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# UNITED STATES SEED ACT ASSISTANCE STRATEGY UPDATE

FOR  
ESTONIA



1994-1996

Submitted by American Embassy Tallin  
Approved June 23, 1994

**ESTONIA  
DEVELOPMENT ASSISTANCE STRATEGY MEMORANDUM  
UPDATE**

**OAR ESTONIA - 04/23/94**

## **ESTONIA - ASSISTANCE STRATEGY UPDATE**

**OVERVIEW.** Over the past year, Estonia has made considerable progress implementing its reform programs and its goal of reintegration into the Western European community is being realized. The most significant reforms since July, 1993, have been installation of the first post Soviet local and municipal governments, consolidation of the privatization program under a single administrative entity and an impressive level of privatization that is matched only by the Czech Republic. Completion of Estonia's legal structure for reform, particularly *the enactment of the new value added tax and national budget reform acts*, is substantially complete as is consolidation of its Ministerial structure. Estonia's economy is gradually transforming from large state-owned, Soviet style industrial complexes into light industry and agribusiness specializing in niche-market exports. Government has enacted a requirement for Environmental Impact Assessments and has initiated a program to strengthen its ability to correct decades of pollution. Agreement with Russia is nearing completion on troop withdrawal by August 31, 1994, and on the status of retired Russian military personnel to remain in Estonia.

With each of these important accomplishments, Government at all levels is attaining increased maturity and stability and, political fragmentation and general popular concern about the impact of economic reforms is less likely to interrupt the momentum of the reforms which USAID has helped to catalyze and assist through their initial stages. These successes also highlight that Estonia is reaching a level of sustainable development and reform that, with continued support by the Nordic donor community and the European Union, will permit the U.S. to complete its assistance program earlier than anticipated. Estonia has benefited since 1991 from over 900 development programs from the international donor community and, those programs further reinforce that Estonia's future is linked with Europe. Additionally, in almost all respects, Estonia meets all the basic criteria for graduation from the U.S. assistance program - fundamental democratic institutions are flourishing, economic reforms are well underway and reflect open market traditions.

To reflect Estonia's successes and the considerable European donor involvement available to meet the requirements of successful reform, the USAID program portfolio of 43 programs is being restructured. The phase-out of U.S. assistance to Estonia will begin with the June, 1994 closing of the very successful International Executive Service Corps (IESC) program. This process should permit phase-out of the formal Office of the USAID Representative by December 1994, but a small cadre of local hire staff would remain to monitor the remaining core programs and continue the process of program consolidation. Consolidating the USAID funded portfolio over the next two years should result in a more highly focused program of greater impact. The major objectives during this phase-out period will be : consolidation of gains in democratization and strengthening local governments, accelerated privatization and creation of a viable small and medium business sector with further economic reform, and strengthening governmental capacity to undertake environmental protection.

## **STATUS OF REFORMS.**

**A. Democratization.** Enactment of a national constitution, creation of vibrant political parties, and the election of parliament and national officials and local government have firmly established democracy in Estonia but there is a need for continued experience with operating a Western style pluralistic government. Permitting Russians and ethnic minorities to participate in local elections and revising local language requirements for citizenship have eased ethnic tensions. On the international front, Government has rejoined a large number of international institutions and regional organizations and continues to take steps to strengthen its sovereignty such as reforming its military structure, improving its border regime, joining the Nordic Council and United Nations, and applying for membership in the European Union (EU) and in NATO's Partnership for Peace Program.

Completion of the national and municipal elections removes the need for continued assistance for organization of political parties. However, political power remains somewhat fragmented among a number of parties and Government ministries have only limited experience with Western concepts of open government. Nevertheless, political stability is growing and the ruling coalition remains strong and current policies are likely to continue with only slight changes under any new arrangement. While conditions at the national level are improving, strengthening mid- and lower-level Ministerial officials in their duties would reinforce the gains made in this area. The biggest challenge to democratic reform is the inexperience of local governments. Some 4,000 new municipal officials have been elected but few have experience in governing or with Western concepts of participatory democracy. Local demand for increased levels of social services is outstripping the ability of municipal governments to respond and may seriously erode their credibility.

Crime - and local reaction to it - poses serious problems for the considerable investments made by the U.S. and the donor community. Some 68 bombings occurred last year in Estonia and the local murder rate was among the highest in the world on a per capita basis. An atmosphere of intimidation is discouraging foreign investors and the creation of new local enterprises. Organized criminal elements from Russia with access to large funds have begun buying out selected Estonian firms - a situation viewed with concern by senior Government officials as a new potential threat from Russia. New extreme nationalists groups are forming which have the aim of protecting Estonia from these Russian elements which could in turn provoke reaction from Russian extremists.

**B. Economic Reform.** Estonia has successfully instituted a series of sweeping reforms that are reestablishing a Western market economy and, except for agricultural exports, has reoriented its trade patterns from the FSU (former Soviet Union) to the West. Estonian exports doubled in 1993 as did the level of foreign investment valued at some \$160 million Dollars. However, industrial production continued to contract and contributed only forty percent of the GNP. One of the largest contributors to economic stability and growth, the Estonian Kroon (EEK) remains the strongest in the Baltic countries and has retained virtually its full value since its introduction two years ago. Inflation in all sectors is a growing issue, however - current monthly inflation averages 5%, a modest deterioration from the 3% monthly rate in 1993. Much of this inflation is related to imported fuels, transportation, and food stuffs, areas where Estonia is moving to become more self reliant. The elderly and

those with fixed retirement incomes have been particularly hurt by inflation over the last six months and since these are the core of the voting bloc in Estonia, Government has taken steps to resolve their problems, including increased pension payments and subsidized heating.

No where is Government's sensitivity to citizen reaction more evident than Government's modification of its privatization program. Companies with special significance to Estonians (such as the national department store, chocolate factory and several dairies and food processing plants) were removed from the international tender process and offered for sale to Estonian citizens under a local tender program before allowing foreign investors to bid on them. In an effort to allay concerns that Estonian companies were being taken over by foreign investors, particularly Russian criminals, Government has expanded its voucher program beyond housing to selected industrial and commercial properties. To date, no less than five separate privatization schemes have been adopted by Government to meet local concerns. USAID is working with Government and other donors to better coordinate these diverse efforts to ensure that the momentum of privatization is not lost by excess competition for the best firms as candidates for privatization. Contributions to the national economy by the growth in small and medium businesses is a major factor in these optimistic forecasts. New business start-ups are also helping to maintain employment at acceptable levels. Foreign investment is largely Scandinavian (Finnish-Swedish) and has centered on large business buyouts in the privatization process.

Although overall production has contracted throughout this period, new projections by the World Bank indicate Estonia will have a positive economic growth for each of the next five years. Agriculture will remain relatively weak throughout this same period, however, until land restitution is finalized, privatization completed and new export markets developed.

C. Social/Environmental. Official unemployment remains at 3%, masking a large number of workers who have been retained only on a part time basis or put on "leave". Unemployment is likely to grow to higher levels as privatization accelerates and redundant workers let go. The social safety net is already under considerable strain since Government does not yet have adequate funds to take additional remedial action. Pensioners now have serious problems meeting living costs and inflation has eroded their ability to purchase basic food stuffs. As a consequence, health problems are rising. Tuberculosis is now increasing at a 33% rate and infectious diseases, particularly Sexually Transmitted Diseases, are also growing.

Pollution is gradually being reduced - largely by plant closings and bankruptcies. However, greenhouse gas emissions remain a significant problem. Residual radiation from weapon production and Soviet military sites is being addressed by the international community but will take considerably time to completely resolve. Removal of the Russian training nuclear reactor at Paldiski in the next few months will be the first efforts of this kind in the world and should eliminate the risk of accidental nuclear explosion in Estonia.

## **PROGRAM ASSESSMENT.**

A. Democratization. USAID objectives to help streamline the national level Ministries has largely been met. Government has completed its consolidation efforts and is now in the process of the final stages of merging personnel and organizational structures.

USAID programs to strengthen Governmental institutions are providing positive results. Parliament has benefited by the U.S. Frost Committee project to install an extensive computer system to help streamline operations and tracking of legislation and permit it to link directly to the U.S. Library of Congress to obtain information. U.S.-financed long-term advisors from the Department of Treasury, Commerce and Harvard's Institute for International Development in the Ministries of Finance, Economy and Environment are supplemented with short-term seminars and training in Estonia and the USA. The adoption of new national and local budget and tax laws is a major contribution by the Treasury advisors. This assistance is being complemented by other donors who have also placed long-term advisors in various Ministries such as Finance, Economy, Agriculture, and Social Welfare. Despite the gains made, major shortages in experienced personnel continue - fewer personnel are available as more experience officers retire and more of the trained and experienced younger cadre are leaving for better salaries in the private sector. Government is consequently becoming increasingly more overwhelmed in the administration of its programs.

U.S. assistance to help Government restructure local government is maintaining steady progress. Decentralization has largely been accomplished with the enactment of the national and local budget and tax laws drafted by U.S. Treasury advisors and with the election of municipal governments. As noted previously, local government structures remain weak and inexperienced in the operations of a pluralistic and open government. More responsibilities, such as land restitution and operation of local utilities, are being devolved to the municipal level and local government, like the national level, is increasingly becoming overwhelmed and unable to respond to growing local needs. Training of the new officials and staff coupled with the creation of a local revenue base, which municipal governments are now authorized to build, will overcome these problems. USAID's public administration programs are now providing direct assistance to a number of municipalities and this assistance should soon be institutionalized at the University of Tartu in conjunction with efforts by the Soros Foundation, EC-Phare and Germany.

The Rule of Law project, specifically the American Bar Association's Central and East European Law Initiative (ABA/CEELI) program, is strengthening the judiciary and bar association and assisting Government in completing its legal framework of laws and regulations. Nearly all media associations have been privatized and U.S. funded programs to strengthen their operations have been highly successful. The media center at the University of Tartu is training students in Western media concepts of a free and open press.

USAID has instituted a study of the current status of the legal structure that has been financed by USAID and other donors to determine what gaps remains, where overlap and conflict have occurred and where Government needs to place its priority attention to complete the legal framework for reform. It will serve as a guide to further legislative reform by USAID, Government and the donor community.

In an effort to stem Russian allegations of mistreatment of local Russians living in Estonia, Government, with the support of the U.S., established a Presidential Roundtable comprised of the leaders of Government, ethnic minority communities and the public sector to address and provide solutions to these issues. The U.S. is also funding an innovative, pilot program in Sillamäe in the North East to help defray the costs of Russians in Sillamäe in learning the Estonian Language to equip them with adequate language skills so they can better integrate into Estonian society and secure employment.

**B. Economic Reform.** USAID support for private sector development has produced outstanding results in terms of helping Government and the public sector create opportunities for new business and foreign investment. Privatization remains the cornerstone of Governments economic reform efforts and, USAID-financed advisors have continued to provide critical support. They assisted Government in preparing the national privatization laws and in establishing the reorganized Estonian Privatization Agency (EPA). Working with the German Treuhand and the EC Phare at the EPA, the U.S. advisors are responsible for leading EPA's negotiation teams in the international tender/sale program that has privatized over 52 of the largest industrial firms, with another 152 firms in progress. This compliments Government efforts last year to privatize some 291 large enterprises and to privatization over 90% of its service and small business sectors.

The USAID-funded commercial bank training program through U.S. Treasury advisors is nearing completion. It has provided important commercial bank training through the Estonian Banking Association in reaching nearly all the 24 commercial banks in Estonia. Nearly all the banks are financially prosperous. A continuing absence of collateral and adequate levels of security for capital impairs commercial bank activity in making small business loans and supporting privatization and other commercial transactions, however. New laws and the continued consolidation of the number of commercial banks should ease these obstacles over the near term.

Capitalization of pension voucher funds is under active review by the Minister of Reform as well as a voucher scheme to permit residents to purchase equity in selected state owned firms. USAID is in discussion with the Minister to determine what technical assistance the U.S. could provide.

Privatizing the health care system began in April, 1994, with the start-up of the new Partnerships in Health Care with an initial survey team from the American International Health Alliance group. In the interim, USAID is funding short-term training in the U.S. under the Partnership for International Education and Training (PIET) program for selected hospital administrators and technicians.

Estonia has now privatized some 95% of its service and small business sectors and USAID support for the operations of the Estonian Small Business Association (EVEA) has proven highly successful. EVEA has been able to provide this business segment with technical support for their operations and with representation before the Parliament in the enactment of favorable business laws. Similarly, assistance for better business management and accounting training to faculty and students at the University of Tartu through Bentley College enjoys similar success in helping to introduce western market economic practices and

methodologies to Estonia.

Although the IESC program will close in June, 1994 for lack of funds, it was highly successful in providing turn-around management to selected large and medium industries, enabling some to significantly improve their earnings and others to initiate successful privatization schemes. The IESC program will be replaced in part by the new Kenan MBA Enterprise Corps which will begin operations in July, 1994.

The ABA/CEELI program with a local legal advisor to the University of Tartu School of Law and the Estonian Parliament is highly regarded for its professional legal support to Estonia in drafting key parts for Estonia's legal framework and helping to reorient the University law school to western legal traditions. ABA advisors helped draft new statutes dealing with crime and commerce over the last year and rendered legal reviews for an untold number of commercial statutes.

Agribusiness development by the Volunteers in Overseas Cooperative Assistance (VOCA) and Land O'Lakes is maintaining a steady pace. Both U.S.-funded organizations have been very successful despite continuing shortages of capital and a lack of markets and outdated technology for local producers. Although recognizing that foreign investment could provide solutions to these problems, Government is pushing forward a scheme that promotes Estonian purchases of state owned dairies and agricultural enterprises, including food processing industries. Capital funds for farmer loans under various donor programs were not made widely available to farmers by Government.

Estonia's small economy is increasingly dependent on trade to promote economic growth. Government has been very successful in reorienting trade from the FSU to the West. The long-term U.S. Trade Advisor who is to work with the Ministry of Economy has been recruited and will arrive in May, 1994 for a six month assignment to help Government undertake a number of new trade negotiations throughout the region, including entry into the GATT and help Government educate the business community in finding niche markets for their products.

U.S. programs have completed a number of regional energy studies that have improved regional energy coordination. U.S. assistance has created substantial capacity in several local firms to undertake energy audits and completed a program to improve energy efficiency that enjoyed substantial success. While that program is now complete, its successes will be strengthened by a utilities partnership program between selected U.S. and Estonian power plants that will share technology and management experience.

C. Environmental Protection. USAID's program for pollution prevention under the World Environmental Center (WEC) is highly successful and strongly supported by Government. A number of selected state industries have benefited by improving their operational efficiency and eliminating pollution. WEC has targeted a major source of greenhouse emissions - the Kiiva chemical plant which produces chemicals from oil shale - as a pilot project to demonstrate new cost saving pollution prevention techniques and the program is scheduled to begin in early summer. WEC has worked with several of the key food processing and dairy industries to upgrade sanitation and improve the quality of their products. A long-term

environmental advisor from the Harvard Institute for International Development (HIID) has just taken up his post in the Ministry of Environment where he will help strengthen the MOE's capacity to undertake environmental assessments and coordinate environmental programs more effectively. The U.S. Environmental Protection Agency (USEPA) is initiating a pilot activity in the Northeast to demonstrate how impact assessments and programs are initiated and managed.

## **STRATEGY UPDATE**

**Program Goal #1: Strengthen Pluralistic Democracy.** The very substantive gains made in this area by Government over the last year make it possible to further consolidate U.S. democracy programs into three or less by the end of this fiscal year. The highest priority is strengthening local governments and their operational capacities. At the national level, limited support would strengthen the gains from Ministerial consolidation and selected training of national parliamentarians would enhance their legislative and representational capabilities.

**Program Objective: Support Government Reform.** Ministerial consolidation has been completed but completion of new personnel structures, appointment of experienced mid-level managers and staff shortages remain priorities for strengthening governmental operations. The first post-Soviet local governments have been elected but officials are not experienced in municipal management or in promoting pluralistic, inclusive democracy. Short-term training programs and continuation of U.S. advisors at selected Ministries will provide support to Government as it resolves these problems. Additional support from other donors in these areas is currently programmed.

**Target #1: Strengthening Local Government Operations.** Strengthening newly elected municipal governments is the highest priority for the U.S. development program. New officials are not experienced in western style municipal operations or the concepts of open government. Local governments must deal more effectively with growing social dislocations occurring from economic reform, particularly as privatization disrupts social services previously provided by state owned firms. U.S. local government programs will address these critical areas through training in public administration and short-term U.S. advisors. This assistance will compliment assistance from nongovernmental organizations (NGOs) such as Soros and other donors which are supporting creation of an institute of public administration at the University of Tartu.

**Target #2: Strengthening National Government Reform.** U.S. programs will continue to strengthen the gains made by ministerial consolidation through short-term training in management operations and special topics for selected senior and mid-level officials. Continuation of long-term U.S. advisors in the Ministries of Environment and Economy and short-term advisory support to the Ministries of Finance and Justice will enable government to improve its operations and its decentralization efforts. Selected training for parliamentarians will enhance democratic representation in the national legislature. Treasury assistance to Government's budget and taxation reform efforts will be completed this summer and short-term support may be extended to assist Government in implementing and enforcing these new laws.

**Target #3: Promoting the Rights of Ethnic Minorities.** U.S. initiatives to support Government programs to promote and protect local Russians and other ethnic minorities will remain experimental and limited. They will focus on continued support for the operations of the President's Roundtable which serves as a forum to address minority issues and support for the Estonian Language Training Program at Sillamäe to train local Russians in Estonia to help them integrate into Estonian society and protect their economic opportunities.

### **Program Goal #2: Support Open Market Economic Reforms**

Estonia's reform efforts are a resounding success. Its open market philosophy, liberal free trade and sound monetary policies coupled with broad-based privatization are creating a solid, dynamic western style economy. The continued contraction of industrial and agricultural production levels are a logical consequence of reforming these sectors to appropriate economies of scale from their previous Soviet-style quota-production philosophy. Continued but more selected support is needed in this area because Estonia has not yet completed its economic reforms and its nascent open market economy is not yet self-sufficient. Support is needed to maintain the pace of privatization, creation of small and medium business, trade linkages with the West and privatization of the health sector.

Estonia's comparative advantages lie in developing specialized exports to niche markets through small and medium sized light industry and private agricultural production. Trade linkages with western markets are growing and impediments to land restitution/ownership are being eliminated. The problem of access to venture capital is an obstacle to new entrepreneurship that will be addressed in part by the new Baltic Enterprise Fund and new business ventures will hopefully in turn address the issue of unemployed workers over forty years of age.

### **Program Objective: Support Private Sector Development**

U.S. programs will continue promoting privatization of large and medium industry and the health sector, strengthening trade capabilities and government's capacity to deal with environmental problems.

**Target #1: Support Privatization Transactions.** Continued support to the Estonian Privatization Agency (EPA) through medium term U.S. privatization experts will permit Government to maintain its momentum in privatizing large industry through the international tender and negotiation process. The bulk of sales of the remaining large industries identified for privatization by the EPA under the international tender process should be complete within the next year if Government maintains this momentum. U.S. assistance over this time frame will compliment efforts by the German Treuhand in supporting the operations of the EPA and will be in parallel with separate efforts by the EC Phare and the European Bank for Reconstruction and Development (EBRD) under their Turn-Around-Management and Structural Reform Programs which require longer time frames to complete.

**Target #2: Support the Growth of Small and Medium Businesses.** The majority of economic activity in Estonia is shifting from large, state owned heavy industry to small and medium businesses and light industry. Assisting start-ups and management reform of these businesses

through long-term U.S. MBAs will substantially contribute to the growth of this sector. The Estonian Small Business Association (EVEA) which promotes small business interests to Government has firmly established its operations. It receives adequate levels of operational support from other donors that will permit U.S. assistance, which provided a catalyst to enable EVEA to initiate operations and expand its membership, to phase-out this year.

Agribusiness and food processing has historically played a major role in Estonia's economy and it remains a major focus for Government. U.S. assistance will need to shift from technical support for agricultural production, however, to business and trade promotion and the present two grantees in this sector can be reduced to one to operate for one more year.

Banking reform and strengthening of commercial operations is largely complete with all but two of Estonia's commercial banks having been privatized - one of these is shortly to be privatized by two other donors - and Treasury's commercial banking program will be phased-out this summer. Helping Estonia implement a fair competition regime and deal with illegal business practices will substantially contribute to local acceptance of a market economy and short-term assistance from the Department of Justice and Federal Trade Commission will continue through this year.

**Target #3: Strengthen Government's Trade Capacities.** Trade is becoming increasingly more important for Government as a mechanism to boost local production, promote creation of new business and stimulate earnings of foreign revenue while reinforcing Estonia's integration into the West. Estonia's free trade regime is one of the most liberal in the world, offering no barriers to imports or exports and continued, sustained economic growth and reform cannot occur without expanded trade and western markets for local goods.

**Target #4: Support Privatization of the Health Sector.** Health services and administration are being reformed by a new hospital linkages program and support from other donors will complement this program. Assistance throughout this sector is needed to upgrade hospital administration and management, medical technical skills and Ministerial and agency support and regulation. This program could be completed by the end of FY 1995 if Government is willing to replicate the program throughout Estonia with its own or other resources.

**Program Goal #3: Support Environmental Protection.** U.S. environmental programs, although small and highly selective, have enjoyed considerable success but, a number of the more serious pollution problems exceed the ability of the U.S. to address or finance. Most of these problems are being addressed adequately by other regional donors. Strengthening Government's ability to address Estonia's serious pollution problems should continue for the near term but should, as with other programs, be consolidated into two efforts - institutional strengthening and highly focused demonstration projects.

**Program Objective: Promote Environmental Initiatives that Reduce Health Risks and Stop Environmental Degradation.** Reducing environmental hazards from the use of oil shale is a high priority of the international community since these are a major source in the region for "greenhouse gas" emissions. Upgrading agribusiness and food processing operations are also important activities to address the consequences of the lack of adequate sanitation procedures.

**Target #1: Strengthen Government's Capacity to deal with Environmental Problems**

Long-term U.S. advisory support to the Ministry of Environment will compliment similar efforts by EC Phare that will enable the national government to appropriately assess the environmental impact of economic reform and investment and to assist local governments to improve their capability to monitor activities at the local level and to enforce environmental regulations.

**Target #2: Promote the Prevention of Industrial Pollution through Demonstration Projects**

Pollution prevention training and pilot activities at selected key industries using oil shale in their processes will demonstrate innovative technologies useful and affordable to local industry in ways to prevent pollution in their production processes. The environmental impact demonstration project in the oil shale region by the USEPA will strengthen Government's capacity for implementing and monitoring impact assessment activities.

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SUBJECT: REVIEW OF U.S. ASSISTANCE STRATEGY UPDATE FOR  
ESTONIA

JOINT STATE/USAID CABLE

NOTE: THIS IS AN ACTION REQUEST. SEE PARAS 8 - 9.

1. SUMMARY. THE DRAFT UPDATE TO THE 1993-1995 SEED ACT ASSISTANCE STRATEGY FOR ESTONIA WAS REVIEWED AT A MAY 5 INTERAGENCY MEETING. THE OVER-ARCHING ISSUE OF THE MEETING, CHAIRED BY THE USAID ENI BUREAU DEPUTY ASSISTANT ADMINISTRATOR, BARBARA TURNER, CONCERNED PHASE-OUT OF SEED ACT ASSISTANCE TO ESTONIA. REPRESENTATIVES FROM USAID, STATE, OMB, TREASURY, EPA, USIA, PEACE CORPS, COMMERCE/CLDP, AND FTC ATTENDED. THE CONSENSUS OF THE MEETING WAS THAT AN ACCELERATED PHASE-OUT OF U.S. SEED ACT ASSISTANCE BY END OF FY 96 IS APPROPRIATE. PARAS 2-7 SUMMARIZE CONCLUSIONS REACHED IN SPECIFIC PROJECT AREAS. PARAS 8-9 OUTLINE NEXT STEPS FOR COUNTRY TEAM AND BUREAU IN DRAFTING A PHASE-OUT PLAN. END SUMMARY.

2. GENERAL PROGRAM CONCLUSIONS. IT WAS AGREED THAT MAJOR U.S. ASSISTANCE OBJECTIVES IN ESTONIA, AS SET BY THE JUNE 1993 INTERAGENCY STRATEGY REVIEW, HAVE LARGELY BEEN MET. PHASE-OUT OF THE U.S. ASSISTANCE PROGRAM WILL CONCLUDE AT

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THE END OF FY 1996. THE GOVERNMENT OF ESTONIA (GOE) WAS CONSULTED PRIOR TO THE COUNTRY TEAM'S PROPOSAL TO CONSOLIDATE/PHASE-OUT ASSISTANCE AND CONCURS WITH THE USG'S INTENTION TO PHASE OUT. THE PROPOSED DECEMBER 1994 DEPARTURE DATE FOR THE USAID REP WAS CONSIDERED PREMATURE. THE DEPARTURE OF THE USAID REP IS CONTINGENT UPON THE NUMBER OF ACTIVITIES REMAINING IN THE PORTFOLIO BUT TENTATIVE DATE IS SEPT 1995.

3. BUREAU PHASE-OUT CRITERIA. THE U.S. SHOULD PHASE DOWN OR QUOTE GRADUATE UNQUOTE ASSISTANCE TO PARTICULAR COUNTRIES WHEN MARKET AND DEMOCRATIC TRANSITIONS ARE SUFFICIENTLY ADVANCED THAT THE MOMENTUM WILL BE MAINTAINED WITHOUT U.S. BILATERAL ASSISTANCE. PREFERRED CRITERIA INCLUDE INDICATORS OF SUFFICIENT PROGRESS IN THE ECONOMIC SPHERE SUCH AS MACRO ECONOMIC STABILITY AND A REASONABLE FISCAL BALANCE, THE MAJORITY OF THE GDP ORIGINATING IN THE PRIVATE SECTOR, AND BROAD-BASED ECONOMIC GROWTH. INDICATORS OF SUFFICIENT PROGRESS IN THE TRANSITION TO DEMOCRACY INCLUDE: EFFECTIVE DEMOCRATIC INSTITUTIONS AT THE NATIONAL AND LOCAL LEVEL, RESPECT FOR HUMAN RIGHTS, AND A FREE AND INDEPENDENT MEDIA. ESTONIA MEETS OR EXCEEDS THESE CRITERIA. THE USG INTENDS TO CARRY OUT AN ORDERLY AND GRADUAL PROCESS OF PHASE-OUT OF PROGRAMS OVER THE NEXT TWO YEARS. THE REMAINING U.S. ASSISTANCE PROGRAM SHOULD REPRESENT A NEW PHASE OF COOPERATION IN U.S./ESTONIAN RELATIONS. IN ADDITION, REVIEW PARTICIPANTS AGREED THAT THE COMBINATION OF PROJECT ACTIVITIES WILL PROMOTE THE EMERGING CIVIL SOCIETY IN ESTONIA.

4. STATUS OF REFORMS. THE USAID REP PRESENTED AN OVERVIEW OF REFORMS ASSOCIATED WITH THE ABOVE CRITERIA, STATING THAT ESTONIA HAS EITHER MET OR SUCCEEDED THE GIVEN INDICATORS. IN THE ECONOMIC RESTRUCTURING AREA, TRANSITION AND REFORMS ARE ALMOST COMPLETE. THE PRIVATIZATION PROCESS MAY BE COMPLETED AHEAD OF THE GOE'S SCHEDULE. IMPLEMENTATION OF BANKRUPTCY LEGISLATION IS PROCEEDING AT A TREMENDOUS PACE. WITH REGARD TO DEMOCRATIC PLURALISM, NATIONAL PARTIES HAVE BEEN ESTABLISHED, PARLIAMENT HAS BEEN STRENGTHENED, AND LOCAL ELECTIONS WERE DEEMED TO BE SUCCESSFUL. HOWEVER, MORE ASSISTANCE MAY BE NEEDED IN JUDICIAL REFORM AS JUDICIAL RESTRUCTURING IS JUST UNDERWAY IN ESTONIA.

5. PROGRAM MANAGEMENT. CURRENT OAR STAFF OF ONE USDH, ONE USPSC, AND FIVE FSNS IS SUFFICIENT THROUGH FALL 1995. AFTER DEPARTURE OF THE USAID REP, THE LIKELY STAFFING OF THE OAR SHOULD CONSIST OF ONE US OR FSN PSC AND ONE FSN SECRETARY/ASSISTANT, LOCATED IN THE AMEMBASSY/TALLINN. REGIONAL SUPPORT FOR RESIDUAL ACTIVITIES AFTER USAID REP

DEPARTURE WILL ALSO NEED TO BE PROVIDED EITHER FROM OAR/WARSAW OR OAR/VILNIUS.

6. NEW PROJECT STARTS. APPROXIMATELY FIVE NEW AND TWO NEWLY STARTED PROJECT ACTIVITIES WILL BE IMPLEMENTED DURING FYS 94-96: BALTIC-AMERICAN ENTERPRISE FUND (180-0010), PUBLIC ADMINISTRATION (180-0019), MBA ENTERPRISE CORPS (180-0023), DEMOCRACY COMMISSION SMALL GRANTS PROGRAM (USIA), NGO DEMOCRACY NETWORK (180-0032), PARTNERSHIPS IN HEALTH CARE (180-0037), AND ENVIRONMENTAL ACTION PROGRAM QUOTE HOT SPOTS UNQUOTE (180-0039). THE USAID REP EXPLAINED THAT THESE PROJECTS ARE CRITICAL TO FULFILLMENT OF STRATEGY OBJECTIVES, AND BELIEVED THAT ALL COULD CONCEIVABLY PHASE-OUT IN ESTONIA IN TWO YEARS HAVING ACHIEVED A SATISFACTORY LEVEL OF PROGRAM IMPACT. IN ADDITION, ACTIVITIES WHICH CONCENTRATE ON KEY REGIONAL PRIORITIES -- SUCH AS THOSE UNDER ENERGY OR ENVIRONMENTAL PROJECTS -- WILL CONTINUE TO BE IMPLEMENTED THROUGH REGIONAL GRANTS/CONTRACTS.

7. PROJECT ACTIVITY COMPLETION DATES. THE MAJORITY OF THE MEETING CENTERED AROUND DISCUSSION OF SPECIFIC PROJECT ACTIVITY COMPLETION DATES. IT WAS AGREED THAT A DETAILED WORKSHEET WOULD BE PREPARED TO ACCOMPANY THE COUNTRY TEAM'S FORMAL PHASE-OUT PLAN, LISTING EACH PROJECT WITH ESTIMATED DATE OF PHASE-OUT AND THAT PROJECT OFFICERS WOULD REVIEW/CLEAR LIST. THE FORMAL PHASE-OUT PLAN WILL BE PREPARED BY THE USAID REP WITH USAID/W ASSISTANCE. GENERAL ISSUES/CONCLUSIONS PURSUANT TO THE THREE PRIORITY AREAS ARE AS FOLLOWS:

A. OPEN MARKET ECONOMIC REFORMS: PRIVATIZATION AND PRIVATE SECTOR DEVELOPMENT (180-0014, 180-0023). THE INTER-AGENCY REVIEW ENDORSES OMB'S RECOMMENDATION THAT COMPLETION OF 6 TENDERS BE INCORPORATED AS A PHASE-OUT FACTOR IN THE STRATEGY UPDATE. PEACE CORPS REPRESENTATIVES COMMENTED THAT NON-SEED FUNDED ACTIVITIES ARE SLATED FOR EXPANSION AND CONTINUATION THROUGH THE YEAR 2002 SINCE SMALL BUSINESS ASSISTANCE ACTIVITIES HAVE ONLY RECENTLY STARTED.

COMPETITION POLICY, LAWS AND REGS (180-0026). THE DOJ/FTC HAVE RECENTLY ESCALATED ASSISTANCE TO THE ESTONIAN COMPETITION BOARD IN RESPONSE TO ITS INSTITUTIONAL AND LEGISLATIVE PROGRESS, AND BELIEVE ASSISTANCE SHOULD CONTINUE THROUGH FY 1995. THE NEED FOR LIMITED FOLLOW-UP SHORT-TERM MISSIONS WILL BE REASSESSED TO DETERMINE WHETHER SUCH ASSISTANCE WOULD BE ADVISABLE.

IN ADDITION, USAID REP CONFIRMED THAT, AT THIS POINT, THE

MIN. OF ECONOMY PREFERS A TRADE ADVISOR WORKING UNDER THE COMMERCIAL LAW DEVELOPMENT PROGRAM FOR A SIX MONTH ASSIGNMENT; NEED WILL BE REEXAMINED IN DEC 1994, AT WHICH TIME A DECISION WILL BE MADE AS TO WHETHER THE POSITION SHOULD BE EXTENDED UNTIL JUNE 1995. THE USAID REP COMMENTED THAT DONOR INPUT IS RELATIVELY SUBSTANTIAL WITH REGARD TO COMMERCIAL LAW ASSISTANCE AND THAT THE EU IS FUNDING SUCH PROGRAMS AND IS PROBABLY BETTER SUITED TO IMPLEMENT SUCH ASSISTANCE DUE TO ESTONIAN PREFERENCES FOR WESTERN EUROPEAN CIVIL AND COMMERCIAL CODE LEGISLATION MODELS.

BUSINESS SERVICES PROJECT (180-0027), FINANCIAL ADVISOR COMPONENT (TREASURY). TREASURY'S THREE LONG-TERM ADVISORS BASED IN ESTONIA (TAX POLICY, BUDGET POLICY, BANKING REFORM) WILL COMPLETE THEIR RESIDENT ASSIGNMENTS BY AUGUST 31, 1994. IT IS ANTICIPATED THAT SHORT-TERM ASSISTANCE IN THESE FUNCTIONAL AREAS, AS WELL AS MACROECONOMIC POLICY AND GOVERNMENT SECURITIES ISSUANCE AND REGULATION, MAY BE REQUIRED BASED ON CONSULTATIONS WITH USAID.

BALTIC-AMERICAN ENTERPRISE FUND (180-0010). THE FUND SHOULD BE A GOOD COMPLEMENT TO USG'S TRADE AND INVESTMENT OBJECTIVES. IT WAS RECOMMENDED THAT FUND BE FRONT-LOADED IN ESTONIA, WITH A SUNSET DATE SET AT THE COUNTRY TEAM'S DISCRETION.

MANAGEMENT TRAINING (180-0029). IT WAS AGREED THAT SOME FORM OF MBA/BUSINESS MANAGEMENT TRAINING/ECONOMICS EDUCATION PROJECT ACTIVITY IS NEEDED, HOWEVER, LIMITED FUNDING RESOURCES CANNOT ACCOMMODATE A LARGE GRANT ACTIVITY UNDER RECENT USAID/ENI GRANT SOLICITATION. CURRENT USIA GRANTEE WILL CONTINUE WITH ONE MORE YEAR OF USIA SMALL GRANTS FUNDING. IN ADDITION, OTHER DONORS HAVE PROJECTS IN THIS AREA SUCH AS THE ESTONIAN-DANISH BUSINESS COLLEGE WITH FULL-TIME AND EVENING CLASSES IN BUSINESS MANAGEMENT.

ENERGY EFFICIENCY (180-0030). ENI/EEUD/EI PROPOSED THAT IT WAS PERHAPS BEST NOT TO BEGIN AN ENERGY PARTNERSHIP WITH EESTI-ENERGIA SINCE A PARTNERSHIP WITH THE CANADIANS IS ALREADY PLANNED. BILATERAL ENERGY ACTIVITIES WILL BE COMPLETED BY THE END OF CY 1995. REGIONAL ACTIVITIES WILL CONTINUE AT THE REQUEST OF THE BALTIC ENERGY COUNCIL.

HEALTH PARTNERSHIP (180-0037). TIMELINE OF PARTNERSHIP WAS AGREED TO BE FOR TWO YEARS. A MORE COMPLEX ISSUE IS WHETHER EXCHANGES OF ESTONIAN MEDICAL PERSONNEL TO THE U.S. ARE CONSIDERED TO BE PARTICIPANT TRAINING (AS CURRENTLY CLASSIFIED) OR INVITATIONAL TRAVEL (AS SOME

BELIEVE IT TO BE). AS WRITTEN, THIS REQUIREMENT WILL IMPACT ON OAR STAFF ABILITY TO MANAGE PARTICIPANT TRAINING PROCESSING REQUIREMENTS. THIS ISSUE, HOWEVER, APPEARS TO GO BEYOND THE SCOPE OF THE STRATEGY UPDATE REVIEW AND SHOULD BE PURSUED BY ENI/HR/HP.

B. ENVIRONMENTAL PROTECTION: THERE WERE NO OUTSTANDING ISSUES IN EITHER THE ENVIRONMENTAL INITIATIVES (180-0004) OR IMPROVED PUBLIC SECTOR ENVIRONMENTAL SERVICES (180-0039) PROJECTS. BUREAU POINTED OUT THAT USAID, THROUGH ITS CONTRACTORS AND COOPERATIVE AGREEMENT RECIPIENTS, IS OUT IN THE FOREFRONT OF PUBLIC PARTICIPATION AND POLICY ADVICE ASSISTANCE. A LONG-TERM SENIOR ENVIRONMENTAL POLICY ADVISOR WILL CONTINUE WORKING IN THE MIN. OF ENVIRONMENT THROUGH NEXT SUMMER. THE EPA REPRESENTATIVE NOTED THAT THE ENVIRONMENTAL ASSESSMENT (EA) PROJECT BEING CONDUCTED IN NORTHEAST ESTONIA WAS SCHEDULED FOR COMPLETION IN DECEMBER 1995 WHICH WOULD COINCIDE WITH THE NEXT ENVIRONMENT FOR EUROPE MINISTERIAL CONFERENCE. ESTONIA IS CO-CHAIR OF THE TASK FORCE FOR IMPLEMENTATION OF THE ENVIRONMENTAL ACTION PLAN (EAP) FOR CEE. EPA REPRESENTATIVE EXPLAINED THAT THE EA PROJECT IS THE ONLY U.S. SUPPORTED EAP PROJECT IN THE BALTIC COUNTRIES AND THE ONLY ENVIRONMENTAL EFFORT IN ESTONIA TO COMBINE SCIENTIFIC AND ECONOMIC ANALYSIS WITH PUBLIC AND INTERSECTORAL PARTICIPATION TO BUILD CONSENSUS FOR ENVIRONMENTAL ACTION.

C. DEMOCRATIC PLURALISM INITIATIVES: ASSISTANCE TO LOCAL PUBLIC ADMINISTRATORS IS A TOP USG/GOE PRIORITY. CURRENT COMBINATION OF POLITICAL ORGANIZATION STRENGTHENING ACTIVITIES UNDER POLITICAL AND SOCIAL PROCESS (180-0021), WITH ADDITION OF LOCAL GOVERNMENT ASSISTANCE TO BE PROVIDED BY THE BUREAU'S NEW PUBLIC ADMINISTRATION CONTRACT (180-0019), WILL PROVIDE SUFFICIENT ASSISTANCE. RE DEMOCRACY COMMISSIONS SMALL GRANTS PROGRAM (USIA), TO CLARIFY, DEMOCRACY COMMISSION WILL APPROVE AND USIS WILL FACILITATE GRANTS ON A ONE-TIME BASIS. BUREAU BELIEVES, HOWEVER, THAT CIVIL SOCIETY BUILDING WILL REQUIRE SMALL GRANT-MAKING ESPECIALLY IN LATER YEARS. RE NGO DEMOCRACY NETWORKS (180-0032), STATE/DRL NOTED THE STRATEGY UPDATE CONTAINED NO LISTING OF ADVOCACY GROUPS. DISCUSSION ENSUED RE EFFECTIVENESS OF SUCH GROUPS. EXCEPT FOR FEW STANDOUT ORGANIZATIONS, THERE IS AN APPARENT WEAKNESS OF SUCH GROUPS IN ESTONIAN SOCIETY. ALSO, A REPRESENTATIVE FROM STATE/DRL DISCUSSED THE IMPORTANCE OF MAINTAINING USG SUPPORT FOR ESTONIAN JUDICIARY IN LIGHT OF THE OPENING ESTONIAN NATIONAL JUDICIAL CENTER.

8. NEXT STEPS FOR COUNTRY TEAM. USAID REP, ON BEHALF OF THE COUNTRY TEAM, IS REQUESTED TO DEVELOP A COMPREHENSIVE

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PHASE-OUT PLAN. RATHER THAN REVISE THE COUNTRY STRATEGY, THIS CABLE WILL BE ADDED AS A PREFACE WHEN THE COUNTRY STRATEGY IS REPRODUCED IN ORDER TO RECORD THE CONCLUSIONS OF THE STRATEGY REVIEW MEETING.

9. NEXT STEPS FOR BUREAU. AS STATED, DETAILED WORKSHEET WITH COMPLETION DATES WILL FOLLOW IN SEP TEL. IN ORDER FOR USAID REP TO DRAFT PHASE-OUT PLAN, ASSISTANCE FROM BUREAU PROJECT OFFICERS, WITH INPUT FROM THEIR INTERAGENCY COLLEAGUES, IS REQUESTED TO PROVIDE SEGMENTS DETAILING PHASE-OUT STEPS IN EACH OF THEIR SUPERVISORY AREAS. SPECIFIC EXAMPLES OF ADVICE NEEDED INCLUDE:

A. EXPECTED GOALS TO BE ACCOMPLISHED IN REMAINING TIME FRAME;

B. ANY CHANGE IN CURRENT METHODOLOGY THAT WILL LEAD TO ACCOMPLISHING THESE GOALS; AND

C. PROPOSED PLAN TO ACCOMPLISH ORDERLY PHASE DOWN OF CONTRACTOR/GRANTEE/INTERAGENCY ACTIVITIES WITH REGARD TO EVALUATIONS, LOGISTICS (FINAL NON-EXPENDABLE EQUIPMENT DISPOSAL PROCEDURES), PROJECT ACTIVITY CLOSE-OUT REPORTS, AND ANY FORESEEN CONTRACT/GRANT/INTERAGENCY AGREEMENT MODIFICATIONS/AMENDMENTS NECESSARY TO PHASE-OUT.

10. THIS CABLE HAS BEEN CLEARED IN DRAFT BY USAID/ENI TECHNICAL OFFICES (STRATOS, BRAGINSKI, LOW, FRENCH, SCHWARTZMAN, ICHORD, TARRANT, TERRY), STATE/DRL (BERNSTEIN), STATE/EUR/EE (DALEY), TREASURY (GALLAGHER AND LOTFUS), USIA (PORTNOY), OMB (SANDY), COMMERCE (FEATHERS AND GREEN), EPA (THOMPSON), FTC (RICHARDS), AND PEACE CORPS (VIKSNINS). YY

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