will receive assistance on tariff implementation and development of a strategy for public education, restructuring, and development issues in the energy sector with the goal of completing energy pricing, regulatory and restructuring reform. Transfer of the activity to another donor is not expected, but assistance will be further closely coordinated with the EU PHARE program.

The NRC will extend its support to VATESI to conduct the licensing review of INPP. This work may be completed by graduation. By the end of 1998, VATESI is planning to complete about 80% of the regulatory licensing review process, and finish this work only in 1999. The NRC will receive \$1 million in regional and bilateral funds for work in 1998-2000 in order to help VATESI to complete this effort.

The Baltic utilities should complete their national energy plans and a regional plan in 1998. The assistance on this effort is being funded out of the regional budget. Because of cost-overruns associated with additional modifications to the UPLAN model, implementation of final activities on the Regional Energy Pool may not be completed.

INSERT MINI PDT SO 1.5 HERE (FILE: LIR2MINI.PDT)

OBJECTIVE: 1.5 IMPROVED SAFETY AND POLICY OF THE ENERGY SECTOR			
APPROVED: 1997		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: 1.5.1 DECISION TO RELICENSE IGNALINA MADE IN ACCORDANCE WITH SAFETY GUIDELINES			
INDICATOR: GOL DECISION MADE USING PROPER RESEARCH			
UNIT OF MEASURE: PROGRESS MADE TOWARDS DOCUMENT COMPLETION SOURCE: VATESI INDICATOR DESCRIPTION: REGULATORY LICENSING REVIEW (RLR) AND LEAST COST STUDY (LCS) DOCUMENTS PREPARED PRIOR DECISION COMMENTS: THE NEW VERSION OF THE LEAST COST STUDY IS NOW UNDER DISCUSSION. ACCORDING TO PRELIMINARY ESTIMATES, BECAUSE OF THE DELAYS IN PROJECT IMPLEMENTATION, THE LICENSING DECISION WILL BE POSTPONED UNTIL MAY 1999.	YEAR	PLANNED	ACTUAL
	1996	BASELINE	1st LCS DOCUMENT PREPARED
	1997	50% OF THE DOCUMENTS COMPLETED	LCS IS UPDATED; 45% OF THE RLR COMPLETED

OBJECTIVE: 1.5 IMPROVED SAFETY AND POLICY OF THE ENERGY SECTOR			
APPROVED: 1997		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: 1.5.2 ENERGY PRICING, REGULATORY REFORM AND RESTRUCTURING COMPLETED			
INDICATOR: ENERGY PRICES REFLECT REAL ECONOMIC COSTS			
UNIT OF MEASURE: PERCENTAGE OF ECONOMIC COSTS SOURCE: ENERGY PRICING COMMISSION, LITHUANIAN ENERGY INSTITUTE INDICATOR DESCRIPTION: ELECTRIC, HEAT AND GAS TARIFFS REFLECT COSTS OF PRODUCTION COMMENTS: REGULATORY REFORM AND RESTRUCTURING REQUIRE LEGAL CHANGES IN THE REGULATION OF THE ENERGY SECTOR. ALTHOUGH THE OLD ENERGY LAW IS IN EFFECT, THE DRAFT OF THE NEW ENERGY REGULATORY LAW WAS DEVELOPED WITH EU PHARE ASSISTANCE IN 1997. THE LAW SHOULD BE FINALIZED IN 1998.	YEAR	PLANNED	ACTUAL
	1996	BASELINE	70%
	1997	80%	90%

OBJECTIVE: 1.5 IMPROVED SAFETY AND POLICY OF THE ENERGY SECTOR

APPROVED: 1997 COUNTRY/ORGANIZATION: USAID/LITHUANIA

RESULT NAME: 1.5.3 ENHANCED BALTIC ENERGY COOPERATION

INDICATOR: REGIONAL ENERGY PROJECT DEVELOPMENT COMPLETED

UNIT OF MEASURE: YES/NO (INCLUDES MILESTONES)

SOURCE: LITHUANIAN POWER COMPANY, LITHUANIAN ENERGY INSTITUTE, MINISTRY OF NATIONAL ECONOMY

INDICATOR DESCRIPTION: REGIONAL AGREEMENT ON PROJECT REACHED

COMMENTS: THE BALTIC REGIONAL ENERGY COOPERATION PROGRAM HAS BEEN A LEARNING PROCESS FOR BALTIC COUNTERPARTS AND HAS PROVIDED REAL LIFE EXPERIENCE IN BUILDING CO-OPERATION AMONG THE THREE COUNTRIES. THIS COOPERATION IS AN ESSENTIAL INGREDIENT IN PREPARATION FOR ECONOMIC INTEGRATION WITH THE EUROPEAN UNION.

YEAR	PLANNED	ACTUAL
1996	BASELINE	TRAINING STARTED
1997	DRAFT REGIONAL ELECTRICITY PLAN DEVELOPED	DRAFT PLAN DONE

TABLE SO 1.5 : PERFORMANCE DATA FOR STRATEGIC OBJECTIVE 1.5: BASELINE, TARGETS, AND ACTUAL RESULTS

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA										
				YEAR	VALUE	1997		1998		1999		2000		
						Target	Actual	Target	Actual	Target	Actual	Target	Actual	
SO 1.5	Improved Safety and Policy of the Energy Sector	Power system investment increases	Definition: Percentage of ownership of utilities by strategic investment Unit: %	1996	9% in Lithuanian Power	9% in Lithuania Power	13,5% in Lithuania Power	35% in Lithuania Power		35% in CHPs and 35% in distribut. companies				
IR 1.5.1	Decision to relicense Ignalina made in accordance with safety guidelines	GOL decision made using proper research	Definition: Regulatory Licensing Review(RLR) and Least Cost Study (LCS) documents will be prepared prior to decision Unit: Progress made towards document completion	1996	1st LCS prepared	Documents 50% completed	LCS is updated, 45% of the RLR is completed	Documents completed and Decision made						
IR 1.5.2	Energy pricing, regulatory reform and restructuring completed	1. New Legislation and regulations for energy sector adopted	Definition: Energy law passed Unit: yes/no	1996	Old Law in effect	New Law drafted	Yes	Law passed						
		2. Energy prices reflect real economic costs	Definition: Electricity, heat and gas tariffs reflect costs of production Unit: % of economic costs	1996	70%	80%	90%	90%		100%				
IR 1.5.3	Enhanced Baltic energy cooperation	Regional Energy project development planning completed	Definition: Regional agreement on project reached Unit: Yes/no (includes milestones)	1996	Planning Departments established at each of the Baltic Energy Companies	Regional Electricity Plan developed	Draft plan developed	Regional Power pool agreed to and project finance plan developed		Regional Project agreed upon				

LEVEL	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA									
				YEAR	VALUE	1997		1998		1999		2000	
						Target	Actual	Target	Actual	Target	Actual	Target	Actual

Increased, and better-informed citizen's participation in political and economic decision making -- SO 2.1

Performance Analysis

Lithuania performance targets for 1997 were all achieved. Overall progress in broader democratic reform during the past six years has been impressive. Basic human rights rule of law, free speech and free, fair and peaceful multi-party elections are firmly in place. The performance of Lithuanian civil society, through its non-governmental organizations (NGOs), remains weak. A significant threshold of sustainable NGOs, effective in policy advocacy and service delivery, is lacking.

Regional Issues: Since reestablishing independence, the Baltic NGO sector has experienced diminished citizen support, and a loss of leadership as many popular activists of the early democratic transition accepted opportunities in private business and government. Baltic NGOs are fledgling, low-profile institutions that are playing a suboptimal role in debate on policy and decisions. Serious constraints to their effectiveness include:

- weak and conflicting legislation on NGO status and taxation
- low civic participation rates, government credibility, and public-private partnerships
- weak NGO organizational, technical, advocacy and managerial capacity
- limited diversity of funding and a weak tradition of philanthropy.

USAID Contribution

Increased NGO Activism in Baltics: An evaluation of the regional, Baltic Democracy Network (DemNet, US Baltic Foundation) program and advice from stakeholders and clients led to a joint USAID/USBF decision to develop a core of sustainable NGOs skilled in public policy analysis, advocacy and services. Remaining DemNet grants were used to develop these skills in 23 "model" NGOs in Latvia (13 NGOs) and Lithuania (10 NGOs). This was not adopted in Estonia, because funds were already fully obligated.

As a result of DemNet assistance, NGO activism and the participation of NGOs in public advocacy and public policy development has increased. NGOs have participated in drafting and amending laws passed and/or pending in a wide range of societal concerns. In Lithuania, USAID-supported NGOs have collectively succeeded in engaging the Prime Minister, the Ministers of Finance and Labor/Social Security, and members of Parliament in a growing dialogue on a range of issues, including NGO status/tax legislation. As a result, a pending draft of an NGO law was rejected, and a new drafting initiative will include active NGO participants. The Lithuanian Parliament adopted a set of recommendations on the model of state youth policy submitted by the Lithuanian Council of Youth Organizations. The Lithuanian Prisoners Aid Association succeeded in effecting the revocation of an unjust Lithuanian Prevention Law. Initiatives of the Kaunas Women's Employment Information Center resulted in proposed amendments to pending legislation on equal business practices.

In Latvia, as a result of the efforts of the Adult Education Association, the Ministry of

Education and Science has agreed to change its policy to include adult education services. The Rezekne Consumer Club's hot line on consumer rights has led to the decrease in the town's bus tariffs and improved quality of food in stores. In Estonia, the "Network of Non-Profit Associations and Foundations" proposed amendments to the Law on NGOs to Parliament. As a result of training activities (412 teachers) and texts provided by The Junior Achievement, Estonia, 119 schools in all fifteen counties now teach fundamentals of market economics to a new generation of Estonians. The Estonian AIDS Information and Support Center is utilizing safer, disposable, diagnostic supplies and is providing targeted AIDS-prevention interventions to decrease the spread of HIV/AIDS.

Increased NGO Activism -- Lithuania: The International Center for Not-for-Profit Law (ICNL) contributed to the ongoing revision of cumbersome and contradictory NGO legislation. ICNL strengthened the capacity of the Lithuanian NGO Support and Information Center to provide between 15 and 20 NGO legal consultations per week and contributed to the GoL's disapproval of a flawed draft of legislation to amend the current Law on Charity and Sponsorship, and the inclusion of NGOs in a new drafting Commission effort.

Fifteen grants issued by the American Embassy Democracy Commission's Small Grants Program (administered by USIS via a 632a transfer) targeted ethnic minorities, human rights, civic education and community development organizations. As a result, participating communities were exposed to an improved climate of inter-ethnic relations; a greater capacity of women to participate in political and economic activity; a heightened awareness and skills for civic responsibility among youth; and stronger capacity for advocacy of children's rights. USAID and USIS still have not reached agreement on how to define or measure program impact, making it difficult for USAID to assess development impact of this initiative.

USIS Media Training Program (a 632a transfer): Nine government press spokespersons now utilize explicit strategies and exercise more professional public and media relations skills. Lithuanian and state TV and Radio now have specific written guidance on changes in management, staff reductions and programming, thus strengthening the capacity for financial sustainability and to enact its planned transformation as a public broadcasting entity. A planned development of public service information messages did not take place, because the counterpart was on an OSCE media project in Bosnia. The overall quality of media professionalism is judged to be uneven, but showing signs of slow improvement.

ABA/CEELI and the Lithuanian Judicial Training Center (JTC) improved the professional capacity and expertise of 1,148 Lithuanian judges and lawyers in labor law; financial and economic crimes; restitution of real property; classification of crimes, and implementation of intellectual property rights.

Increased Public Participation Municipal Government Level, Lithuania: The National Democratic Institute for International Affairs supported the establishment of a currently-functioning citizen complaint/request registry to improve public services in Kaunas. A published, widely distributed handbook on citizen participation, provides guidance on new approaches to stimulate/expand citizen participation throughout Lithuania. A national seminar on citizen participation techniques increased the capacity of 100 local government officials to

facilitate citizen-government partnerships in at least 15 communities.

Development Associates (DA), in cooperation with the Kaunas Technical University/Municipal Training Center (KTU/MTC), provided training in eight municipalities to stimulate and enhance the collaboration between municipal governments and NGOs. These seminars have resulted in NGO/local government joint projects in each of the eight cities, and the publication of the Handbook for Local Officials, which was distributed to local government officials throughout Lithuania.

Prospects for Future Progress; Performance Issues and Proposed Actions

The mission's analysis of the development of NGOs, led to the conclusion that effective civil participation of NGOs are a crucial means of sustaining reforms, but it will be at least ten years before NGOs are self-sustaining. Activities now under SO 2.1 for Lithuania and Latvia will be shifted to a regional post-presence foundation -- the Baltic American Partnership Fund (BAPF) to strengthen the NGO sector in the Baltics.

In the remainder of FY '98 USAID will:

- continue to strengthen NGOs through the Democracy Commission
- establish 23 "model" NGOs
- provide an institutional strengthening grant to the Judicial Training Center
- establish several public-NGO partnerships
- assist legislative reform sporting the NGO sector (Lithuania and Latvia)
- establish the Baltic American Partnership Fund
- document lessons-learned from completed projects.

Expected Progress by FY 2000: Replication of the few successful NGO models will not occur quickly. By FY 2000 the BAPF will have completed two years of technical assistance, training and grant programming in Lithuania, Latvia and Estonia. Baltic NGOs should: a) reform national NGO legislative and regulatory frameworks in Latvia and Lithuania; b) improve management and advocacy capacity in 15-20 "model NGOs; and c) start to improve legislation to expand corporate and community philanthropy.

Requirements for Close-out and Graduation. The Bureau's Close-Out Plan for the Baltics approved the \$15 million BAPF, to achieve and consolidate SO 2.1 results in the Baltics following graduation. The managerial and oversight adjustments necessary under the BAPF have been approved by the ENI Bureau. All required close-out procedures (final reporting, disposition of non-expendable property, etc.) for completed activities by the following grantees will be initiated and completed this calendar year: International Republican Institute; National Democratic Institute; and the U.S. Baltic Foundation. Public Administration activity (Development Associate) and the Judicial Training Center will completed in the first half of FY '99, and the end of FY '99, respectively.

OBJECTIVE: 2.1 Stabilize democracy and market orientation through increased and better informed citizens participation in political and economic decision making.			
APPROVED: 1996		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: S.O. 2.1			
INDICATOR: Number of joint public-private activities taking place at USAID supported sites.			
UNIT OF MEASURE: PERCENTAGE SOURCE: US Baltic Foundation; Development Associates; National Democratic Institute INDICATOR DESCRIPTION: An activity is a commitment of local government resources, including human or in-kind, to a defined objective that is carried out over a specific time frame, in partnership with an NGO or community group, to provide social services or enhance community advocacy. COMMENTS: Joint projects between NGOs and local governments are not common in Lithuania. The modest target level is realistic and is expected to grow.	YEAR	PLANNED	ACTUAL
	1995	2	2
	1996	6	7
	1997	15	18

OBJECTIVE: 2.1 Stabilize democracy and market orientation through increased and better informed citizens participation in political and economic decision making.			
APPROVED: 1996		COUNTRY/ORGANIZATION: USAID/LITHUANIA	
RESULT NAME: S.O. 2.1.1 Increased NGO activism			
INDICATOR: Increased incidence of NGOs developing public outreach programs that extend beyond their membership base, among NGOs receiving AID support.			
UNIT OF MEASURE: 1) The average number of advocacy information projects per AID-supported NGO. SOURCE: US Baltic Foundation, NGO Information and Support Center, LFMI, KTU/MTC, ICNL, NFF INDICATOR DESCRIPTION: Advocacy information projects include press conferences, public fora and publications aimed at effecting public policy and/or bringing about positive community change. COMMENTS:	YEAR	PLANNED	ACTUAL
	1995	30	30
	1996	35	45
	1997	50	50

OBJECTIVE: 2.1 Stabilize democracy and market orientation through increased and better informed citizens participation in political and economic decision making.

APPROVED: 1996 **COUNTRY/ORGANIZATION:** USAID/LITHUANIA

RESULT NAME: S.O. 2.1.2 Increased responsiveness to public participation among municipal government officials in the AID-supported cities

INDICATOR: Public participation in hearings and other fora; availability of public records, reports

UNIT OF MEASURE: 1)Number of meetings/hearings etc. that permit access to local government; 2) Number of City planning, budget and procurement documents available to the public; 3. Duration of training for officials/local trainers in civic education programs.

SOURCE: US Baltic Foundation, Development Associates, National Democratic Institute, World Learning, NFF, KTU/MTC.

INDICATOR DESCRIPTION: 1)Mechanisms that endure citizen access to public officials, 2) Public accessibility to city budget/financial records, 3)Training of local government officials and NGO activists in citizen participation training programs.

COMMENTS:

YEAR	PLANNED	ACTUAL
1:		
1996	10	11
1997	15	18
2:		
1996	1	2
1997	5	5
3:		
1996	1500	1729
1997	2000	2242

SPECIAL INITIATIVES

1.0 Regional Environmental Monitoring: The objective of this special initiative is for Lithuania and the other Baltic countries to standardize their reporting, monitoring and laboratory procedures for identifying and quantifying air and water born pollutants, determine origin of such contaminants, and make the data readily available to both the decision makers and the public. In order to achieve this, USAID assists the Baltic Environmental Ministries to implement the Regional Environmental Monitoring program.

In 1997, the Baltic states have continued implementing EPA recommendations on basic monitoring and laboratory system needs and significantly improved the national control program of their Central Environmental Laboratories. The Latvian Government simplified its monitoring program management by merging the Hydrometeorological Service Bureau into the Latvian Environmental Protection and Regional Development Ministry. The Latvian laboratory has been certified and the Lithuanian certification package has been prepared. EPA assisted Ministries in the implementation of INTERNET connectivity and development of the environmental Home pages. As a result, Baltic specialists are able to communicate more efficiently, advertise themselves, reach the public, transfer and exchange information on environmental programs and environmental monitoring results.

The EPA further encouraged the involvement of other donor organizations into the REM implementation. This motivated the three Baltic Ministries to establish annual, rotating donor and Baltic countries meetings. During 1997, the EPA organized a series of meetings and workshops on environmental monitoring. The Baltic Urban Air Modeling Workshop in Jurmala was attended by representatives of all Baltic states and focused on illustrating monitoring techniques. The workshop was followed by the Baltic Urban Air Monitoring Workshop in Vilnius, which was also attended by experts from Denmark, Sweden, Germany and other donor countries. During the workshop, a review of air quality monitoring networks of the Baltic states in regard to EU directives was completed and recommendations for urban air monitoring network restructuring were prepared. This will assist the Baltics in harmonizing environmental requirements with EU laws.

EPA also assisted Lithuanian specialists to develop the Siauliai Wellhead Protection Plan. This plan was presented at the International Groundwater Protection Seminar in Lithuania and now serves as a model for other Municipalities on groundwater protection. Based on the Siauliai pilot program, a new National Groundwater Monitoring Program was developed, and currently is being implemented in Lithuania.

To complete the REM program, EPA will implement the recommendations for urban air monitoring network restructuring in Lithuania and provide Baltic Ministries with Oracle software for data processing in 1998. The local area network in the Lithuanian MEP will also be expanded in order to improve linkages for Latvian and Lithuanian monitoring programs to INTERNET and BALLERINA. Since 1995, the Baltic countries have significantly increased the level of standardization of their environmental monitoring. USAID's final activities in 1998 will be the last contribution to achieve the objectives of this special initiative.

2.0 Improved Enterprise Capacity: Small and medium enterprises continue to push Lithuania's growth with trade, retail, services and light industry leading the economy. USAID continued to compact and refocus its SME efforts during this reporting period. During this time, the MBA Corps and Environmental Action Program Support Project (EAPS) closed-out their activities. The remaining activities in special initiative 4.1.2 are:

- Small-Medium Enterprises (International Executive Service Corps, Peace Corps)
- Agricultural Sector (Land O'Lakes)
- Investment/Demonstration (World Environmental Center)
- Management Training (Panevezys Management Training Center - MTC)

Economic Benefits: The SME activities achieved economic benefits to companies at twice the level of costs incurred by USAID. The target set was a ratio of 2/1. The cost to USAID of all the above projects during FY 1997 was \$420,000. USAID clearly exceeded this target as indicated by the following sampling of success stories:

-- WEC-assisted companies, upon completion of the demonstration project, reported economic and environmental benefits with a total savings of \$437,000 on investments of \$111,000 with an average payback period of three months. As a result of the program, air pollution emissions were reduced by 130 tons/per year, wastewater discharges by 115,000 cubic meters/per year, and more than 4500 tons of fuel oil and raw materials were saved.

-- Land O'Lakes policy initiative addressed the problems caused by milk pricing policies which act as a disincentive to the production of high quality milk. A working group of producers, processors, government and parliament members developed a model to predict the effects of varying policy scenarios. The results will be presented to the Government and private sector prior to Parliament discussions on dairy pricing set for May. The consensus approach coupled with hard economic analysis was a first for Lithuania in policy decision making and is expected to result in a policy acceptable to all participants and a targeted use of the \$9 million currently used for milk subsidies.

-- An IESC expert's review of a furniture maker's accounting, financial reporting, and inventorying systems resulted in computerization of the functions. The improved product and financial control resulted in \$150,000 savings to the company.

-- Land O'Lakes assistance to a cheese manufacturer increased yields by 3% (360 tons) and improved quality, with a market value of \$904,000. Further yield increases are expected as the company hones its process in accordance with LOL recommendations.

-- IESC assistance to a municipal power station focused on the station's purchase of new equipment. The expert revised the project specifications to meet international standards and prepared the power station for construction of a pipe line and pump station. The assistance saved \$40,000 through avoidance of potential problems and convinced the station director to invest in additional safety equipment to avoid machinery damage.

Improved Management Skills: Marketing, managerial and cost accounting, business

plan development, organization structures and personnel planning have been generally lacking in Lithuanian businesses and is an issue addressed as part of the broader technical assistance provided. USAID efforts achieved results of 100% of the companies assisted. People receiving new skills are sharing that information with colleagues, producing a ripple effect in the businesses. Some key successes were:

-- WEC advanced the Pollution Prevention Center's sustainability program. The PPC signed client consultant contracts, valued at \$75,000, during the reporting period. IESC assistance provided the PPC with skills to develop a business plan and the understanding to focus on analytical and monitoring services for industry.

-- IESC assisted a computer company to develop a strategy and marketing plan to better meet the needs of the domestic market as well as establish contacts with U.S. manufacturers. As a result, the company signed a distribution agreement with Sun Microsystems, doubled its sales (an increase of \$700,000) and expanded its market share.

Adoption of Technical Solutions to Solve Enterprise Production Problems:

Productivity was significantly increased in at least 25% of assisted firms. Results indicate that the technological improvements implemented by these firms did not just increase productivity, but in many cases enabled firms to improve the quality of their products so they could compete on the world market. Without the improvements the firms could not survive as viable businesses. Some examples are:

-- The EAPS effort successfully installed pollution control equipment at the Vilkas Tannery, thus achieving its goal of reducing chromium effluent by over 70%. Chromium reduction treatment is now applied to previously untreated wastewater streams, and the plant meets the required Municipal standards on heavy metal discharge. This effort is also serving as a demonstration to other enterprises on how to manage their harmful wastes.

-- IESC assistance to a furniture company focused on business management, personnel and quality control. By implementing the expert's recommendations, the company increased sales by \$850,000 and created new management structures for personnel and production design departments.

-- With Land O'Lakes assistance, a milk company refocused its strategy from export markets to secure their position as the leader in the domestic market. With an increase in the quality of raw milk and new packaging and technology obtained through U.S. training, domestic daily sales of fluid milk increased from three tons per day to 51 tons per day in a four month period. The company is installing a second filling line to meet additional demand in the domestic market.

-- Land O'Lakes extension techniques have been adopted by four dairies in Northern Lithuania. The pilot project, with 3000 cows, resulted in increased revenue of \$430,000 to farmers due to increased output. As the four dairies expand the program to cover the 60,000 cows in their region, the program is expected to generate an additional \$8.6 million annually in farm income. This work is coupled with assistance to veterinary laboratories in their

control and testing of mastitis to provide producers with accurate information.

The highlights from the 50 projects completed by USAID implementors indicates that objectives have been met. Technological changes were implemented, management skills were improved, jobs were created and financial viability of assisted firms increased which indicates a successful SME program.

3.0 Transit Europe Project (World Learning): During the reporting period, 35 decision makers were selected for the program. The participants were selected to support all of the Mission's sectors: S.O. 1.2 (fiscal reform) - one participant, S.O. 1.4 (banking, capital markets) - 11 participants, S.O. 1.5 (energy safety and policy) - six participants, S.O. 2.1 (NGOs and municipal government) - 15 participants, and S.O. 4.1 (special initiatives) - 2 participants. 43% of the participants were female, which is much higher than the national average for women in similar positions and is the highest percentage ever achieved by the Mission. Many of the impacts that accrue from training are integrated into reporting at the strategic objective level. Some noteworthy highlights are:

-- The Head of the Budget Policy Division from the Ministry of Finance used her training to expertly prepare a macro-economics analysis for preparation of a Standard & Poor's rating for Lithuania. The rating that was received was the highest that Lithuania had been given by any rating agency.

-- In the capital markets arena, two Stock Exchange employees, upon returning to Lithuania, implemented a partial reorganization of the Exchange to raise the stature of Market Analysis and Broker Training, designed and implemented a Website to provide investors with immediate information, and began to issue weekly press releases to ensure accurate information reaches the public. Also, two deputy Chairmen of the Securities Commission used their training to prepare securities rules: one on securities liquidity and another on tender offer registration and implementation. Both rules were adopted by the Commission in the first quarter of 1998.

-- A Ministry of Justice official used her training to help draft the Registry Law for Movable Property. This law allowed the Registry of Mortgages of Lithuania to start its activities on April 1, 1998. The registry will guarantee secure lending and borrowing operations and simplify procedures for recovering failed mortgage statements.

-- The Public Relations Manager of the Energy Pricing Commission introduced a section called "Consumer Complaints, Requests and Proposals" in the Commission's bulletin. The bulletin includes experts' comments on energy topics related to questions and complaints most frequently received by the Commission from around the country.

-- Two participants from Marijampole participated in training on NGO and local government collaboration. As a result, the Town Council and Administration established a position for NGO Affairs and approved a Health Fund with \$25,000 to fund project proposals received from any organization including NGOs. Two other participants from the Alytus region returned with innovative ideas on fund raising. As a result, they implemented a fund

raising activity to support economically disadvantaged families. Through joint efforts of leading community members and media, the participants collected food, clothes and money from companies and individuals to support more than 60 families.

-- USAID started a seminar series on economic restructuring topics for Parliament members. Sessions were conducted on tax policy, energy reform, banking and budget from September, 1997 to April, 1998. The Vice-Chairman of the Parliamentary Budget and Finance Committee and well known economist stated: "It is a necessary and good initiative. Education assists with developing people's minds and this event helps open dialogue between different law-making institutions. We need more of these meetings."

4.0 English as a Foreign Language - USIS: As a result of assistance from two EFL fellows, and the provision of textbooks, equipment and other training supplies, a self-sustainable process of design and incorporation of EFL instruction into the national curriculum has been achieved. This increased capacity includes 462 trained higher and secondary teachers and trainer-graduate students at four Lithuanian university-level institutions and over 26 secondary institutions. The EFL program has also significantly contributed to the institutionalization of a "Year 12-exam" and to other programs to standardize curriculum and testing in English throughout Lithuania.

5.0 Regional Rule of Law: The American Bar Association's and US Department of Justice's (ABA-CEELI) Criminal Law Initiative provided assistance to the Ministry of Interior, resulting in a requirement that law enforcement officers in sensitive positions undergo pre-employment investigations and security clearance. As result of CEELI suggestions, the law on asset forfeiture, passed in June, 1997, includes provisions on practices for civil and criminal forfeitures. CEELI also facilitated negotiations to establish a Crime Prevention Center in June, 1997. The target set for 1997 was to provide 16 training programs (courses, seminars, workshops) with members of the criminal justice community. That target was exceeded.

6.0 Baltic-American Enterprise Fund (BalAEF): The BalAEF began work in 1995 to provide loans to small and medium enterprises. During 1997, this regional activity managed from Washington DC continued its core activities and also introduced a new product - mortgage loans. Loans increased from \$6.0 million to \$11.1 million and met the Fund's target for the year. Current income was \$1.1 million and also on target. One commercial bank adopted some of the Fund's mortgage practices in starting its own mortgage program.

Part III MANAGEMENT CONTRACT

1. Status of the Management Contract

The current management contract was approved in July 1997 and includes four strategic objectives and six special initiatives. The mission proposes the following modifications to the management contract to permit the orderly close out of the program in September 2000. Key budget adjustment decisions are noted below. The Mission is requesting a) an overall increase in funds of \$500,000 to address close out costs that would have been requested in the FY 2000 budget, but ECA guidance suggests obtaining funding in FY 99 and b) deobligation/ reobligation of \$427,000 to make adjustments in the budget.

1. Adjustments in the budget by Strategic Objectives will focus on priority technical assistance and training needs. Key adjustments are noted in the budget tables.
2. The increase in the FY 99 budget for audit, evaluation, and program support. The funds are needed for the costs of the USPSC who would be the close out manager after the last direct hire leaves in September 1999, the last year's evaluations, a close out assessment, FSN and one USPSC program funded staff to manage the last year of activities, FSN 25% incentive for staying through close-out, ICASS support for program funded staff, and the graduation ceremony itself.
3. Deob/reob shifts are requested to allow the mission to reallocate \$150,000 in the bilateral budget for nuclear safety work with the Nuclear Regulatory Commission and for close out support costs in FY 2000.
4. A technical clarification of the management contract to include the authorization of \$7.5 million for the US contribution to the Baltic American Partnership Fund from FY 98.

The budget shifts are in Table 3 and a summary of the deob/reob uses are in Table 4, with clarifying text.

Management Contract (\$000)

Table 3. Summary of budget changes between FY 97 and FY 98 management contract

	Current (\$000)			Total	Revised (\$000)			TOTAL	Change
	FY 97 +CO	FY 98	FY 99		FY 97 +CO	FY 98	FY 99		
SO 1.2	2,090	1,850	775	4,715	1,765	1,540	950	4,265	-460
SO 1.4	2,444	950	400	3,794	2,635	770	315	3,720	-74
SO 1.5	1,041	1,000	500	2,541	1,041	1,190	435	2,666	125
SO 2.1	100	125	0	225	159	125	100	384	159
SO 4.1	350	0	0	350	350	0	0	350	0
SO 4.2	1,175	675	525	2,375	1,250	1,075	800	3,125	750
TOTAL	7,200	4,600	2,200	14,000	7,200	4,700	2,600	14,500	500
BAPF		7,500		7,500	0	7,500	0	7,500	0
GRAND TOTAL	7,200	12,100	2,200	21,300	7,200	12,200	2,600	22,000	
Changed amount	--	--	--	--	0	100	400		500

The following changes were made in the budget between the 1997 approved management contract and the 1998 proposed budget.

1. SO 1.2 A decrease of \$460,000 in the budget over two years reflects technical corrections:
 - \$400,000 from FY 98 (\$275,000) and FY 99 (\$125,000) funds were shifted to SO 4.2 Cross cutting training to directly support SO 1.2 at ENI request for ease of tracking
 - \$60,000 was shifted to policy studies under SO 1.5 to more accurately reflect mission managed analysis
2. SO 1.4: A decrease of \$74,000 in the budget over two years is a result of:
 - reduced costs of the Treasury financial services program as a result of past pipelines and delayed start up of one advisor (\$15,000)
 - more accurate attribution of the CEELI program activities that should be recorded as part of SO 2.1 (\$59,000)

3. SO 1.5 was increased by \$125,000 for:
 - policy analysis of the energy sector (\$75,000)
 - FY 1999 initial budget for IAA with NRC on nuclear safety (\$50,000)
4. SO 2.1 was increased by \$159,000 for:
 - incorrect attribution of the CEELI program activities that should be recorded as part of SO 2.1 (\$59,000) in FY 1997
 - New Ambassador's guidance to extend the Democracy Commission program in FY 99 (\$100,000)
5. SO 4.2 was increased by \$750,000 for
 - advanced funding for the Country Program Specialist, close out activities, and FSN incentives and separation fund in FY 2000 at the guidance of ECA (\$350,000)
 - shift of funds from SO 1.2 for cross cutting training (\$400,000 noted above).

Deobligation/reobligations

In addition to budget shifts and a requested increase, the Mission has a deobligation/reobligation plan to cover costs of priority activities.

Table 4. Summary of FY 98-FY 99 Deobligations/reobligations

	DEOBS			REOBS		
	FY 98	FY 99	Total	FY 98	FY 99	TOTAL
SO 1.2						
SO 1.4	309#		309#			
SO 1.5					32# 118*	150
SO 2.1						
SO 4.1	118*		118*			
SO 4.2					277#	277
TOTAL	427		427		427	427

* Reobligation completed

Funds will shifted from technical assistance to commercial banks to:

- \$32,000 for NRC for the relicensing decision of the Ignalina Nuclear Power Plant under SO 1.5
- advanced funding of program support and staff related to close out costs in lieu of FY 2000 funding (\$277,000)

* \$118,000 in funds will be shifted from SO 4.1 from the final contract close out of the Texas AM project with Kaunas Technical University/Management Training Center to:

- \$118,000 for NRC for the relicensing decision of the Ignalina Nuclear Power Plant under SO 1.5, and will supplement ENI regional funds.

2. Issues and Concerns

There are several issues that affect the ability of USAID to achieve results. First, the need to streamline systems and take into account the limited resources of small missions was an issue in last year's R4 and it remains an impediment to achieving results. Improvements in teamwork and cooperation between ENI and USAID/Vilnius have made a significant difference. Reduced reporting to ENI based on guidance from the DAA to offices to seek information in Washington and standard reports has helped.

Second, a possible impediment may be the pace of deobligation/reobligations. A recent E-mail indicated that it might take up to two years to process a deobligation, which would not leave time for a reobligation prior to graduation. An ENI proposal to treat reobligations as part of a macro level pool may solve this problem. The deobligation of funds will need to be completed to support the NRC activity and the advance of funds for close out costs that will be incurred in FY 2000.

Third, staffing needs should be sufficient to keep up with work load given a declining number of activities, the recruitment of a USPSC Country Program Specialist, and a part-time intermittent Baltic EXO to train staff. Recruitment of the Baltic EXO is proving difficult, because many of the best candidates are seeking full-time assignments. There will be issues of staff turnover among the American PSCs and the Lithuanian staff as we get closer to graduation. ENI support for the Mission to provide liberal training incentives and a 25 percent bonus for employees who remain until the end of their contract will be an important support.

Fourth, seven democracy projects are closing in FY 98 or have recently ended. USAID/Vilnius has been seeking assistance from the ENI/DGSR office for final close out planning and graduation reports. The operational close out of projects remains an area of vulnerability and close out support is deemed critical before the end of FY 98.

Part IV Resource Request Adjustments

1. Resource request adjustments

For detailed budget information, see Table 5: Resource Request By Strategic Objectives and Table 6: Resource Request By ENI Projects (Lotus attachments). These tables summarize the current budget adjustments and increased funding request, as discussed in the management contract.

2. Resource Request Adjustments Narrative by Strategic Objective

Strengthened Fiscal Management (SO 1.2) Resource Request: To strengthen fiscal management, USAID/Vilnius will allocate \$1.540 million in FY 98 and requests \$ 950,000 in FY 99. In response to continuing and growing needs in the area of fiscal management, USAID will continue and expand the breadth of projects at the Ministry of Finance (MoF). This work will include continued efforts in tax policy and legislation, budget policy, debt management and treasury function development, as well as additional efforts in tax administration and MoF policy. This work is in response to a new policy developed by the GoL and the MoF.

Poor fiscal management is a key bottleneck to economic reforms. Ad hoc passage of tax laws, decentralized cash collection and disbursement, antiquated budgeting systems and centralized decision making in the Ministry are leading to a situation where policy and decisions are constantly made under crisis pressure. By addressing the key functions of the Ministry, the foundation will be set for the Government to appropriately manage its finances. As the tax system becomes stable and compliance easier, private investment should increase and a major part of the gray market should enter the formal economy. This will lead to an increase in official GDP and an increase in revenue collections. Also, as a result, the budget will have more flexibility in meeting the investment needs. The changes will include a coherent tax policy that will have lower tax rates and a broadened tax base, a normally functioning treasury function, budgeting based on actual needs and decision-making taking place at appropriate levels of the Ministry.

More Stable Financial Environment (SO 1.4) Resource Request: USAID Lithuania will allocate \$770,000 in FY 98 and \$315,000 in FY 99 to foster a more stable financial environment. This is a reduction from the 1997 approved management contract. The U.S. Treasury banking assistance indicated a decreased need for additional monies, so the activity budget was reduced by \$400,000. Capital markets regulation assistance was increased by \$150,000 and policy studies by \$20,000.

In response to the continuing needs in the financial sector, USAID will continue funding in the banking and capital markets areas. In the banking area, this work will address the plans to reestablish the classic central bank functions at the Bank of Lithuania and continue to improve the policy framework within which the financial sector operates. USAID was

U.S. Strategic Assistance FY 97 CO-99: LITHUANIA

(in thousands of US dollars)

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Deobs in 98 Reobs in 99

			FY 97 Obligated	REVISED LIT 97 CO	REVISED LIT 98	REVISED LIT 99
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U.S. Strategic Assistance FY 97 CO-99: LITHUANIA

(in thousands of US dollars)

u:\public\123data\lir497d.wk4 revised 4/9/98

Deobs in 98 Reobs in 99

			FY 97 Obligated	REVISED LIT 97 CO	REVISED LIT 98	REVISED LIT 99
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SO 1.2 Increased Soundness of Fiscal Policies and Fiscal Management Practices

14.05 Fiscal policy HIID	0	0	526.161	324	265	150
14.05 Fiscal policy Barents	0	0			600	225
14.05 Lithuania policy support	0	0	0	50	300	275
xxx Fiscal reform: Transfer to Treasury	0	0	840	25	375	300
45.01 *World Learning/PIET (see 4.1)	0	0			0	0
	0	0	1,366.161	399	1,540	950

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

4. Environmental : HIID	0	0	100		0	0
14.02 Capital Markets	0	0	1,350	0	550	0
14.02 Banking Sector	309	0	110	0		
14.05 Lithuania policy support	0	0	0	0	70	65
20.00 Rule of Law/ABA	0	0	100		0	0
23.01 * IESC Private Enterprise	0	0	0	225	0	0
23.01 * IESC/LABNETA	0	0	0	0	50	0
23.22 *Lithuania Free Market Institute	0	0	100	0	100	0
xxx *Trans to Treasury#	0	0	250	400	0	250
	309	0	2,010	625	770	315

SO 1.5 A More Economically Sustainable and Environmentally Sound Energy Sector

30.01 Industry Contracts	0	0	300	541	950	350
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U.S. Strategic Assistance FY 97 CO-99: LITHUANIA
(in thousands of US dollars)

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	Deobs in 98	Reobs in 99	FY 97 Obligated	REVISED LIT 97 CO	REVISED LIT 98	REVISED LIT 99
30.01 Lithuania policy support	0	0	0	0	40	35
30.05 IAA with NRC	0	150	200	0	200	50
	0	150	500	541	1,190	435
SO 2.1 Increased, Better-informed Citizens' Participation in Political and Economic Decision-Making						
20.02 ABA Grant			59.011	0.000	0	0
20.02 Lithuania Judicial Training Center	0	0	0	0	25	0
Trans. to USIA for Democ. Com.	0	0	100	0	100	100
*BA Found for Dem.	0	0			7500	0
	0	0	159	0	7,625	100
4.1 Special Initiatives						
2.09 English teaching (USIA)	0	0	50	0	0	0
39.00 IAA with EPA			100			
29.01 Management Trng. Large Grants: TAMIU	118	0	0	0	0	0
29.01 <i>*Lithuania: Mngt training center</i>	0	0	175	25	0	0
	118	0	325	25	0	0
4.2 Cross-Cutting						
180.x ParkingFines Set Asides	0	0	0.105	0	0	0
45.01 World Learning training	0	0	578.156	21.844	400	200
249.01 Evaluation	0	0	0	0	0	0
249.02 Project Support field & general	0	277	481.936	167.787	675	600
	0	277	1,060.197	189.631	1,075	800
TOTAL	427	427	5,420	1,780	12,200	2,600

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Deobs in 98 Reobs in 99 FY 97 REVISSED REVISSED REVISSED

U.S. ASSISTANCE FOR CENTRAL AND EASTERN EUROPE-LITHUANIA-

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Project No.	Deobs in 98	Reobs in 99	FY 97 Obligated	REVISSED LIT 97 CO	REVISSED LIT 98	REVISSED LIT 99
A. STRENGTHENING DEMOCRATIC INSTITUTIONS						
180-0019	0	0	0	0	0	0
180-0020	0	0	159	0	25	0
180-0021	0	0	0	0	0	0
180-0022	0	0	0	0	0	0
180-0032	0	0	0	0	7,500	0
B. ECONOMIC RESTRUCTURING						
180-0014	309	0	1,986.161	374	1,785	715
180-0023	0	0	100	225	150	0
180-0026	0	0	0	0	0	0
180-0027	0	0	0	0	0	0
180-0010	0	0	0	0	0	0
180-0045	0	0	578.156	21,844	400	200
180-0029	118	0	175	25	0	0
180-0024	0	0	0	0	0	0
180-0030	0	150	500	541	1,190	435
C. IMPROVING QUALITY OF LIFE						
180-0016	0	0	0	0	0	0
180-0056	0	0	0	0	0	0
180-0058	0	0	0	0	0	0
180-0002	0	0	0	0	0	0
180-0033	0	0	0	0	0	0
180-0034	0	0	0	0	0	0
180-0037	0	0	0	0	0	0
180-0038	0	0	0	0	0	0
186-0002	0	0	0	0	0	0
180-0039	0	0	100	0	0	0
180-0004	0	0	100	0	0	0
180-0041	0	0	0	0	0	0

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D. MISCELLANEOUS

180-0249 Audit, Evaluation and Project Support

180-XXXX Reserved, Withheld or Transfers

TOTAL SAI-APPROPRIATED ASSISTANCE

Deobs in 98	Reobs in 99	FY 97	REVISED	REVISED	REVISED
0	277	481.936	167.787	675	600
0	0	1,240	425	475	650
427	427	5,420.369	1,779.631	12,200	2,600

U.S. ASSISTANCE FOR CENTRAL AND EASTERN EUROPE-LITHUANIA-

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			Deobs in 98	Reobs in 99	FY 97	REVISED	REVISED	REVISED
A. STRENGTHENING DEMOCRATIC INSTITUTIONS								
SUB-TOTAL			0	0	159.011	0.000	7,525	0
180-0020		Rule of Law						
.02	x	* ABA Grant	0	0	159.011	0.000	0	0
	x	Lithuania Judicial Training Ctr	0	0	0		25	
PROJECT TOTAL			0	0	159.011	0.000	25	0
180-0032		Non Governmental Organization (NGO) Dev. Project						
.09	x	*Democracy Networks	0	0	0	0	0	0
	x	*BA Found for Dem.	0	0			7,500	0
PROJECT TOTAL			0	0	0	0	7,500	0
B. ECONOMIC RESTRUCTURING								
SUB-TOTAL			427	150	3,339.317	1,186.844	3,525	1,350
1. Macroeconomic Support								
2. Privatization and Assistance to Enterprises								
180-0014		Privatization & Enterprise Restruc.						
.02	x	Capital Markets	0	0	1,350	0	550	
.03		Enterprise Restructuring						
.04		Banking Sector	309	0	110	0		
.05		Fiscal reform,other	0	0			600	225
.05	x	*Treasury						
.05	x	*Lith policy support: field allow: HIID, etc	0	0	526.161	374.000	635	490
PROJECT TOTAL			309	0	1,986.161	374.000	1,785	715
180-0023		Technical Assistance to Enterprises						
.01	x	* IESC Private Enterprise	0	0	0	225	0	0
.01		* IESC/LABNETA	0	0	0	0	50	0
.22	x	*Lithuania Free Market Institute	0	0	100	0	100	0
PROJECT TOTAL			0	0	100	225	150	0
4. Investment and Trade								

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			Deobs in 98	Reobs in 99	FY 97	REVISED	REVISED	REVISED
180-0010		Enterprise Funds						
.05	x	* Baltics Enterprise Fund	0	0	0	0	0	0
		PROJECT TOTAL	0	0	0	0	0	0
180-0045		Participant Training						
.01		*World Learning/PIET	0	0	578.156	21.844	400	200
		PROJECT TOTAL	0	0	578.156	21.844	400	200
180-0029		Management Training & Market Economics Education						
.01	x	* Large grants: TAMIU	118	0	0	0	0	0
		*Lithuania: Mngt training center	0	0	175	25	0	0
		PROJECT TOTAL	118	0	175	25	0	0
		8. Energy Efficiency						
180-0030		Regional Energy Efficiency						
.01	x	* Indus. Contr.: Restruc. & Effic.	0	0	300	541	950	350
??		* Lithuania energy policy support field allow	0	0	0	0	40	35
.03	x	* Energy Information Systems	0	0	0	0	0	0
.04	x	* grant to USEA	0	0	0	0	0	0
.05	x	* IAA with NRC	0	150	200	0	200	50
		PROJECT TOTAL	0	150	500	541	1,190	435
		C. IMPROVING THE QUALITY OF LIFE						
		SUB-TOTAL	0	0	200	0	0	0
		5. Environment						
180-0039		Improved Public Sector Environmental Services						
.01	x	* IAA with EPA & REC	0	0	100	0	0	0
.10	x	*EAP Investments	0	0	0	0	0	0
		PROJECT TOTAL	0	0	100	0	0	0
180-0004		Environmental Initiatives						
.01	x	* World Environmental Ctr	0	0	0	0	0	0
.11	x	* HIID	0	0	100	0	0	0
		PROJECT TOTAL	0	0	100	0	0	0
		D. MISCELLANEOUS						

U.S. ASSISTANCE FOR CENTRAL AND EASTERN EUROPE-LITHUANIA-

u:\public\123data\lir497d.wk4 revised 4/9/98

			Deobs in 98	Reobs in 99	FY 97	REVISED	REVISED	REVISED
SUB-TOTAL			0	277	1,722	593	1,150	1,250
180-0249		Audit, Evaluation, and Project Support						
.01	X	* Evaluation & Audit						
.02	X	* PSCs. travel, proj. sup. field, gen.	0	277	481.936	167.787	607	600
.03		* Businesss & investment support					68	
PROJECT TOTAL			0	277	481.936	167.787	675	600
180-xxxx		Transferred or Withheld from OYB						
		* Parking Fines Set Asides	0	0	0.105	0	0	0
x		* Trans to USIA: Dem. Com. Sm Gr.	0	0	100		100	100
x		* English Teaching (USIA)	0	0	50		0	0
		*Trans to Treasury#	0	0	1,090	425	375	550
PROJECT TOTAL			0	0	1240.105	425	475	650
TOTAL SAI APPROPRIATED ASSISTANCE			427	427	5,420.369	1,779.631	12,200	2,600
#Treasury Transfers								
-SO 1.2 Fiscal					840	25	375	300
-SO 1.4 Financial					250	400	0	250

specifically requested by the Governor of the Central Bank to assist on strategic planning, internal management and monetary policy. This work is fundamental to ensuring that the Government's plans to leave the current currency board arrangement are done in a planned and structured fashion. No other donor has this level of trust developed with the Bank of Lithuania. Given the level of work remaining, it is expected that funding will be needed through FY 99.

In the capital markets arena, USAID is currently the only donor active in providing assistance. The focus is on market regulation and development. USAID will assist the stock exchange in implementing a continuous trading system with improved trading rules and market surveillance. Assistance will also continue to the Securities Commission on market surveillance, market regulation and broker licensing. This will allow the Commission to keep pace with the market, so that growth occurs in a relatively safe manner and investor rights are protected. Given the progress in this area, the last year of funding will be FY 98.

Improved Energy Safety and Policy (SO 1.5) Resource Revision: To improve energy safety and policy, USAID/Vilnius will allocate \$ 1,190,000 in FY 98 and \$435,000 in FY99. This work will include continued efforts in energy regulation and restructuring, nuclear safety and policy analysis studies.

The following changes were made between the 1997 approved management contract and the 1998 proposed budget. In order to more accurately reflect mission-managed analysis, the SO 1.5 was increased with \$125,000 for policy funds by shifting funds from SO 1.2. To support assistance on the relicensing decision of the Ignalina Nuclear Power Plant, Mission will reallocate \$150,000 deob/reob funds to be added to the ENI provided Regional Funds. \$32,000 of this amount will be in deob/reob funds from the technical assistance to the banks and \$118,000 from deob/reob for the close out of the Texas A&M project with Kaunas Technical University/management Training Center.

In the energy regulation and restructuring, assistance will be provided to the Energy Pricing Commission (EPC) and Government on price regulation, public education, legal issues, policy guidance and development. Currently, USAID is the only donor assisting the EPC to undertake increased responsibilities.

Strengthened NGO Sector (SO 2.1) Resource Revision: Strengthened NGO Sector (SO 2.1) Bilateral Resource Revision: A revision is requested to correctly reflect the program activities of the Central and Eastern European Law Initiative (CEELI). \$59,000 that was originally recorded in SO 1.4, should be re-allocated to SO 2.1 in FY 1997. A revision to add \$100,000 to continue the American Embassy's Democracy Commission Small Grants Program is requested in FY 99. The Democracy Commission will continue the development of grass roots democracy, civil society and non-governmental organizations in Lithuania; targeting support for ethnic minority, human rights, civic education and community development organizations.

Strengthened NGO Sector (SO 2.1) Regional Resource Revision: The allocation of regional resources needs to be revised to reflect a total of \$7.5 million required to fund the USAID grant to the Baltic American Partnership Fund (BAPF), as approved in the Action Memorandum for the Deputy Assistant Administrator for Europe and the New Independent States, March 6, 1998. The BAPF will increase citizen participation in political and economic decision making in the Baltic Republics.

3. Priority Strategic Objectives

The mission's priorities are based on a mix of the Agency methodology to rank SOs and a consideration of the critical nature of the importance of program sustainability and a concern that dropping a strategic objective this close to the end of the program would result in undermining the program objectives. The rank order strongly weighs past investment in the strategic area more heavily than does the Agency ranking.

Table 7: Mission priorities for funding

SO and IR	First priority	Second	Third
SO 1.2.1 Tax Policy Reform	1		
SO 1.2.2 Improved tax administration			3
SO 1.2.3 Public debt management		2	
SO 1.2.4 Treasury function implemented		2	
SO 1.2.5 Budget reforms	1		
SO 1.4.1 Increased confidence in the banking system	1		
SO 1.4.2 Capital market development		2	
SO 1.5.1 Sound decision on relicensing Ignalina	1		
SO 1.5.2 Pricing and regulatory reform	1		
SO 1.5.3 Baltic energy cooperation			3
SO 2.1 Increased civic participation	1		
SO 2.2 Increased NGO-government cooperation			3
SO 4.1 Special initiatives			3
SO 4.2 Audit, evaluation, program support		2	

The priorities are slightly modified from FY 97 for two reasons:

- at that time the mission was given guidance to defer requesting funding for program close out support until the FY 2000 budget. This year's guidance recommends including all costs for close out, even though they take place between October 1, 1999 and September 30, 2000. This has resulted in a need to request an increase of \$500,000, (\$100,000 in FY 98 and \$400,000 in FY 99), after taking into account deobligations and reobligations.
- a new requirement to provide \$150,000 additional co-funding for a regionally funded activity to improve nuclear safety in FY 99.

The critical nature of the work in stabilizing the economy through fiscal, financial, and energy price reforms are equally crucial to Lithuania's future. Through work in SO 1.2, the Ministry of Finance is making major strides to establish a unified treasury; develop a sound structure for budget and macro economic planning and analysis; and shift to performance-based budgeting. Improving the tax policy framework is critical, and closure of the activities at this stage could set back progress for several years. The US is positioned at a crucial point in the process of reform, has earned the trust of top ministry officials through past high-quality efforts, and is the primary donor working with the Ministry of Finance, despite efforts to bring in the EU and other donors.

In 1997, Lithuania began to move from a currency board arrangement to an independent monetary policy. The IFIs and donors are supportive of this move in principle, however fears continue that the government will devalue the currency to favor special interests in the industrial sector. However, the resident Treasury official believes that the Bank of Lithuania (BOL) has a reasonable plan and their work can shift from resident to intermittent part-time in 1999-2000. Privatization of the state banks remains one of the areas most resistant to reform and the political will appears to be lacking to bring this long-standing problem to a close. As a result, the Ministry of Finance and the BOL have been informed that the U.S. is withdrawing from this area due to the lack of progress. The capital market remains the growth area in the financial portfolio and a final adjustment for close out is necessary to consolidate past gains prior to graduation.

The energy sector reforms continue to be crucial to improving economic growth in Lithuania and are highly controversial because of nuclear safety and U.S. commercial interests in oil, gas, and power bridge investments. Energy arrears are high and pressure to continue subsidies persists. The GOL needs to come to terms with EU and EBRD G-7 pressure to close the Ignalina Nuclear Power Plant for safety reasons. The Mission and Coordinator's office consider this to be a high enough priority that an additional \$600,000 in regional funds and \$400,000 in mission bilateral funds (FY 98-FY 99) are being provided to NRC to help VATESI with the relicensing of the power plant. The investments with the Energy Pricing Commission are starting to pay dividends and they will require continued to need support through 2000. One sub-activity related to privatization packaging could be cut, and an other

donor may be identified to continue support. However, it is likely that the EU will focus only on legislative reform directly linked to EU integration.

Bilateral funds under the civic participation strategic area are too small to reduce as a means of achieving a significant overall budget reduction.

This leaves the issue of close out assistance. The lessons learned in the close out of the Estonia and Czech offices indicate that it is crucial for program monitoring and operational close out to have a resident team present. Three years ago all program FSNs and PSCs were shifted from OE to program budgets. These budgets have been a small proportion of the overall costs of the program and are essential, particularly when ENI/W technical officers are pulled to other priority countries and don't have the option of spending increased amounts of time in Lithuania during close out. In 1998, the Controller, RLA, and RCO confirmed to the mission that the contracted close-out officer should be funded from program budgets. OE funds are sufficiently restrictive and declining, so that it is not feasible to consider shifts back to OE funding.

Consequently, the only effective way for the mission to address increased costs for FY 2000, is to seek an increase in the FY 99 budget, effectively use deob/reob authority or begin to make major cuts in the IRs listed in the financial and fiscal sectors in column two in table 4.

4. Field Support Required from USAID/Washington Offices

4.1 Global Bureau (Global Field Support Table 8) Under SO 1.2 Fiscal Management, USAID/Vilnius plans to continue to buy-in to the Global Bureaus (EG/EIR) Consulting Assistance on Economic Reform (CAER) project using FY 98 and 99 funds.

Under SO 1.5, the mission will continue to access the Global Bureau's Energy Regulatory and Restructuring Technical Assistance project for energy pricing and policy reform using FY 98 (\$950,000) and FY 99 funds (\$350,000).

Under SO 4.2, the mission will continue to access the Global Bureau Participant Training Program for Europe for a maximum of up to \$600,000 over the last two years. The Mission's evaluation plan may call on Global Bureau mechanisms in FY 98 and FY 99, but this plan will not be formulated until the new Mission Country Program Specialist arrives at post in the summer of 1998. No other Global Bureau resources are requested.

INSERT TABLE 8 HERE: From LOTUS: FY00R2FS.WK4

4.2 Other Washington Offices: The final negotiations and start-up of the Baltic American Partnership Fund will require continued support from ENI/OIM, GC, and the RCO/Warsaw. The ex-officio board member will be the Deputy Administrator and ENI/OIM will have the Washington lead for program briefings.

The work under SO 1.2 will continue to need support from ENI/PER staff working with the Department of Treasury to ensure the smooth development of the assistance for fiscal and budgetary policy. The mission continues to believe that a program review of the Treasury monetary and banking policy program will benefit from a biannual team consultation from ENI/PER with the Department of Treasury. The mission highly values the close and cooperative support from ENI/PER for fiscal and financial reforms and requests a TDY late in FY 98 or early FY 99 to review the banking sector and prepare a close out report and complete the banking supervision work. Finally, at least four TDYs per year are requested from the capital markets PER officer, who is a model of PER/Vilnius teamwork.

The energy work will require an additional two to four TDYs during the next year to orient the new EEUD project manager, the new contractor team, and to fine-tune the workplan with the contractor and USAID/Vilnius.

Seven democracy projects are closing in FY 98 or have recently ended. USAID/Vilnius needs up to two person months of TDY assistance from the ENI/DGSR office for final close out planning and graduation reports.

Continued ENI continued participation in the SO teams is required to achieve program impact. The composition of the revised strategic objective teams is included in Annex 3.

5. Workforce and Operating Expenses

The proposed extension of the program for one additional year will require a one year extension of the OE and program funded staff and office for USAID/Vilnius (Annex 7). We anticipate that the result of any decision to extend the program will be to incur the same level of staff and costs in FY 98 as for FY 97 and that the FY 99 budget would be approximately \$420,000 in FY 99 and \$350,000 in FY 2000. Workforce levels by OE and program funded staff by year are included in Table 9: Workforce planning. OE budgets are in Table 10.

The clear implication for increased costs are one additional year at the full cost of current mission support, which is approximately \$350,000 for OE. ICASS cost have been reduced to approximately \$40,000 each in FY 99 and FY '00. Efforts will be made to further decrease costs as staff reductions and office space needs contract.

(INSERT TABLES 9 AND 10 HERE: LOTUS: FY00-WF.WK4. AND FY 00-oel.wk4)

OE Narrative

In-country staff will be needed through September, 2000 to directly manage key activities; secure desired results; continue policy dialogue with counterparts at the ministerial and vice-ministerial level; complete, monitor and report on all required close-out functions; and plan and manage the graduation and public information events in-country. A similar close out plan has been put in place in Latvia, which is managed by USAID/Baltics, based in

Org. Vilnius FY 1998 On-Board Estimate	SO/SpO Staff							Total SO/SpO Staff	Management Staff					Total Mgmt.	Grand Total Staff	
	SO 1	SO 2	SO 3	SO 4	SpO 1	SpO 2	SpO 3		Org. Mgmt.	Con- troller	AMS/ EXO	Con- tract	Legal			All Other
	(Fiscal)	(Finance)	(Energy)	(Civ Part)	(Reg Env)	(Bus dev)	(Trng)									
U.S. Direct Hire				1				1	1					1	2	
Other U.S. Citizens: 1/ OE Internationally Recruited								0						0	0	
OE Locally Recruited Program	0.5	1		1		0.5		3	0					0	3	
FSN/TCN Direct Hire: OE Internationally Recruited								0						0	0	
OE Locally Recruited								0						0	0	
FSN/TCN Non-Direct Hire: OE Internationally Recruited								0						0	0	
OE Locally Recruited Program	1		1	1			1	4	1	2			3	6	6	
Total Staff Levels	1.5	1	1	3	0	0.5	1	8	2	0	2	0	0	3	15	
TAACS								0						0	0	
Fellows								0						0	0	

1/ Excluding TAACS and Fellows

Org._ Vilnius FY 1999 Target On-Board Estimate	SO/SpO Staff							Total SO/SpO Staff	Management Staff						Total Mgmt.	Grand Total Staff
	SO 1	SO 2	SO 3	SO 4	SpO 1	SpO 2	SpO 3		Org. Mgmt.	Con- troller	AMS/ EXO	Con- tract	Legal	All Other		
	(Fiscal)	(Finance)	(Energy)	(Civ Par)	(Reg Env)	(Bus dev)	(Trng)									
U.S. Direct Hire								0	1					1	1	
Other U.S. Citizens: 1/ OE Internationally Recruited								0						0	0	
OE Locally Recruited Program			1					0						0	0	
FSN/TCN Direct Hire: OE Internationally Recruited								1						0	0	
OE Locally Recruited								0						0	0	
FSN/TCN Non-Direct Hire: OE Internationally Recruited								0						0	0	
OE Locally Recruited Program	1		1	0.5			0.5	0	1	2			1	4	4	
								3						0	3	
Total Staff Levels	1	1	1	0.5	0	0	0.5	4	2	0	2	0	0	1	5	9
TAACS								0						0	0	
Fellows								0						0	0	

1/ Excluding TAACS and Fellows

Org._ Vilnius FY 1999 Request On-Board Estimate	SO/SpO Staff							Total SO/SpO Staff	Management Staff						Total Mgmt.	Grand Total Staff
	SO 1	SO 2	SO 3	SO 4	SpO 1	SpO 2	SpO 3		Org. Mgmt.	Con- troller	AMS/ EXO	Con- tract	Legal	All Other		
U.S. Direct Hire								0	1					1	1	
Other U.S. Citizens: 1/ OE Internationally Recruited								0						0	0	
OE Locally Recruited Program	0.5	1	0.5	1				0						0	0	
FSN/TCN Direct Hire: OE Internationally Recruited								3	0					0	3	
OE Locally Recruited								0						0	0	
FSN/TCN Non-Direct Hire: OE Internationally Recruited								0						0	0	
OE Locally Recruited Program	1		1	0.5			0.5	0	1	2			2	5	5	
								3						0	3	
Total Staff Levels	1.5	1	1.5	1.5	0	0	0.5	6	2	0	2	0	0	2	6	12
TAACS								0						0	0	
Fellows								0						0	0	

1/ Excluding TAACS and Fellows

Org. Vilnius FY 2000 Target On-Board Estimate	SO/SpO Staff							Total SO/SpO Staff	Management Staff						Total Mgmt.	Grand Total Staff
	SO 1	SO 2	SO 3	SO 4	SpO 1	SpO 2	SpO 3		Org. Mgmt.	Con- troller	AMS/ EXO	Con- tract	Legal	All Other		
	(Fiscal)	(Finance)	(Energy)	(Civ Par)	(Reg Env)	(Bus dev)	(Trng)									
U.S. Direct Hire								0							0	0
Other U.S. Citizens: 1/ OE Internationally Recruited								0							0	0
OE Locally Recruited Program								0							0	0
FSN/TCN Direct Hire: OE Internationally Recruited								0							0	0
OE Locally Recruited								0							0	0
FSN/TCN Non-Direct Hire: OE Internationally Recruited								0							0	0
OE Locally Recruited Program								0							0	0
Total Staff Levels	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TAACS								0							0	0
Fellows								0							0	0

1/ Excluding TAACS and Fellows

Org. Vilnius FY 2000 Request On-Board Estimate	SO/SpO Staff							Total SO/SpO Staff	Management Staff						Total Mgmt.	Grand Total Staff
	SO 1	SO 2	SO 3	SO 4	SpO 1	SpO 2	SpO 3		Org. Mgmt.	Con- troller	AMS/ EXO	Con- tract	Legal	All Other		
U.S. Direct Hire								0							0	0
Other U.S. Citizens: 1/ OE Internationally Recruited								0							0	0
OE Locally Recruited Program	0.5	0.5		0.5				1.5	0.5						0.5	2
FSN/TCN Direct Hire: OE Internationally Recruited								0							0	0
OE Locally Recruited								0							0	0
FSN/TCN Non-Direct Hire: OE Internationally Recruited								0							0	0
OE Locally Recruited Program	1		1					2	1	2			1	0	4	4
Total Staff Levels	1.5	0.5	1	0.5	0	0	0	3.5	1.5	0	2	0	0	1	4.5	8
TAACS								0							0	0
Fellows								0							0	0

1/ Excluding TAACS and Fellows

Org. Vilnius FY 2001 On-Board Estimate	SO/SpO Staff							Total SO/SpO Staff	Management Staff						Total Mgmt.	Grand Total Staff
	SO 1	SO 2	SO 3	SO 4	SpO 1	SpO 2	SpO 3		Org. Mgmt.	Con- troller	AMS/ EXO	Con- tract	Legal	All Other		
U.S. Direct Hire								0							0	0
Other U.S. Citizens: 1/ OE Internationally Recruited								0							0	0
OE Locally Recruited Program								0							0	0
FSN/TCN Direct Hire: OE Internationally Recruited								0							0	0
OE Locally Recruited								0							0	0
FSN/TCN Non-Direct Hire: OE Internationally Recruited								0							0	0
OE Locally Recruited Program								0							0	0
Total Staff Levels	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TAACS								0							0	0
Fellows								0							0	0

1/ Excluding TAACS and Fellows

MISSION :

Vilnius

USDH STAFFING REQUIREMENTS BY SKILL CODE

BACKSTOP (BS)	No. of USDH Employees In Backstop FY 98	No. of USDH Employees In Backstop FY 99	No. of USDH Employees In Backstop FY 2000	No. of USDH Employees In Backstop FY 2001
01SMG	1	1		
02 Program Off.				
03 EXO				
04 Controller				
05/06/07 Secretary				
10 Agriculture.				
11Economics				
12 GDO	1			
12 Democracy				
14 Rural Dev.				
15 Food for Peace				
21 Private Ent.				
25 Engineering				
40 Environ				
50 Health/Pop.				
60 Education				
75 Physical Sci.				
85 Legal				
92 Commodity Mgt				
93 Contract Mgt				
94 PDO				
95 IDI				
Other*				
TOTAL	2	1	0	0

*please list occupations covered by other if there are any

Operating Expenses

Org. Title: _____	Overseas Mission Budgets														
Org. No: _____	FY 1998			FY 1999 Target			FY 1999 Request			FY 2000 Target			FY 2000 Request		
OC	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total
Org. Title: _____	Overseas Mission Budgets														
Org. No: _____	FY 1998			FY 1999 Target			FY 1999 Request			FY 2000 Target			FY 2000 Request		
OC	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total

Operating Expenses

Org. Title: _____ Org. No: _____ OC		Overseas Mission Budgets														
		FY 1998			FY 1999 Target			FY 1999 Request			FY 2000 Target			FY 2000 Request		
		Dollars	TF	Total												
11.1	Personnel compensation, full-time permanent	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.1	Base Pay & pymt. for annual leave balances - FNDH			0			0			0			0			0
	Subtotal OC 11.1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11.3	Personnel comp. - other than full-time permanent	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.3	Base Pay & pymt. for annual leave balances - FNDH			0			0			0			0			0
	Subtotal OC 11.3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11.5	Other personnel compensation	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.5	USDH			0			0			0			0			0
11.5	FNDH			0			0			0			0			0
	Subtotal OC 11.5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11.8	Special personal services payments	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.8	USPSC Salaries			45.6			15.2			80			80			80
11.8	FN PSC Salaries			58.9			62.2			62.2			43.2			43.2
11.8	IPA/Details-In/PASAs/RSSAs Salaries			0			0			0			0			0
	Subtotal OC 11.8	0	0	104.5	0	0	77.4	0	0	142.2	0	0	123.2	0	0	123.2
12.1	Personnel benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	USDH benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	Educational Allowances			0			0			0			0			0
12.1	Cost of Living Allowances			6			4			4			0			0
12.1	Home Service Transfer Allowances			0			0			0			0			0
12.1	Quarters Allowances			0			0			0			0			0
12.1	Other Misc. USDH Benefits			0			0			0			0			0
12.1	FNDH Benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	Payments to the FSN Separation Fund - FNDH			0			0			0			0			0
12.1	Other FNDH Benefits			0			0			0			0			0
12.1	US PSC Benefits			0			0			0			0			0
12.1	FN PSC Benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	Payments to the FSN Separation Fund - FN PSC			0			10.6			10			0			10.4
12.1	Other FN PSC Benefits			0.2			0			0			0			0
12.1	IPA/Detail-In/PASA/RSSA Benefits			0			0			0			0			0
	Subtotal OC 12.1	0	0	6.2	0	0	14.6	0	0	14	0	0	0	0	0	10.4
13	Benefits for former personnel	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
13	FNDH	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
13	Severance Payments for FNDH			0			0			0			0			0
13	Other Benefits for Former Personnel - FNDH			0			0			0			0			0
13	FN PSCs	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
13	Severance Payments for FN PSCs			0			0			0			0			0
13	Other Benefits for Former Personnel - FN PSCs			0			0			0			0			0

Operating Expenses

Org. Title: _____		Overseas Mission Budgets														
Org. No: _____		FY 1998			FY 1999 Target			FY 1999 Request			FY 2000 Target			FY 2000 Request		
OC		Dollars	TF	Total												
	Subtotal OC 13.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
21	Travel and transportation of persons	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
21	Training Travel			10			4			4			3			3
21	Mandatory/Statutory Travel	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
21	Post Assignment Travel - to field			0			0			0			0			0
21	Assignment to Washington Travel			3			5			4			0			0
21	Home Leave Travel			0			0			0			0			0
21	R & R Travel			3			0			0			0			0
21	Education Travel			0			0			0			0			0
21	Evacuation Travel			0			0			0			0			0
21	Retirement Travel			0			0			0			0			0
21	Pre-Employment Invitational Travel			0			0			0			0			0
21	Other Mandatory/Statutory Travel			0			0			0			0			0
21	Operational Travel	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
21	Site Visits - Headquarters Personnel			6			8			5			6			5
21	Site Visits - Mission Personnel			13.5			13.5			10			13.5			9
21	Conferences/Seminars/Meetings/Retreats			15.6			15.6			10			15.6			9
21	Assessment Travel			0			0			0			0			0
21	Impact Evaluation Travel			0			0			0			0			0
21	Disaster Travel (to respond to specific disasters)			0			0			0			0			0
21	Recruitment Travel			0			0			0			0			0
21	Other Operational Travel			30			15			12			15			15
	Subtotal OC 21.0	0	0	81.1	0	0	61.1	0	0	45	0	0	53.1	0	0	41
22	Transportation of things	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
22	Post assignment freight			18			22			22			0			0
22	Home Leave Freight						0			0			0			0
22	Retirement Freight			0			0			0			0			0
22	Transportation/Freight for Office Furniture/Equip.			1			1			1			4			4
22	Transportation/Freight for Res. Furniture/Equip.			3.5			4.1			2			6			4
	Subtotal OC 22.0	0	0	22.5	0	0	27.1	0	0	25	0	0	10	0	0	8
23.2	Rental payments to others	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
23.2	Rental Payments to Others - Office Space			35.7			40			35			40			35
23.2	Rental Payments to Others - Warehouse Space			0			0			0			0			0
23.2	Rental Payments to Others - Residences			44			21			21			0			0
	Subtotal OC 23.2	0	0	79.7	0	0	61	0	0	56	0	0	40	0	0	35
23.3	Communications, utilities, and miscellaneous charges	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
23.3	Office Utilities			9.8			11.5			11.5			11.3			11.3
23.3	Residential Utilities			6.1			4			4			0			0
23.3	Telephone Costs			40			41.6			39			35			35
23.3	ADP Software Leases			0			0			0			0			0
23.3	ADP Hardware Lease			0			0			0			0			0

Operating Expenses

Org. Title: _____		Overseas Mission Budgets														
Org. No: _____		FY 1998			FY 1999 Target			FY 1999 Request			FY 2000 Target			FY 2000 Request		
OC		Dollars	TF	Total												
23.3	Commercial Time Sharing			0			0			0			0			0
23.3	Postal Fees (Other than APO Mail)			0			0			0			0			0
23.3	Other Mail Service Costs			0			0			0			0			0
23.3	Courier Services			0.7			0.7			0.7			0.7			0.7
	Subtotal OC 23.3	0	0	56.6	0	0	57.8	0	0	55.2	0	0	47	0	0	47
24	Printing and Reproduction			1			1			1			9			9
	Subtotal OC 24.0	0	0	1	0	0	1	0	0	1	0	0	9	0	0	9
25.1	Advisory and assistance services	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.1	Studies, Analyses, & Evaluations			0			0			0			18			15
25.1	Management & Professional Support Services			0			0			0			0			0
25.1	Engineering & Technical Services			0			0			0			0			0
	Subtotal OC 25.1	0	0	0	0	0	0	0	0	0	0	0	18	0	0	15
25.2	Other services	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.2	Office Security Guards			0			0			0			0			0
25.2	Residential Security Guard Services			0			0			0			0			0
25.2	Official Residential Expenses			0			0			0			0			0
25.2	Representation Allowances			0.6			0.6			0.6			0.6			0.6
25.2	Non-Federal Audits			0			0			0			0			0
25.2	Grievances/Investigations			0			0			0			0			0
25.2	Insurance and Vehicle Registration Fees			0			0			0			0			0
25.2	Vehicle Rental			0			0			0			0			0
25.2	Manpower Contracts			0			0			0			0			0
25.2	Records Declassification & Other Records Services			0			0			0			0			0
25.2	Recruiting activities			2			0			0			0			0
25.2	Penalty Interest Payments			0			0			0			0			0
25.2	Other Miscellaneous Services			9.2			10.6			9			8			8
25.2	Staff training contracts			0			0			0			0			0
25.2	ADP related contracts			0			0			0			0			0
	Subtotal OC 25.2	0	0	11.8	0	0	11.2	0	0	9.6	0	0	8.6	0	0	8.6
25.3	Purchase of goods and services from Government accounts	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.3	ICASS			39.6			40			35			40			30
25.3	All Other Services from Other Gov't. accounts			0			0			0			0			0
	Subtotal OC 25.3	0	0	39.6	0	0	40	0	0	35	0	0	40	0	0	30
25.4	Operation and maintenance of facilities	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.4	Office building Maintenance			2			3			3			6			6
25.4	Residential Building Maintenance			5.8			3			3			0			0
	Subtotal OC 25.4	0	0	7.8	0	0	6	0	0	6	0	0	6	0	0	6
25.7	Operation/maintenance of equipment & storage of goods	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		

Operating Expenses

Org. Title: _____		Overseas Mission Budgets														
Org. No: _____		FY 1998			FY 1999 Target			FY 1999 Request			FY 2000 Target			FY 2000 Request		
OC		Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total
25.7	ADP and telephone operation and maintenance costs			1.2			1.2			1.2			1.2			1.2
25.7	Storage Services			0			0			0			0			0
25.7	Office Furniture/Equip. Repair and Maintenance			4			4			4			4			4
25.7	Vehicle Repair and Maintenance			7.7			10			10			10			10
25.7	Residential Furniture/Equip. Repair and Maintenance			0			0			0			0			0
	Subtotal OC 25.7	0	0	12.9	0	0	15.2	0	0	15.2	0	0	15.2	0	0	15.2
25.8	Subsistence and support of persons (by contract or Gov't.)			0			0			0			0			0
	Subtotal OC 25.8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
26	Supplies and materials			7.9			9.6			8			9.1			9.1
	Subtotal OC 26.0	0	0	7.9	0	0	9.6	0	0	8	0	0	9.1	0	0	9.1
31	Equipment	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
31	Purchase of Residential Furniture/Equip.			1			1			1			1			1
31	Purchase of Office Furniture/Equip.			4			4			4			0			0
31	Purchase of Vehicles			0			0			0			0			0
31	Purchase of Printing/Graphics Equipment			0			0			0			0			0
31	ADP Hardware purchases			4			4			4			0			0
	Subtotal OC 31.0	0	0	9	0	0	9	0	0	9	0	0	1	0	0	1
32	Lands and structures	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
32	Purchase of Land & Buildings (& construction of bldgs.)			0			0			0			0			0
32	Purchase of fixed equipment for buildings			0			0			0			0			0
32	Building Renovations/Alterations - Office			0			0			0			0			0
32	Building Renovations/Alterations - Residential			0			0			0			0			0
	Subtotal OC 32.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
42	Claims and indemnities			0			0			0			0			0
	Subtotal OC 42.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL BUDGET		0	0	439.6	0	0	390	0	0	420.2	0	0	371.2	0	0	349.5
Dollars Used for Local Currency Purchases		_____			_____			_____			_____			_____		
Exchange Rate Used in Computations		_____			_____			_____			_____			_____		

Vilnius. The Office of the AIDREP has carefully reviewed personnel needs through FY 2000, and has determined that these staff levels will be required to maintain adequate management and oversight over projects through graduation. It is anticipated that USAID/Baltics will continue to receive its regional controller support from the USAID/Warsaw Controller. Regional Contracting Officer services will also be provided from USAID/Warsaw through the end of FY '98, when the function is transferred to the Regional Service Center in Budapest.

Operating expenses for regional and bilateral responsibilities in FY 1999 are expected to decrease to \$ 420.2 thousand (from \$439.6 in FY '98) and then again decrease significantly to \$349.5 thousand in FY 2000, the year of graduation. The principal reason the FY'99 OE target of \$390 is exceeded is due to the costs of services of a regional USPSC "Baltic Executive Officer" to help guide and manage crucial administrative and logistical actions connected with the close-out of the Lithuania and Latvia programs. This approach was vetted and approved within the ENI Bureau. In addition, costs of severance pay and an incentive plan, as well as costs of transitional training for FSNs remaining until graduation, also contributes to the FY '99 increases. This cost is recognized by the Bureau as an important policy needed to provide adequate incentives for critical FSN staff to continue their employment until graduation.

The costs of USDH post-assignment travel and related freight are part of the FY '98 and '99 costs. Significant additional OE increases, beyond those described and illustrated below, are not anticipated, given that all FSN and USPSC project-specific staff are now program funded, and all major capital expenditures have been made.

The above-justified increases notwithstanding, a number of OE cost-reductions have also been realized in the FY 98- 2000 budgets. Beginning in FY 99, the number of direct hire staff will be reduced from two to one, with a program-funded USPSC planned to assume responsibility for completion and close-out in the last year of the program. The ICASS budget has been significantly reduced in FY '98, and is expected to continue at the lower levels as a result of financing the allocation of a significant portion of ICASS expenses with the proper program funding, as well as improved analyses of use of ICASS-supported services. Expenses such as operational travel, decrease in each of the fiscal years discussed, along with the costs of residential utilities and residential building maintenance.

Operating Expenses in FY 2000 and staff levels required to manage the portfolio are summarized as follows:

	FY 1998	FY 1999	FY 2000
TOTAL OE	\$439.6	\$420.2*	\$349.5
ICASS (included above)	\$ 39.6	\$ 40.0	\$ 40.0

* The target provided at this time is \$390.0

** The target provided is \$371.2

6. Environmental Compliance and Issues

The issues of environmental policy and compliance remain the same as in the Strategic Plan for 1996. The major environmental issues facing Lithuania are related to the energy sector and nuclear safety. The Mission increased efforts to improve energy price reform which will result in market pressure on industries to be more energy efficient. This year is crucial for Lithuania's nuclear energy program, as the country will decide whether to re-license the Ignalina Nuclear Power Plant (INPP) based on the EBRD G-7 safety assessment. The work by the Department of Energy and Nuclear Regulatory Commission will ensure continued compliance with international agreements and capacity building to regulate the INPP.

USAID's environmental activities will be completed in 1998. Final assistance will be provided on strengthening the Regional Environmental Monitoring System, operation of the Lithuanian Environmental Investment Fund and sustainability of the WEC Pollution Prevention Center and HIID Environmental Policy Center. Grants have been provided to six nature conservation groups under the Democracy Network program. As a result of completed programs, two NGOs became environmental advisors to decision making bodies on both local and national levels.

No specific efforts are planned to address biological diversity, as was noted in the FY 96 strategic plan. The biodiversity assessment for Lithuania was completed in 1996 and submitted as part of the 1996 Strategic Plan.

ANNEX 1: CLOSE OUT SCHEDULE

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ANNEX 2: Composition of Strategic Objective Teams

COMPOSITION OF STRATEGIC OBJECTIVE TEAMS

S.O. 1.2 Improved Fiscal Management

Core Team:

Rasa Ciceniene, USAID/Lithuania (team leader)
Aldas Kriauciunas, USAID/Lithuania
Ronald Greenberg, USAID/Lithuania
Margaret Pollock, USAID/Washington
Cathy Mallay, USAID/Washington
Diane Dogan Hilliard, U.S. Treasury
Rimas Vaicenavicius, Ministry of Finance
Steve Tabor, EMSI
Diane Juzaitis, HIID
Irving Rosenthal, U.S. Treasury

Extended Team:

TBD: New resident advisor tax admin, U.S. Treasury
TBD: New resident Sr. Fiscal Advisor to the Minister of Fin, Barents
Algirdas Semeta, Minister of Finance
Violeta Latviene, Ministry of Finance
David Nummy, U.S. Treasury
Vic Miller, U.S. Treasury
Feliksas Palubinskas, Member of Parliament
Kestutis Glaveckas, Member of Parliament
Elvyra Kuneviciene, Member of Parliament

S.O. 1.4: More Stable Financial Environment

Core Team:

Aldas Kriauciunas, USAID/Lithuania (team leader)
Ronald Greenberg, USAID/Lithuania
Rasa Ciceniene, USAID/Lithuania
Sandy Shapleigh, USAID/Washington
Jean Lange, USAID/Washington
Beverly Loew, USAID/Washington
Sheila Tschinkel, U.S. Treasury
Len Lapidus, U.S. Treasury
Melissa Brinkerhoff, ENI/ED

Extended Team:

Diane Buckshnis, IBTCI

George Mullinax, U.S. Treasury
Dow Heard, Pragma
Natalija Firsova, WOCCU
Elena Leontjeva, LFMI
Kai Kristoferson, EU Phare
Arturas Keleras, Central Securities Depository

S.O. 1.5 Improved Energy Policy and Safety

Core Team:

Giedra Gureviciute, USAID/Lithuania (team leader)
Aldas Kriauciunas, USAID/Lithuania
Steve Tabor, USAID/Lithuania
Bob Ichord, USAID/W
Andres Doernberg, USAID/Washington
Gordon Weynand, USAID/W
Ira Birnbaum, USAID/W
Elita Sproge, USAID/Riga
James Strangeways, Bechtel

Extended Team:

Larry Sutkowski, Electrotek
Dennis Meyers, DOE
Hans Schechter, NRC
Marius Franckevicius, EU PHARE
Vytautas Bieliauskas, Energy Ministry/Lithuania
Mantas Nocius, World Bank
Michael Demcenko, VATESI/Lithuania
Viktoras Valentukevicius, Ministry of National Economy
Vidmantas Jankauskas, Energy Price Commission

S.O. 2.1: Increased, Sustained Collaboration of NGOs and Local Government to Develop Policies and Services which Reflect Community Interests

Core Team:

Nicholas Studzinski, USAID/Lithuania (team leader)
Hattie Babbitt, Deputy Administrator
Gloria Steele, ENI/OIM
Mark Levinson, USAID/Lithuania
Irena Kibickaja, USAID/Vilnius
Howard Handler, USAID/Riga
Elita Sproge, USAID/Riga
Keith Simmons, USAID/ENI/PD
Mike Williams, GC
Thomas Stephens, Regional Contracting Officer
Keith Romwall, Controller/Warsaw
Irena Vesaite, Open Society Fund

Extended Team:

Ambassadors in Lithuania, Latvia, and Estonia
James Hulme, ABA/CEELI
Vaidotas Ilgius, NGO Support Center
Richardas Malkevicius, Municipal Training Center
Pat Evans, US-Baltic Foundation
Irena Vesaite, Open Society Fund Lithuania
Mark Segal, UNDP
Victoria Middleton, USIS/Tallinn
Vita Teraude, Open Society Fund Latvia
Mall Hellam, Open Estonia Fund
Elena Leontjeva, LFMI
Stephan Prichard, EU Phare
Kathryn Stratos, ENI/DG
Nan Newman, ENI/ECA
Stephan Klingerhoffer, ICNL
Diana Juzaitis, HIID
Indre Biskis, World Learning

4.1 Special Initiative-Regional Environmental Monitoring**Core team:**

Giedra Gureviciute, USAID/Lithuania (team leader)
Jennifer Karp, USAID/Washington
Elita Sproge, USAID/Riga

Extended Team:

Lina Striupkute, Ministry of Environment of Lithuania
Vacys Saulys, EPA, Chicago

SO 4.1 Special Initiative - Improved Enterprise Capacity**Core Team:**

New Country Program Specialist (team leader)
Rasa Ciceniene, USAID/Lithuania
Irena Karmaziniene, USAID/Lithuania
Giedra Gureviciute, USAID/Lithuania
James May, USAID/Washington
David Beavens, USAID/Washington
Frank Martens, USAID/Washington
Patricia Bekele, USAID/Washington

Extended Team:

Arunas Kazakevicius, IESC
Robert Nooter (6/98), Land O'Lakes
Indre Biskis, World Learning
Jonas Kapturauskas, WEC
Thomas Pluta, WEC

4.1 Cross Cutting-Participant Training**Core Team:**

Irena Karmaziniene, USAID/Lithuania (team leader)
Carolyn Coleman, USAID/W
Indre Biskis, PIET/Vilnius
Aldas Kriauciunas, USAID/Lithuania
Rasa Ciceniene , USAID/Lithuania
Giedra Gureviciute, USAID/Lithuania
Nicholas Studzinski, USAID/Lithuania

4.1 AE & PS**Core Team:**

Ronald Greenberg, USAID/Lithuania (team leader)
Nicholas Studzinski, USAID/Lithuania
Aldas Kriauciunas, USAID/Lithuania
Rasa Ciceniene , USAID/Lithuania
Mark Levinson, USAID/Lithuania
Karen Simpson, ENI/PCS/B
Thomas Stephens, Regional Contracting Officer
Keith Romwall, Controller/Warsaw