U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Congressional Presentation
Fiscal Year 2000
ANNEX III

Europe and the New Independent States

EUROPE AND THE NEW INDEPENDENT STATES

Overview of Europe and the New Independent States
Abbreviations and Acronyms

Albania
Armenia
Azerbaijan
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Cyprus
Georgia
Ireland
Kazakhstan
Kyrgyzstan
Former Yugoslav Republic of Macedonia
Moldova
Romania
Russia
Tajikistan
Turkmenistan
Ukraine
Uzbekistan
Federal Republic of Yugoslavia

Regional Programs
Central Asia Regional
Central and Eastern Europe Regional
New Independent States Regional

EUROPE AND THE NEW INDEPENDENT STATES

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Support for East European Democracy	$ 485,276,000	$ 430,000,000	$ 393,000,000
FREEDOM Support Act	770,798,000	841,000,000[1]	1,032,000,000
Economic Support Fund	39,600,000	34,600,000	44,600,000
Development Assistance Fund	4,000,000	2,000,000	---
Child Survival and Disease	1,000,000	---	---
P.L. 480 Title II	34,942,000	16,551,000	---

[1]Excludes $6.0 million for Mongolia

U.S. NATIONAL INTERESTS.

Assisting the formerly communist nations of Central and Eastern Europe (CEE) and the New Independent States (NIS) in their transition to market-led democracies continues to be of vital interest to the people of the United States. The faster and more sustainable this transition, the higher the chances are for regional stability, enduring links between our peoples, and mutually beneficial economic growth.

National Security.

Although the end of the arms race has freed up resources for the United States in recent years, regional hot spots such as Bosnia and Kosovo and the virtual collapse of the Russian economy pose very real threats to U.S. national security. The potential for proliferation of weapons of mass destruction in the region remains a key concern. Other concerns are nuclear safety and reducing the risks of another Chornobyl accident, and securing commercial access and viable outlets for Caspian oil and gas resources. The United States and other western style democracies remain committed to staying the course in the ENI region. NATO expansion is one element of the security equation that proceeds apace. Continued strengthening of U.S. - Russia partnerships is another.

Economic Prosperity.

U.S. assistance directed toward improvements in the economic enabling environment in ENI has direct implications for U.S. trade with the region. Indeed U.S. exports to the region have nearly tripled in this decade and are likely to multiply further in the coming years, with direct implications for the growth of high paying, export related jobs at home. Growth of exports for the ENI region from 1995-1997 was a robust 12 percent annually on average, and an impressive 21 percent for the CEE northern tier countries. Increasingly this trade is with the West. The proportion of trade between CEE and advanced economies has increased from 40 percent of exports in 1989 to over 70 percent in recent years.

The lion's share of foreign direct investment (FDI) is going to a handful of CEE northern tier countries, demonstrating conclusively that investment follows meaningful reform. FDI flows increased significantly in 1997 and seem to have continued at a comparable pace in 1998. Perhaps one-third of all FDI flows since 1989 occurred in the 1997-1998 period. For many of the transition countries, however, the ability to attract foreign direct investment remains low, and this has been further complicated by the Russian financial crisis, which has virtually halted such investment in Russia.

Law Enforcement.

Crime and corruption continue to be major issues, with cross-border implications, particularly in the NIS. USAID

programs are working to improve transparency, the rule of law, and commercial legal frameworks that are needed to establish international investor confidence. Transfers to the State Department and Justice Department are aimed at improving law enforcement skills and technologies.

Democratic Expansion.

Democracy continues to take root in most ENI countries, though there has been backsliding in some cases, particularly in the NIS. Important progress has been made in the holding of free and fair elections and establishment of an independent media. Hundreds of non-government organizations across the ENI region advocate for various interests and open up the political process generally. Organizational maturity and sustainability for NGOs remains a long-term challenge, however.

Global Issues.

The Agency will continue using SEED and FSA resources to support the President's Global Climate Change initiative, with activities focused on countries with significant greenhouse gas emissions (e.g., Russia, Ukraine, Poland and the Central Asian Republics). USAID will work with these countries to reduce CO2 emissions and increase carbon absorption through energy efficiency improvements, energy sector regulatory reform and better management of forests. ENI will continue helping to reduce abortion rates through increased use of modern contraception in Albania, Armenia, the Central Asian Republics, Georgia, Moldova, Romania, Russia, and Ukraine. Programs to reduce the spread of sexually transmitted diseases and HIV/AIDS exist or are being developed for Armenia, Belarus, Kazakhstan, Moldova, Romania, Russia, Ukraine, and Uzbekistan. A newly emerging threat is tuberculosis, for which a regional advisory committee is being formed and programs developed for the Central Asian Republics, Kosovo, Russia and Ukraine.

DEVELOPMENT CHALLENGE.

The development challenge in ENI remains one of transforming previously authoritarian, centrally planned societies into western-style market-led democracies with vibrant economies, open political systems, and a strong civil society. Careful monitoring of program and country progress, however, has revealed that the transition process has not proceeded at the same pace, or in the same way, from one ENI sub-region to another.

Status of the Transition.

The ENI countries are increasingly clustered into three relatively distinct groups reflecting varying degrees of reform progress. This year, due to backsliding in the middle group, the leaders have pulled sharply ahead of the pack, as shown in the chart at right. In large measure this backsliding is a result of the global financial crisis and reflects the difficulties of maintaining reform momentum during economic downturns. In many cases the deterioration of economic performance has been matched by sharp declines in democratic freedom, for example, in Ukraine, Uzbekistan, Belarus, and in Russia itself.

- *Consolidating Reform:* The northern tier countries of Central and Eastern Europe continue to consolidate their gains and move toward graduation from bilateral USAID assistance. It is no accident that the countries with the greatest commitment to economic reform have enjoyed the greatest sustained economic growth. In FY 2000 we will discontinue assistance for Lithuania and Poland as these two countries join Estonia, Slovenia, Hungary, the Czech Republic, and Latvia as USAID "graduates." These countries are consolidating and building on the gains of earlier reforms by developing an institutional and regulatory capacity for better corporate governance and a competitive, stable financial sector. Economic and democratic reforms have tended to go hand in hand in this group.
- *Deepening Reforms:* The countries in this middle group are a highly varied lot and include Russia and Ukraine, both of which have backslid dramatically in both economic and social terms over the past year. Others include the NIS countries of Moldova, Georgia, Armenia, Kazakhstan, and Kyrgyzstan and, in CEE, Romania, Bulgaria, Albania, Macedonia, Croatia, and the Federal Republic of Yugoslavia (Serbia, including Kosovo, and Montenegro.) By and large these countries have not yet fully implemented "second round" institutional and structural reforms that normally serve to consolidate earlier reforms and the reform process generally. Indeed, in the current global context it is apparent that the intermediate reformers are more susceptible to backsliding and, similarly, more vulnerable to external economic shocks such as the crisis in Russia. Reform-minded governments are included in this group, but they face institutional and human resource constraints that appear to be more fundamental than previously recognized.
- *Commencing Reform:* While the "laggards"--Belarus, Azerbaijan, Uzbekistan, Tajikistan, and Turkmenistan, and, in CEE, Bosnia-Herzegovina--are considerably behind the rest, two at least (Azerbaijan and Tajikistan)

have recently begun implementing early liberalization and privatization reforms. Others, notably Belarus, Turkmenistan, and Uzbekistan, continue to lack a general commitment to market-oriented democratic reform. This group is generally characterized by the persistence of Soviet-era institutions, entrenched interests, and deep-seated resistance to meaningful democratic and economic reform. National security interests and humanitarian concerns drive our programs in these countries.

Regional Strategy: Toward Sustainable Partnerships.

The increasing disparity between these three groups of countries presents the ENI Bureau with a clear challenge to revisit the current transition paradigm and develop approaches tailored to each situation. To this end, ENI has launched a year-long stocktaking exercise, the end result of which will be a regional strategy to guide our programs as we move into the 21st century. A principal goal will be to develop sustainable partnerships between the United States and the countries of the ENI region, as well as between the individual countries of the region. These partnerships will be tailored to reflect the varying stages of reform progress in each ENI country. In this context, partnerships are both a method of assistance, varying in nature depending on the circumstances, and an overarching goal for countries in the region. The basic objective will be to establish enduring ties between the United States and the countries of the former Soviet bloc. We want these ties to be bound not by donor-recipient relations but by relationships based on equal sharing of talents, costs, risks, and rewards between people, between institutions, and between countries. In order to reach this vision, we believe that our activities will need to be supported, (1) through well-managed, in-country programs, (2) through less management-intensive regional partnerships, and (3) through legacy mechanisms that sustain partnerships and generate resources from the private sector for countries that have graduated from USAID assistance.

External Debt.

For most of the ENI region, the volume of external debt remains manageable and, overall, the level has decreased since 1994. However, a number of countries have increased their exposure recently. In 1997 three were "severely" indebted by World Bank standards (Albania, Armenia, and Georgia), and seven had "moderate" external debt levels (Bulgaria, Turkmenistan, Croatia, Kyrgyzstan, Moldova, Poland, and Russia). Several countries (e.g., Russia, Ukraine, Kyrgyzstan, and Romania) will likely face short-term debt repayment problems in 1999. Russia's total foreign currency debt-service obligations for 1999 amount to an estimated $17.5 billion.

PROGRAM AND MANAGEMENT CHALLENGES.

CEE Northern Tier Focus: Toward a Regional Relationship.

In the northern tier countries, USAID will move to develop new kinds of regional partnerships that foster lasting and meaningful ties between the United States and CEE graduates (Slovenia, Estonia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, and Slovakia), as well as between the countries themselves. One such "legacy" mechanism is the Electricity Management Development Institute, which U.S. and CEE utility companies are supporting under the guidance of the U.S. Energy Association. Also in operation is the Baltic-American Partnership Fund (BAPF), a $15 million endowment established jointly by the USG and the Open Society Institute. The BAPF provides training and technical assistance grants to NGOs to enhance their capabilities and long-term sustainability. Another post-presence initiative is beginning to promote regional environmental partnerships through the new ECOLINKS program. This effort will help open northern tier markets to U.S. environmental businesses while also addressing issues of environmental abuse. Other legacy mechanisms under consideration are the Trust for Civil Society in Central Europe ("CEE Trust"), the Polish-American Freedom Foundation (PAFF), and a planned Partners for Financial Sector Sustainability program to bolster past economic reforms and help protect these countries from external financial shocks. In 1999 USAID will host an international conference in Warsaw for ENI countries to share successful transition experiences and strengthen cross-border partnerships.

CEE Southern Tier Focus: Staying the Course in Economic Reform.

Recent analysis indicates that the southern tier countries of Albania, Macedonia, Bulgaria, and Romania will take longer to achieve full transition than had originally been foreseen. While three of the four had positive economic growth rates in 1998 (Albania 10.0 percent, Macedonia 5.0 percent, and Bulgaria 4.0 percent), a negative 4.5 percent showing for Romania--the largest of the four economies--brought economic growth for the sub-region as a whole down to a modest 1.4 percent. The challenge for the Government in Romania will be to build political support for a more thorough and rapid privatization effort, particularly in the energy and banking sectors. In Bulgaria the challenge is to maintain momentum under reforms that brought the country back from the brink of economic collapse in early 1997.

Albania presents unique challenges, further complicated by recent threats to the security of U.S. personnel and property that have hampered our ability to mount effective programs there. During FY 1999 we will reassess progress against planned results and review our programmatic options in that country. In Macedonia, a key country in the current regional security equation, the challenge is to continue supporting the government's economic reform while taking steps to reduce the potential for ethnic conflict.

Bosnia, Croatia, and Federal Republic of Yugoslavia (FRY) Focus: Reconstruction and Beyond.

The U.S. has been at the forefront of international efforts in the Balkans to guarantee peace, facilitate the return of individuals and families displaced by war, and assist in the reconstruction of basic public infrastructure. After three years of peace building efforts under the Dayton Accords, the basic challenge in Bosnia-Herzegovina and Croatia is one of consolidating the peace so that incipient economic and democratic reforms can take root. Political pluralism and economic stability are key to the development of this region and thus comprise the focus of USAID's program. Under strong pressure from the international community, Croatia has made important progress on refugee returns. Cracks that have appeared recently in the country's one-party system and socialist economy present both opportunities and challenges. In Bosnia, fueled by international assistance, economic growth has been strong. However, the country's leaders must recognize that assistance levels are falling and there has been insufficient economic reforms and institution building to sustain that growth. In addition, the nascent entity- and national-level structures are still largely unable or unwilling to run a multi-ethnic government. Ethnic aspirations and political cronyism threaten the country's emergence as a democratic, market-oriented society. The FRY presents a perplexing and unique situation--as Montenegro moves ahead smartly with economic reforms and the consolidation of democracy and human rights, Serbia continues moving in the opposite direction, clamping down on the media, politicizing the universities, and consolidating economic control in the hands of the state. In the troubled Serbian province of Kosovo, the international community attempts to establish peace and negotiate a reasonable level of autonomy for the Albanian majority.

NIS Focus: Rebuilding Momentum and Coping with the Financial Crisis.

Progress on democratic transition and economic restructuring in the NIS region has been mixed. Significant improvements included Moldova's passage of an effective modern tax code and other significant legislation to continue its model land privatization program, Kyrgyzstan's accession to the World Trade Organization (the first among NIS countries to achieve this distinction), Kazakhstan's adherence to the Kyoto Global Climate Change treaty, Armenia's adoption of measures to substantially improve conditions for foreign investment, and the increased adoption of international accounting standards by private enterprises in the region. But support for reform among national leaders and the public is uneven. For example, Kazakhstan's electoral process, culminating in the January 1999 presidential election, fell far short of international standards.

The NIS region has been hit hard by the Russian financial crisis, following on the heels of the Asian financial crisis. Five salient impacts can be discerned: First, international trade has been severely affected. World commodity prices are down and Russia's imports from other NIS countries have fallen, with severe repercussions on countries like Moldova that depend heavily on this trade. Second, budgetary pressures on NIS countries have been exacerbated. Unsustainable government spending was a major cause of the Russian financial collapse. Slower economic growth, declining revenues from exports, and increasing demands for expenditures to pay for imported energy, lagging businesses or social services now add to the burden. Third, interest rates have risen and access to credit has become more difficult. Creditors and investors perceive that investment in the NIS is even riskier than before. Fourth, the proportion of the population experiencing hardships stemming from the collapse of communism and the restructuring of the economy that followed has increased. Indeed, the reduced ability to provide health services is showing up in lower life expectancy and increasing rates of infectious diseases. Lastly, the financial crisis has had and may continue to further backsliding in democratic reforms: according to Freedom House, democracy indicators regressed in seven of the twelve NIS countries last year.

Thus, the principal challenges at present lie in rebuilding support for democratic and economic reforms, putting the NIS economies on a firmer growth track, helping those most affected materially by the crisis, and ensuring the continued viability of independent, democratic institutions and the media. USAID is responding by placing greater emphasis on assistance to small and medium enterprises to increase jobs and incomes, on working with local governments, NGOs and local utilities to improve provision of basic services at the local level, and on programs that enhance public participation in the formulation of public policy. Assistance is also increasingly being channeled to activities that encourage lasting ties between NIS countries and the United States, ties that support mutually-beneficial relationships and leverage additional resources for investment from private, government, and community sources. Partnership for Freedom efforts are helping build sustainable relationships that will impact people at the grass roots. Regional Investment Initiatives will increasingly concentrate our efforts for maximum

impacts in particular geographic regions of Russia, Ukraine and Kazakhstan. Finally, increased attention will be given to addressing health and other human impacts.

Donor Coordination.

Donor coordination is essential to maximizing the impact of USAID assistance in the ENI region. Principal partners include the European Commission, the World Bank, the European Bank for Reconstruction and Development (EBRD), the various European bilateral donors, and Japan. In both CEE and the NIS, USAID is the second largest bilateral donor after Germany. USAID also partners with the Asian Development Bank on activities in the Central Asian Republics.

USAID engages the European Commission regularly, both through annual high level consultations under the New Transatlantic Agenda (NTA) and through frequent discussions at the country and sub-regional level. At the country level, regular consultation with other donors, both bilateral and multilateral, fosters greater cooperation and a shared vision. In Bosnia-Herzegovina, the international community (multilateral and bilateral donors, international financial organizations, international organizations such the United Nations and the Organization for Security and Cooperation in Europe (OSCE), and the North Atlantic Treaty Organization (NATO), works closely on implementing the Dayton Peace Accords at a variety of levels. Regular meetings by members of the Peace Implementation Conference help establish priorities and implementation objectives. USAID also supports the EC accession process in the CEE region through activities in economic reform, public administration/anti-corruption, power and nuclear safety, and the environment.

FY 2000 PROGRAM.

The FSA request level for the New Independent States totals $1.032 billion. This request will fund continuing programs of USAID and other agencies in support of the economic and democratic transition. It also includes a new emphasis on programs to address the security implications of the economic transition. Programs of other agencies, such as the Science Centers and Export Controls, contribute to reducing the risk of proliferation of weapons of mass destruction, weapons delivery systems, materials technology, and scientific and technical expertise.

The SEED request level for Central and Eastern Europe totals $393 million. This request will enable the U.S. Government to continue supporting the Dayton Peace Accords in Bosnia, Croatia, and the Federal Republic of Yugoslavia; support peace efforts and reconstruction in Kosovo; and systematically close out bilateral programs in CEE northern tier countries while supporting new opportunities in the CEE southern tier.

Under the Economic Restructuring and Growth goal, USAID proposes $61.8 million for SEED and $260.5 million under FSA to foster the emergence of competitive, market-oriented economies in which the majority of economic resources is privately owned and managed. Increasing emphasis will be placed on partnerships, assistance to small and medium enterprises, and sub-national investment initiatives. Under the Democracy and Governance goal, USAID proposes $78.6 million in SEED funds and $66.1 million under FSA to support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes and freedom of information. Under the Social Stabilization goal, USAID proposes $206.3 million in SEED funds and $58.1 million under FSA to respond to humanitarian crises and strengthen our capacity to respond to the human dimension of transition to market-oriented democracy. Funding for economic reconstruction and other activities in Bosnia comprises about 45 percent of the total FY 2000 SEED request, and about 85 percent of the SEED request for the social stabilization goal area as a whole.

USAID proposes $46.3 million for SEED and $632.6 million under FSA under cross-cutting and special initiatives. Examples of cross-cutting efforts include training programs and activities with the Eurasia Foundation that channel small grants to grassroots organizations under both the economic restructuring and democracy rubrics. Programs related to reducing the risks of proliferation of weapons of mass destruction will also be included under this rubric. In addition, funding under this category includes other USG agencies participating in technical cooperation programs through inter-agency transfers from USAID, such as the Departments of Justice, Energy, Treasury, Agriculture, and Commerce, Environmental Protection Agency, the U.S. Information Agency, State Department Science Centers program, etc. USAID also proposes $34.6 million in Economic Support Funds (ESF), which includes $19.6 million for Ireland, $15.0 million for Cyprus and $10.0 million for the CEE Region.

EUROPE

FY 2000 COUNTRY SUMMARY
(in Thousand of Dollars)

COUNTRY	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
EUROPE*	--	--	--	--	--
Albania	15,740	6,710	1,000	1,550	25,000
Bosnia	--	--	175,000	--	175,000
Bulgaria	11,350	14,050	--	2,600	28,000
Croatia	--	4,550	--	1,450	6,000
Cyprus	--	--	--	--	15,000
-- ESF	--	--	--	15,000	--
FYR Macedonia	8,750	3,010	--	2,240	14,000
Ireland	--	--	--	--	19,600
-- ESF	--	--	--	19,600	--
Romania	16,500	6,900	4,500	2,100	30,000
Federal Republic of Yugoslavia (FRY)	--	23,000	25,000	7,000	55,000
CEE Regional	--	--	--	--	70,000
-- SEED	9,500	20,375	800	29,325	[60,000]
-- ESF	--	--	--	10,000	[10,000]
EUROPE TOTAL	**61,840**	**78,595**	**206,300**	**90,865**	**437,600**
-- SEED	61,840	78,595	206,300	46,265	393,000
-- ESF	--	--	--	44,600	44,600

* All funds under EUROPE are Support for East European Democracy Act (SEED) unless otherwise noted.

NEW INDEPENDENT STATES

FY 2000 COUNTRY SUMMARY
(in Thousand of Dollars)

COUNTRY	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
NIS**	--	--	--	--	--
Armenia	33,050	7,550	8,900	22,000	71,500
Azerbaijan	6,500	5,950	7,500	13,550	33,500
Belarus	--	--	--	10,500	10,500
Georgia	24,230	7,950	7,000	44,320	83,500
Kazakhstan	17,500	6,200	1,000	28,800	53,500
Kyrgyzstan	11,800	4,000	1,270	17,430	34,500
Moldova	21,200	4,800	--	47,500	73,500
Russia	72,300	16,450	7,750	198,500	295,000
Tajikistan	2,800	1,800	1,400	6,000	12,000
Turkmenistan	3,800	--	--	8,200	12,000
Ukraine	55,187	11,200	5,400	147,213	219,000
Uzbekistan	8,500	2,500	1,500	25,000	37,500
CAR Regional	5,000	--	--	6,500	11,500
NIS Regional	7,570	1,367	18,455	57,108	84,500

NIS TOTAL	**269,437**	**69,767**	**60,175**	**632,621**	**1,032,000**
-- FSA	269,437	69,767	60,175	632,621	1,032,000

** All funds under NIS are FREEDOM Support Act (FSA) unless otherwise noted.

EUROPE AND THE NEW INDEPENDENT STATES

FY 2000 TOTALS
(in Thousand of Dollars)

Funding Source	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting and Special Initiatives	Total
GRAND TOTAL	**331,277**	**148,362**	**266,475**	**723,486**	**1,469,600**
-- SEED total	61,840	78,595	206,300	46,265	393,000
-- FSA total	269,437	69,767	60,175	632,621	1,032,000
-- ESF total	--	--	--	44,600	44,600

Donald Pressley
Acting Assistant Administrator

SOME COMMON ABBREVIATIONS AND ACRONYMS

Bureau for Europe and New Independent States

AAEF - Albanian-American Enterprise Fund
ABA - American Bar Association
ACDI - Agricultural Cooperative Development Institute
ADB - Asian Development Bank
ADS - Automated Directives System
AED - Academy for Educational Development
AIDS - Acquired Immune Deficiency Syndrome
AIFLD - American Institute for Free Labor Development
AIHA - American International Health Alliance
AOJ - Administration of Justice
ASHA - American Schools and Hospital Abroad
ATI - Appropriate Technology International
AWACS - AID Worldwide Accounting and Control System

BCN - Biodiversity Conservation Network

CAAEF - Central Asian - American Enterprise Fund
CAP-Counterpart Alliance for Partnership Program
CAPEL - Center for the Promotion of Electoral Assistance
CARE - Cooperative for Assistance and Relief Everywhere, Inc.
CDC - Centers for Disease Control and Prevention
Citizens' Democracy Corps
CDIE - Center for Development Information and Evaluation
CEE - Central and Eastern Europe
CEELI - Central and East European Law Institute
CFO - Chief Financial Officers Act
- Chief Financial Officer
CG - Consultative Group
CIDA - Canadian International Development Agency
CIFOR - Center for International Forestry Research
CLD - Consortium for Legislative Development
CLUSA - Cooperative League of the United States of America
CO_2 - Carbon Dioxide
CP - Congressional Presentation
CPR - Contraceptive Prevalence Rate
CRS - Catholic Relief Services
CSM - Contraceptive Social Marketing
CSO - Civil Society Organizations

DA - Development Assistance

DAC - Development Assistance Committee
DAF - Development Assistance Fund
DAI - Development Alternatives, Inc.
DART - Disaster Assistance Response Team
DG - Democracy and Governance
DHS - Demographic Health Survey
DOE - Department of Energy
DOT - Department of Treasury

EBRD - European Bank for Reconstruction and Development
EC - European Community
- European Commission
ECU - European Currency Unit
EMED - Entrepreneur Management and Executive Development
ENI - Europe and New Independent States
EPA - Environmental Protection Agency
EPRA - Economic Policy Resource Center
EIB - European Investment Bank
ESAF - Extended Structural Adjustment Facility (IMF)
ESCOs - Energy Service Companies
ESF - Economic Support Fund
EU - European Union
EU/ECHO - European Community Humanitarian Office
EU/PHARE - European Union - Poland, Hungary, Albania, Romania, Estonia (EU's technical assistance organization for CEE countries)
EU-TACIS - European Union - Technical Assistance for the Commonwealth of Independent States

FAO - Food and Agriculture Organization
FDA - Food and Drug Administration
FDI - Foreign Direct Investment
FFP - Food for Peace
FLAG - Firm Level Assistance Group
FH - Freedom House
FH/FNN - Freedom House/National Forum Foundation
FINCA - Foundation for International Community Assistance
FREEDOM - Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (FREEDOM Support Act)
FSA - Freedom Support Act
FSVC - Financial Services Volunteer Corps
FTF - Farmer to Farmer Program

G-7 - Group of Seven (leading industrialized nations consisting of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States)
GATT - General Agreement on Tariffs and Trade
GCC - Global Climate Change
GDP - Gross Domestic Product
GEF - Global Environmental Facility
GHG - Green House Gas
GIS - Geographic Information System
GNP - Gross National Product
GPRA - Government Performance Review Act (P.L. 103-62)
GSA - General Services Administration
GSP - General System of Preference
GSU - Georgia State University
GTZ - German Organization for Technical Assistance

HA - Hectare

HG - Housing Guaranty
HIID - Harvard Institute of International Development
HIV - Human Immunodeficiency Virus
HMO - Health Maintenance Organization

IACCC - Inter-Agency Climate Change Committee
IARC - International Agricultural Research Center
IAS - International Accounting Standards
IBRD - International Bank for Reconstruction and Development (World Bank)
IBTC - International Business and Technical Consultants
ICASS - International Cooperative Administrative Support Services
ICITAP - International Criminal Investigation and Training Assistance Program
ICNL - International Center for Not-For-Profit Law
IDA - International Development Association
IDP - Internally Displaced People
IESC - International Executive Service Corps
IFES - International Foundation for Electoral Systems
IFRC - International Federation of the Red Cross
IFI - International Financial Institute
IFOR - Implementation Force (NATO)
IG - Inspector General
ILO - International Labor Organization
IMF - International Monetary Fund
IREX - International Research and Exchanges Board
IRI - International Republican Institute
ISAR - Institute on Soviet-American Relations

KG - Kilogram

LG - Local Government

MCH - Maternal and Child Health
MDB - Multilateral Development Bank
MOF - Minister of Finance
MOH - Ministry of Health
MSED - Micro and Small Enterprise Development
MSH - Management Sciences for Health
MT - Metric Ton
MW - Megawatt

NACP - National AIDS Control Program
NAPA - National Academy for Public Administration
NATO - North Atlantic Treaty Organization
NBG - National Bank of Georgia
NCBA - National Cooperative Business Association
NDI - National Democratic Institute
NEAP - National Environmental Action Plan
NED - National Endowment for Democracy
NET - NIS Exchanges and Training Project
NGO - Nongovernmental Organization
NIH - National Institute of Health
NIS - New Independent States of the former Soviet Union
NPI - New Partnership Initiative
NPR - National Performance Review
NTA - New Transatlantic Agenda

ODA - Official Development Assistance

- Overseas Development Administration
OECD - Organization for Economic Cooperation and Development
OFDA - Office of Foreign Disaster Assistance
OIG - Office of the Inspector General
OMB - Office of Management and Budget
OSCE - Organization for Security and Cooperation in Europe
OTI - Office of Transition Initiative

PASA - Participating Agency Service Agreement
PMTI - Presidential Management Training Initiative
PRF - International Planned Parenthood Federation
PSC - Personal Service Contract
PVO - Private Voluntary Organization
PW - Price Waterhouse

RHUDO - Regional Housing and Urban Development Office
RIG - Regional Inspector General
ROL - Rule of Law

SAI - Special Assistance Initiative
- Supreme Audit Institution
SEC - Securities and Exchange Commission
SEED - Support for East European Democracy
SET - Supreme Electoral Tribunal
SME - Small and Medium Enterprise
SO - Strategic Objective
SOE - State-Owned Enterprise

TNC - The Nature Conservancy
TR&D - Tropical Research and Development

UN - United Nations
UNDP - United Nation Development Program
UNESCO - United Nations Educational, Scientific and Cultural Organization
UNFPA - United Nations Population Fund
UNHCR - United Nations High Commission for Refugees
UNHRC - United Nations Human Rights Commission
UNICEF - United Nations Children Fund
USAEP - United States-Asia Environmental Partnership Initiative
USAID - U.S. Agency for International Development
USDA - United States Department of Agriculture
USFDA - U.S. Food and Drug Administration
USIS - United States Information Service

VOA - Voice of America
VOCA - Volunteers in Overseas Cooperative Assistance

WFF - World Wildlife Federation
WFP - World Food Program
WHO - World Health Organization
WID - Women in Development
WOCCU - World Council of Credit Unions
WTO - World Trade Organization

ALBANIA

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Support for East European Democracy	$27,400,000	$30,000,000	$25,000,000
P.L. 480 Title II	607,000	---	---

Introduction.

The U.S. assistance program in Albania promotes economic and political stability in a fragile country and volatile region. Supporting a sustained transition in Albania contributes to the U.S. foreign policy objective of promoting stability in the Balkans. The collapse of the government in the Fall of 1998 underlines the need for continued attention to the country's democratic development and economic reform. A democratic and prosperous Albania, oriented to western markets, enhances U.S. efforts to combat terrorism, arms proliferation, narcotics trafficking, and international organized crime.

The Development Challenge.

Following the civil unrest that occurred in 1997, the Albanian economy began to recover as the political situation and public order gradually stabilized. The Government of Albania's (GOA) reforms were slowly showing progress. They had nearly doubled the value-added tax and increased excise taxes, which brought the budget deficit under control. The GOA doubled salaries for law enforcement officials and restored some public order. Despite these accomplishments, political and regional instability were too great to overcome. The struggle in Kosovo, the widening internal political chasm, pervasive corruption coupled with a still inexperienced administration, all contributed to the collapse of the government in the Fall of 1998. Nonetheless, the fragile democracy did survive and formed a new administration. The challenge of Albania's transition from an authoritarian, command-driven system to one which is democratic and market-oriented is intensified by the frailty of its critical economic and political institutions.

In August 1998, security threats to the United States Government (USG), stemming from influences outside of Albania, necessitated the withdrawal of most American staff from Albania. Consequently, the USAID program reduced its pace due to the absence of American advisors and their inability to travel to the country. By the end of September, implementation of activities proceeded by temporarily stationing American contractors and grantees in neighboring countries, using third-country nationals to manage activities in the country, and conducting critical training in third countries in the region. This change in implementation arrangements has complicated, but not hampered significantly, USAID's ability to deliver results. The situation is being constantly monitored and implementation will return to normal as soon as feasible. Given Albania's critical importance to stability in the region and the USG's commitment to assisting the new GOA and its reforms, USAID believes continued assistance at the requested levels for FY 2000 is necessary to help ensure the sustainability of reforms in economic restructuring, democracy and the social sectors.

The basic concepts of democracy, such as participatory and representative government, respect for diversity of beliefs, rule of law and human rights have been introduced in Albania, but they have yet to gain widespread legitimacy. The new Albanian government appears to have the political will to work toward deepening these concepts, as exemplified by the approval of the new constitution by national referendum in November, 1998. Institutionalization of key democratic concepts -- rule of law, independence of the judiciary, executive oversight by the parliament, independence of the media, and decentralized governance -- is critical at this stage of Albania's development.

The U.S. assistance program to Albania will continue to support the goals of economic restructuring and growth, democratic development, and social stability. Although most SEED assistance programs to Central and Eastern

Europe have been envisioned as relatively short-term programs to jump start the transition to market democracies, Albania does not fit this paradigm. Completing the transition in Albania will most likely take much longer. USAID expects to assist Albania's transition through 2002 and beyond.

Other Donors.

The United States is Albania's third largest bilateral partner, behind Italy and Greece. Other major contributors include Germany, the World Bank, the International Monetary Fund, the European Investment Bank, the European Bank for Reconstruction and Development, and the International Fund for Agricultural Development. The donor community continues to be very committed to Albania and recently formed a Friends of Albania group which organized a conference in Tirana in the Fall of 1998. This conference demonstrated international political support for the new Albanian government and reiterated what the GOA needs to do to get the country back on track. Key elements of donor support focus on democratization and institutional development with an emphasis on the judiciary, political cooperation, media, local government and civil service reform; fighting crime and corruption; and furthering economic stabilization and development. The donor community is clearly willing to continue their assistance programs, but it is up to the GOA to take the critical next steps.

FY 2000 Program.

A major focus of U.S. assistance efforts in FY 2000 will help the GOA to solidify the rule of law, including its fight against corruption and its need to reestablish control over its borders. Under the democracy goal, USAID will continue to support the development of democratic practices and institutions in Albania. Target beneficiaries include the Albanian Parliament, judiciary, and law enforcement bodies. The media, local government and the NGO sector will be highlighted in order to promote citizen awareness of and participation in the democratic process. In the fight against corruption, USAID will work with selected NGOs to help citizens realize they have a right to information on government operations, to mobilize public concern about corruption, and to press government to take corrective action. This civil society effort will complement activities in other areas to strengthen the rule of law, upgrade law enforcement bodies and regulate financial institutions. Support to local government will also encourage the decentralization of governance and the development of new civic intermediaries for the people of Albania. Finally, various assistance efforts will help Albania implement the elements of its new Constitution. FY 2000 funding is requested for the following strategic objectives: increased, better-informed citizen participation in political and economic decision-making; legal systems that better support democratic processes and market reforms; and more effective, responsive and accountable local government.

Given the positive turn around of Albania's economy after the unrest of 1997 and temporary setbacks in late 1998, the USAID program will continue to devote significant attention to Albania's transition to a market economy. Toward the goal of promoting economic restructuring and growth, a major portion of USAID's assistance will continue to focus on growth of the private sector, including agriculture. USAID has had success in fostering the formation and independent operation of agricultural producer associations. More farmers are now starting to believe in the idea of working together in order to maximize their economic interests. USAID will continue to help more farmers to belong to these associations and stress the importance of making one's production base attractive to the market. This link to the buyer is what is making such agricultural producer associations a success. Support to land privatization will continue and USAID will focus on fostering a viable land market. The land registration process is envisioned to cover all districts in Albania and to date, over 315,000 parcels have been registered.

The Albanian American Enterprise Fund plans to continue providing equity investments to Albanian firms and will be fully vested in FY 2000. In addition, the AAEF has envisioned that its new American Bank, which has recently opened, will become a model bank in the private banking system. Completing the restructuring of the state banking system will be a high priority for the GOA, and USAID expects that the remaining state banks will be either liquidated or fully privatized in 2000. USAID's support for capital market development continues to improve the trading, clearance, and settlement mechanisms needed to ensure proper regulation of the market. USAID's efforts will continue to focus on the institutional framework that needs to be in place in order to accomplish that and to ensure that markets for securities and other instruments can eventually emerge. FY 2000 funding is requested for the following strategic objectives: private enterprise growth; financial sector development; and environmental management.

Albania continues to have the least developed system of social infrastructure among the Central and Eastern European nations. Most of its health care facilities are seriously dilapidated and outdated and suffered additional damage during the unrest of 1997. To lower maternal and child mortality rates, as well as reduce the prevalence of abortion, USAID's women's reproductive health care activity will be expanded to more urban areas, starting in FY 2000. In addition, two hospital partnerships link US hospitals with Albanian hospitals in an effort to improve

financial management, create policy analysis and educate health managers. Assistance will provide financial management advisory services to support a hospital payment system and to help achieve sustainable health insurance mechanisms. USAID also plans to establish a Women's Wellness Center and a national nurses association. FY 2000 funding is requested for the strategic objective: improved sustainability of social benefits and services.

ALBANIA

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	14,640	--	--	--	14,640
Financial Reform	1,100	--	--	--	1,100
Energy	--	--	--	--	--
Environmental Management	--	--	--	--	--
Citizens' Participation	--	3,260	--	--	3,260
Legal Systems	--	2,050	--	--	2,050
Local Government	--	1,400	--	--	1,400
Crises	--		--	--	
Social Benefits	--	--	1,000	--	1,000
Environmental Health	--	--	--	--	--
Cross-cutting/Special Initiatives	--	--	--	1,550	1,550
- ESF	--	--	--	--	--
TOTAL	15,740	6,710	1,000	1,550	25,000
*Support for East European Democracy (SEED) Act funds					

USAID Director: Howard Sumka

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Accelerated Development and Growth of Private Enterprise, 180-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $14,640,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 2003

Summary: This strategic objective will accelerate the development and growth of private enterprises in Albania. Starting from an economy with no private businesses in 1991, Albania has advanced to an economy dominated by the private sector. Nonetheless, the absence of any experience with private business and the poor performance of state enterprises have left a legacy of inefficient and/or ineffective institutions and a severe shortage of skills in both the public and private sector. Considerable portions of the public enterprises and assets have been privatized or terminated, but the private sector has not yet been effective in establishing active markets in most areas of production, distribution, or finance. The GOA auctioning of Department of Agriculture PL 480 Title I edible oil and wheat will be completed this year, with proceeds assisting with GOA budget support.

USAID's strategy is to raise returns in the private agricultural sector through more efficient production technology, improved collection of raw production, and higher quality final agricultural products. Agriculture, one of the first sectors to privatize, dominates the economy by providing over 50% of GDP and employment. USAID support has been vital in setting up a network of input supply dealers to provide fertilizer, seeds and other critical inputs. Results have been impressive. Nearly 90% of fertilizer is distributed by nearly 300 private dealers, who are also leading the distribution of farm chemicals and hybrid seeds. The government role in research and genetic banks is being

promoted and supported by these private business associations. USAID is capitalizing on the successes of this strategy by moving ahead with additional support to the agriculture trade associations.

While association members have maintained a total of over $2 million in revolving credit for operations, adequate credit for agriculture and all small and micro-business enterprises is still a limiting factor in making opportunities available. USAID is increasing support for micro-enterprise lending facilities.

USAID is a major donor in implementing a land titling and property registration system to provide secure tenure to farm families and in establishing a fledgling land market, which will allow for consolidation of small parcels into economically viable holdings. Land titling and the recording of ownership by individuals and local community groups is moving ahead. To date, 66 % of agricultural land has been titled and recorded, and 21% of village land has been titled and recorded. In addition to work on private farm lands, assistance to private forestry is producing incentives for private leasing of public lands for sustainable forestry and grazing uses.

The small and medium enterprise sector is also rapidly expanding with the assistance of support for a high quality technical high school (the Fultz School), the University of Nebraska MBA training program, and a network of Business Assistance Centers and Business Development Centers in Tirana and other urban centers. Over 30,000 potential entrepreneurs have been trained in English, computers, secretarial skills, cosmetology, auto mechanics, business and other areas. Many graduates have started their own businesses, while others have found higher paying jobs.

The Albanian American Enterprise fund (AAEF) is increasing foreign (especially U.S.) and domestic investments in promising Albanian enterprises. The Fund has so far approved 30 projects totaling $22 million. To complement activities for improving the policy, legal and regulatory framework in support of the private sector, judges will be trained in legal business-related issues and in judicial administrative- support procedures.

Key Results: Three key intermediate results are necessary to achieve this objective: 1) Commercial Business Regime Improved: Domestic investment from domestic sources should rise from the baseline of $509 million in 1993 to $1,290 million by the end of year 2000, and the domestic investment from foreign sources should rise from the baseline of $10 million in 1991 to $120 million by the end of year 2000; 2) Business Support Services Improved: Clients of USAID supported activities should increase from the baseline of zero to 2200 in the year 2000, and revenue from service fees paid by customers of USAID-assisted activities should increase from zero baseline to $300,000 in the year 2000; and 3) Trade Associations Active in Supporting Private Agriculture: The number of new private sector enterprises should increase from the baseline of 26 to 90 in the year 2000.

Performance and Prospects: Political instability and insecurity have adversely affected success in increasing domestic investment. The annual investment from domestic sources in 1997 was only $14 million, compared to the target of $990 million. Annual investment from foreign sources was $42 million against a target of $90 million. Revenue from service fees paid by customers of USAID-assisted activities was $48,000, against the target of $95,000, which is rather satisfactory considering the security restrictions in place over the past year. The number of active business clients was 1,255 men and 1,401 women, well above the target of 700. With a change of government, adoption of a new constitution, and a focus on improving internal security and stability, the prospect for increased domestic and foreign investment should improve. USAID expects the number of clients paying for business services and the amount of generated funds to reach over 4.400 and $280,000 annually, respectively, in 1999. U.S. assistance will build on early successes with non-bank credit through financial institutions, credit unions at the trade association level and through micro-credit programs to reach $21.7 million in loans to around 80 clients by the year 2000. USAID has assisted the GOA in preparing for critical working group sessions with the World Trade Organization. The prospects for WTO accession are good, and are expected to occur in the year 2000. Although progress is currently slow in privatization, USAID plans to continue working in this area in conjunction with the World Bank.

Possible Adjustments to Plans: While the evacuation has cut American presence in the USAID program, our partner grantees and contractors have exercised considerable ingenuity in continuing their programs. Short-term strategies include the use of third-country nationals and the use of third-country locations for the venue of training and consultations. USAID is in the process of analyzing its portfolio to determine whether any further adjustments need to be made.

Other Donor Programs: The European Union (EU) and World Bank work closely with the U.S. assistance program to forge significant program linkages and synergies in support of the private sector. These include support to small and medium enterprises and implementation of a property registration system. USAID actively collaborates with donors in other areas as well. In agriculture, USAID, Germany (GTZ) and the EU are the major donors. USAID and GTZ are collaborating in strengthening the faculties of the Agricultural University of Tirana, while the EU is working on the development of an extension service. EU has set up farm mechanization centers, while USAID has

helped set up private wholesale dealerships and assists with agricultural imports such as fertilizer, animal feeds, seeds and pesticides. USAID supports private farm forestry and the World Bank supports the Forestry Directorate with programs in high elevation areas.

Principal Contractors, Grantees or Agencies: USAID implementers include: the U.S. Department of Commerce, the International Fertilizer Development Center (IFDC), the University of Wisconsin Land Tenure Center, Volunteers in Overseas Cooperative Assistance (VOCA), Land O' Lakes, World Learning (TRANSIT), the Harry Fultz Educational Foundation, the Albanian-American Enterprise Fund (AAEF), the ORT Federation (Organization for Educational Resources and Technological Training), and the University of Nebraska.

Selected Performance Measures:

	Baseline	Target
Real GDP Growth	-27.1% (1991)	+5% (2001)
Percentage of labor force unemployed	27 % (1992)	8% (2001)
New private sector enterprises (Number)	2,600 (1991)	90,000 (2001)
Domestic investment (US$)	$509 million (1993)	$1,290 million (2000)
Foreign Investment	$10 million (1991)	$120 million (2000)
Membership of selected business advocacy groups (individuals)	0 (1991)	25,000 (2001)
Accession to the World Trade Organization	No (1997)	Yes (2000)

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: A More Competitive and Market-Responsive Private Financial Sector, 180-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $1,100,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE**: FY 2002

Summary: This strategic objective assists Albania in developing the fundamental institutions and elements of a well-functioning private financial sector. The number of private banks has expanded, although their operations have been mostly limited to financing trade for foreign clients doing business in Albania. The initial capital market development program starting in 1995 was recognized as too ambitious and subsequently was scaled back to reflect the realities of the country. On the public sector side, the task has been one of restructuring and privatizing the remaining state banks, while encouraging expansion of private banks and ensuring proper regulation of the banking system. In the informal sector, USAID has joined other donors in supporting the winding down of the pyramid schemes, with the intent of liquidating assets and distributing proceeds to depositors. Beneficiaries include foreign investors wishing to do business in Albania and who depend on a sound financial system to carry out transactions, all depositors and borrowers who rely on the banking system, and entrepreneurs seeking capital for development and expansion of their businesses.

Key Results: Six intermediate results are helping to achieve this strategic objective: 1) A sound regulated and efficient banking system established; 2) Ministry of Finance functioning effectively; 3) Publicly owned banks restructured; 4) Component capital market institutions in place; 5) Collateral law implemented and; 6) Insolvent non-bank financial schemes liquidated. These results address many of the critical elements required for a reasonably well functioning financial sector, in ways that will augment institutional capacity.

Performance and Prospects: There has been some progress on the legal and institutional front in creating an enabling environment for well-functioning financial markets. While the unrest of 1997 along with the political crisis in the fall of 1998 represented setbacks, and revealed the frailty in public institutions, they did provide needed impetus for reform. USAID assistance collaborating with the World Bank's lead effort in state bank restructuring and privatization helped the GOA to successfully liquidate the Rural Commercial Bank in 1998. A Bank Asset Resolution Trust was created in 1998 which is managing and liquidating the non-performing loan portfolios of the remaining state banks. In addition, the GOA plans to privatize the National Commerce Bank and the Savings Bank in 1999 but, more than likely this will take a year longer. USAID has also helped to increase the capacity of the Bank of Albania's (BOA) bank supervision department to regulate and monitor the banking system, enforce banking laws and regulations, and strengthen the BOA's bank licensing and bank liquidation policies. Since the ordered evacuation,

technical assistance has focussed on bank supervision training activities in countries in the vicinity of Albania.

In addition, assistance to the Ministry of Finance through the U.S. Treasury had targeted three areas including tax administration, government debt issuance and management, and budget planning and formulation. This assistance directly complemented World Bank and IMF structural adjustment programs. Based on the GOA's satisfactory performance in meeting fiscal and macroeconomic targets, the IMF approved an Economic Structural Adjustment Agreement in May 1998. Even after the political turmoil in the fall of 1998, Albania continued to make economic progress. Overall, macroeconomic policies and reforms remained on track. For example, the fiscal deficit financed by domestic resources came down to 6.5% of GDP against a peak of 11.4% at the end of 1997. With USAID assistance, the Albanian government enacted the Small Business Tax and a new Budget law, and it drafted a Public Debt Law all of which were in compliance with World Bank and IMF targets.

Albania's capital market is still in a very early stage of development and USAID has concentrated assistance in developing the institutional and regulatory capacity of the Albanian Securities Commission (ASC) and the Tirana Stock Exchange. USAID, through assistance from the U.S. Securities and Exchange Commission, delivered training on broker-dealer examination licensing and regulatory procedures to the ASC. As a result, changes were made in the type and quality of information provided by potential broker-dealers and new minimum standards were set. In addition, USAID has planned a conference during the spring of 1999 on the subject of the future of capital markets in Albania. It would bring all key individuals and institutions together to discuss the current state of affairs, as well as develop a road map for the future. Technical assistance to promote adoption and implementation of a secured transactions law has continued as planned. A draft of this collateral law, creating an effective way by which a creditor can obtain a secured interest in movable property, was completed in May 1998. The law is expected to be enacted in 1999. The pyramid schemes have been dismantled and the GOA administration of these schemes is to be completed by early 1999, at which point the proceeds from all liquidated assets are to be distributed to the poorest depositors who lost their savings.

Possible Adjustments to Plans: As a result of the withdrawal of all American implementors from Albania in August of 1998, the USAID program to Albania has reduced its pace due to the continued absence of U.S. advisors and the inability to travel to and within Albania. By the end of September, implementation of activities shifted to conducting critical training and workshops in neighboring countries, working with Albanian counterparts via contact with local contractor staff in Albania, and through telecommunications from the U.S. The U.S. Treasury assistance program terminated in November 1998 with other donors such as the World Bank and the IMF continue supporting the GOA through their fiscal and financial sector programs. USAID's program review in Spring 1999 will examine the need to adjust assistance targets in light of the evacuation situation.

Other Donor Programs: An International Monetary Fund advisor assists the central bank governor on monetary policy and has been the lead donor on fiscal and macroeconomic policy advice. The World Bank is responsible for the wind-up of the defunct pyramid schemes and the privatization or liquidation of the state-owned banks, continuing assistance in the implementation of the value-added tax, and the coordination of all donor financial sector assistance. The German aid organization, GTZ, has provided technical assistance to the National Commercial Bank and will provide training in bankruptcy procedures as well as expertise in drafting commercial laws. The EU is providing technical assistance in the establishment of a New Chart of Accounts for the banking sector.

Principle Contractors, Grantees, or Agencies: USAID implements these activities through the U.S. Securities and Exchange Commission, the Financial Services Volunteer Corps (FSVC), the University of Maryland/IRIS Center, Barents Group, World Learning and Chesapeake Associates.

Selected Performance Measures:

	Baseline	Target
Percent of firms using financial sector funds	5% (1995)	70%(2000)
Non-performing loans/public sector(90 days past due)	25 (1997)	
State-owned banks restructured (i.e., privatized or liquidated - cumulative number)	0 (1995)	3 (2000)
Trading Mechanism in place that is financially viable	No (1996)	Yes (2000)
Percent of insolvent non-bank schemes liquidated	0% (1997)	100% (1999)

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Increased Environmental Management Capacity to Support Sustainable Economic Growth, 180-S001.6
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $ 0 SEED Act
INITIAL OBLIGATION: FY 1998; **ESTIMATED COMPLETION DATE**: FY 2002

Summary: The object of this activity is to increase public and private capacity to address critical environmental constraints to sustainable economic development and growth. The immediate and long-term health and productivity of streams and hillsides in Albania is threatened by low-yield activities that destroy the vegetative cover, exposing soils to erosion and initiating long-term degradation of the entire ecosystem. Over-grazing and illegal logging are the immediate problems; absence of land management systems is the greater issue. Productivity of rich farmland in the coastal plain and river valleys is diminished by poor water management practices. Degraded and poorly managed watersheds fail to retain groundwater for use in dry summers, and impede or destroy irrigation reservoirs and canal systems through excess siltation. USAID is assisting in the reclaiming of collectivized forest lands by private landowners and by local community associations. Local community associations (komunas) have been taking possession of former communal lands that had been inadvisedly converted to low land forests, and introducing practices of sustainable use. Grazing practices are being rationalized. Komuna organizations have been formed. Growers and producers have been supported. Entrepreneurs have been trained in current growing and production practices.

Rural people relying on natural resources of forests, soils, and freshwater will benefit from stabilizing watersheds and shifting production from destructive practices to those that yield sustainable higher values. Indirect beneficiaries will include farmers and municipalities provided with more abundant and higher-quality water supplies.

Key Results: Three key intermediate results are necessary to achieve this objective: 1) Increased local and private participation in natural resources management: the percentage of villages within USAID target areas that have at least one case of both local and private participation should rise from the baseline of zero to 1.5% or 40 villages by the year 2001; 2) Increased use of environmentally friendly, sustainable natural resource technology: The number of villages in USAID target areas with at least one replication of USAID-introduced packages without USAID funding should rise from a zero baseline to 10 in the year 2001; and 3) Increased public advocacy of sound environmental practices: The local level requests for USAID-promoted environmental services should rise from the 1996 baseline of 10 to 30 by the year 2001.

Performance and Prospects: Support to community forestry resulted in the production and marketing of seedlings as a new source of rural income and developed information essential to restoring productivity to rural lands. Support to new NGOs has begun to inform the public of issues in environmental quality, conservation, and sustainable development. Nascent producer associations are becoming aware of the importance of sound environmental management practices. Growers are adopting sound practices with respect to the use of crop control chemicals. Several research institutes and the universities are working with the worldwide USAID crop research support program to develop and implement integrated pest management procedures which are both environmentally friendly and support internationally marketable olive oil and other food products.

Possible Adjustments to Plans: Implementation of the watershed assessment activities are being reexamined in light of the current evacuation conditions. The US Forest Service, engaged to conduct the initial watershed assessment and to develop a long-range action plan, is not able to field direct-hire experts in country as originally planned. They are exploring cooperative arrangements with Colorado State University and local Albanian organizations by which an adequate technical and management in- country presence can be maintained. During the 1999 program review, USAID will examine the need to adjust assistance targets in light of the evacuation situation.

Other Donor Programs: The World Bank is near the mid-point of a $45,000,000 project to restore irrigation facilities and hydrological monitoring systems. Germany is providing technical training for new extension officers. The EU has funded some watershed and land-use assessments and may expand its programs in the near future.

Principal Contractors, Grantees or Agencies: Chemonics, US Forest Service, US Resources Conservation Service, Colorado State University, Regional Environment Center (REC) Albania

Selected Performance Measures:

	Baseline	Target

% of villages within USAID target areas have at least one case of both local and private participation	0 (1995)	1.5 (2001)
Number of villages in USAID target areas with at least one replication of USAID-introduced packages without USAID funding	0 (1995)	10 (2001)
Local level requests for USAID-promoted environmental service	10 (1996)	30 (2001)
Environmental activities actually undertaken	0 (1996)	8 (2001)
Protocols established to communicate hydrometeorological and socioeconomic data from scientific to management staff	0 (1998)	TBD

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Increased, Better-informed Citizens' Participation in Political and Economic Decision-Making, 180- SO02.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $3,260,000 SEED Act
INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: Citizen participation is a critical element in any democracy. The civil society sector in Albania reflects the polarized and divided environment of the country, but Albanians, as individuals, have shown great interest in participating in the political process. Non-governmental organizations (NGOs), independent media, and democratic political parties were unknown before the fall of communism. Moreover, most civil society organizations are located in Tirana and only a few have a nationwide network. USAID's efforts have focused on strengthening Albanian NGOs which are independent of the conflicting political parties, and which have the potential of working throughout the countryside as well as in the large cities.

These efforts benefit a wide range of politically active citizens by strengthening the organization of NGOs, as well as the linkages between them, the political parties, and the print and broadcast media. Under a new program, succeeding generations of Albanians will be taught critical thinking, the importance of diversity of opinions, conflict resolution without resorting to violence, and the value of public participation.

Key Results: Seven intermediate results are pursued in support this objective: 1) more effective political parties; 2) free and fair elections; 3) NGO participation in social, economic and political decision-making; 4) independent media strengthened; 5) improved effectiveness of Parliament; 6) increased demand for transparent, accountable decision-making; and 7) more participatory instructional practices adopted in the educational system.

Performance and Prospects: In spite of the evacuation of U.S. citizens from Albania in August of 1998, USAID advisors are working very closely with their Albanian counterpart organizations. The Central Elections Committee was essential in promoting public support for the passage of the new constitution and will now work on drafting compatible legislation for future elections. The National Democratic Institute's (NDI) partner, the Society for Democratic Culture (SDC), and the International Republican Institute's (IRI) counterpart, the Institute for Contemporary Studies (ICS), have been able to hold roundtables and work on voter education in the areas beyond the larger cities. Media programs have also been instrumental in promoting citizen participation in the referendum, not only through the work of the International Research and Exchanges Board (IREX), but also through other programs sponsored by the International Foundation for Electoral Systems (IFES) and by SDC. NGOs, such as SDC, ICS, and other advocacy groups, are supported by training, small grants to 67 NGOs, and the strengthening of a locally based resource center for Albanian NGOs. An updated NGO law is expected to pass by Parliament this year as a result of the combined efforts of the American ORT Foundation (ORT), the International Center for Not-for-Profit Law (ICNL) and an NGO working committee, all of which are promoting an active civil society in Albania.

USAID advisors have sponsored a major public opinion poll throughout Albania, which includes a section on the nature, problems and needs of the Albanian NGO community. The process of collecting data included public meetings and encouraged debate between legislators and NGO leaders. Political party spokespersons have been trained in campaign management, and groups of journalists have been trained in election coverage and in economic reporting. While it is difficult to give direct assistance to parliament and political parties without U.S. citizens in country, the activity leaders are working closely in nearby countries and in Washington, DC with their local

in-country counterparts.

In spite of current difficulties, a new effort is planned to focus on training for primary and secondary school teachers intended to "bring democracy into the classroom". Civil society organizations will also contribute to planned anti-corruption programs in the future. NGOs are expected to assist in the effort to help citizens be more aware of and participate in pressing government to insist on transparency and bring about measures to combat corruption in all areas of Albanian society.

Possible Adjustments to Plans: Though civil society activities are more difficult to manage from a distance, even with talented and well-trained local assistance, these activities will continue whether or not U.S. citizens are allowed in country. The U.S. project personnel will return to Albania as soon as it is possible to do so.

Other Donors Programs: Some of the political parties are receiving support and assistance from their equivalent party organizations in Western Europe. Denmark's Dialogue for Development is supporting the Albanian Civil Society Foundation which, in turn, is supporting Albania's NGO community. The Organization for Security and Cooperation in Europe has been very active in the past year in a range of programs supporting electoral processes and the constitutional referendum and in the promotion of political stability.

Principal Contractors, Grantees, or Agencies: USAID implements these activities through the National Democratic Institute, the International Republican Institute, the International Center for Not-for-Profit Law, the International Research and Exchanges Board (IREX), and the American ORT Federation.

Selected Performance Measures:

	Baseline	Target
More women run for office	20 in 1992	40 in 2000
Free and Fair Elections	No in 1996-97	Yes 2000
NGOs participating in making public policy decisions	None in 1995	185 in 2000
Independent media strengthened by independent private radio and TV stations	0 in 1995	57 in 2000
Improved effectiveness of Parliament with professional staff hired	0 in 1994	58 in 2000
Participatory practices in the education system - number of participating classrooms	None in 1997	20 in 2000

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Legal Institutions that Better Support Democratic Process and Market Reforms, 180-S002.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $ 2,050,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: USAID efforts have focused on strengthening democratic processes and institutions which have suffered setbacks during the governmental crises of late 1996 and early 1997, and the evacuation of all U.S. citizens in August of 1998. Despite these difficulties, the Albanians adopted a constitution by popular referendum in November of 1998 which promises to support the transition to a democratic society and a market-based economy.

The direct beneficiaries of these activities are a significant percentage of the Albanian judicial system, and indirectly, every member of the Albanian public.

Key Results: The three key intermediate results will improve democratic judicial processes by: 1) training more competent legal professionals; 2) restructuring the legal system in line with international norms; and 3) promoting an environment in which citizens have legal recourse to the justice system.

Performance and Prospects: USAID's rule of law program in Albania is aimed at promoting reform in the

judiciary, supporting the legal profession, offering continuing legal education and improving the commercial law regime. A law library at the Court of Cassation has been established, and the collection of donated books continues to grow. USAID advisors are also assisting in drafting the governing statute and code of ethics for the National Chamber of Advocates. USAID continues to work with the Council of Europe (EU) to publish and distribute over 10,000 copies of various new codes and regulations throughout Albania. The advisors have also presented workshops for legal professionals and private citizens on the private practice of law, contracting, etc.; supported and participated in study tours for judges and legal professionals; and offered legal assessments on draft local government, agricultural land tax, media, collateral and family laws.

USAID advisors continue to focus on strengthening governmental legitimacy and authority, seriously undermined by the crisis of 1996-97. The Albanian people perceive that their government often flouts the rule of law and that the judiciary is corrupt, incompetent, and politically motivated. A key element of the process of overcoming these doubts and fears has been the year-long effort to bring about a popularly approved constitution. In addition, four areas of continuing emphasis help assure that laws and legal institutions support democratic processes: 1) an ongoing program to support the Albanian judiciary and to help them become both respected and effective; 2) continuing efforts to help the national and regional bar associations, as well as a continuing focus on criminal justice reform and court administration; 3) on-going support to the Magistrates School for training law school graduates to become competent judges, and 4) the presentation of courses in commercial law for judges, lawyers and law students; the completion of a handbook on women's legal and commercial rights; and the development and implementation of modern commercial laws. In parallel with USAID's emphasis on judicial training and related rule of law issues, assistance will be provided to police, prosecutors and defense attorneys in criminal procedures. In collaboration with other donors and USAID advisors in the civil society sector, corruption issues will be addressed.

Possible Adjustments to Plans: With approval of the Constitution by national referendum in November 1998, the Government of Albania (GOA) now has an acceptable framework for building democracy and civil society. The challenge is to bring the document to life. U.S. citizens have not been allowed to work on USAID funded activities since the evacuation of August 1998. USAID activities have nonetheless proceeded and continue to influence the sector significantly. Third country nationals actively supported the public awareness component of the national referendum process. USAID advisors under the Department of Justice criminal law program will continue training lawyers, judges and others in the justice system at facilities in Warsaw and Budapest, until such time as they can return to Albania.

Other Donor Programs: The Organization for Security and Cooperation in Europe (OSCE) was instrumental in the preparation and passage of the new Albanian Constitution. The Council of Europe (EU) continues to provide legal expertise and training for the Magistrates School in Tirana and for the Albanian judiciary. Additional donors to Albania's legal reform process are the Soros Foundation, Danida (Denmark) and GTZ (Germany).

Principal Contractors, Grantees, or Agencies: USAID/Albania implements this activity through the American Bar Association's Central and East European Law Initiative (ABA/CEELI) project and the U.S. Department of Justice.

Selected Performance Measures:

	Baseline	Target
Magistrates School functioning	No in 1995	Yes in 2000
Number of professionals trained	0 in 1995	100 in 2000
Constitution adopted by referendum	No in 1995	Yes in 2000
Citizens have legal recourse and are trained in legal issues	None in 1995	200 in 2000

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: More Effective, Responsive, and Accountable Local Government, 180-S002.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $ 1,400,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: Albania is still in the early stages of local government reform. The breakdown in governmental control during the civil insurrection of 1996-97 affected both national and municipal authorities. There is no tradition of decentralized authority in Albania and the public has had no experience with a local government able to act on its

own authority. Local governments, whether elected or appointed, are therefore viewed as simply representatives of the central government in Tirana. In the Autumn of 1998, however, the potential for enhancing the devolution of power was increased by a new law giving municipalities control over local property revenue. The passage of the new Constitution in November 1998 will bolster opportunities to further local autonomy.

The local government program to date has been implemented on a pilot basis. Local authorities in all municipalities will benefit eventually as the results of the activities in the pilot cities are disseminated. All the citizens of the cities they serve should find their quality of life improved through strengthened local administration and municipal services. The central government should find itself relieved of many responsibilities as the municipalities become able to govern more independently and this will eventually have a positive fiscal impact on the government.

Key Results: Five key results are pursued in support of strengthening local government in Albania: 1) the central government transfers responsibility and authority to local government; 2) local governments are capable of budgeting, planning and managing; 3) local governments provide improved services; 4) local government is increasingly open with citizen participation in the budget and planning process; and 5) municipalities support and implement local economic development plans.

Performance and Prospects: USAID advisors have worked with the Government of Albania (GOA) at a ministerial level to foster an informed and non-partisan dialogue on decentralization at the same time they have been helping to strengthen the capacity of eight pilot cities plus Durres and Tirana. Special focus has been put on developing the Association of Albanian Mayors.

The Association of Mayors, a core group of city mayors, has been trained by USAID advisors in the modern budgeting process, data collection and analysis, principles of taxation, revenue forecasting, cash management, contract execution and supervision, the use of citizen commissions and advisory boards, public infrastructure management, and economic development. This capacity building has been concentrated in eight pilot cities and is being expanded to include others, using the pilot sites as models and with the Association of Mayors providing leadership.

USAID advisors have worked with a wide spectrum of other donors to improve service delivery as an essential component of building public confidence. Improvement has been noted in land management and water delivery, though gains are often mitigated and strained by recent migration to the improved areas. Increased attention is being given to contract management of privately provided services and grant assistance is being sought to support the improvement of municipal services.

Planning for economic development is seen by USAID advisors as the primary instrument for initiating community involvement in local government decision-making. Joint planning is geared to ensure involvement of and opportunities for local businesses and NGOs to communicate their interests to municipal managers.

Possible Adjustments to Plans: Given the historically limited role of local government in Albania, the setbacks from unrest in 1996-97, and the evacuation of U.S. citizens in August of 1998, the progress made in this sector is considerable. The GOA continues to support USAID activities, and a strong Albanian staff works with USAID advisors based in other countries. Training in Macedonia, Hungary or other Central and Eastern European countries, and the assistance of third country nationals in Albania have permitted these programs to remain on target. Activities will be accelerated as soon as U.S. citizens are allowed to return to Albania.

Host Country and Other Donors: The World Bank and a bilateral Italian program provide support in major infrastructure (water, sewerage, etc.). The German Government has provided some technical assistance and training. The Netherlands is active in local government development. The EU, along with USAID, is providing material support, principally computers, to selected municipalities. USAID support is focused on major secondary cities which do not receive similar assistance from other donors. GOA contributions to the activities are principally in the form of personnel and facilities.

Principal Contractors, Grantees, or Agencies: USAID implements this activity through DAI/Mendez-England and the Urban Institute.

Selected Performance Measures:

	Baseline	Target
Central government transfers responsibility and authority to local government - law allowing devolution of power in place	No in 1995	Yes in 2000

Local government capable of budgeting, planning and managing - cities implementing	0 in 1995	8 in 2000
Local government provides improved service	0 in 1995	8 in 2000
Local government supports economic development-cities with implemented economic development plans	0 in 1995	5 in 2000

ACTIVITY DATA SHEET

PROGRAM: ALBANIA
TITLE: Improved Sustainability of Health and Social Benefits and Services, 180-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $ 1,000,000 SEED Act
INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: Albania has the least developed public system of social infrastructure among the Eastern European nations. Many of its health care facilities are seriously dilapidated and outdated. The health delivery system emphasizes curative services over primary care and preventive services, and suffers from weak planning and management capacity. An influx of refugees from neighboring Kosovo is causing an additional strain. The country's prior isolationism, official pronatalist policy, poor information and lack of alternatives has resulted in high mortality and morbidity rates for women. Abortion became the predominant form of family planning.

The purpose of this strategic objective is to improve the sustainability of social benefits and services in Albania with an emphasis on women's reproductive health. Improved health services will fortify the productive capacity of Albania's human resources. Increasing the efficiency and lowering the cost of health services will reduce the social investment required to maintain a healthy population. Medical professionals (doctors, nurses, technicians and managers) are the channels through which projects are functioning, with the primary beneficiaries being Albanian citizens in need of medical care. Women in Albania are beginning to benefit from access to family planning information and services with improved counseling and care.

Key Results: Three key intermediate results are necessary to achieve this objective. 1) Improved Reproductive Health Practices: High maternal mortality rates are the result of overreliance on abortion and lack of familiarity with modern reproductive health methods. USAID's program will emphasize information dissemination, family planning counselling, improved access to services, and higher-quality services. 2) Improved Hospital Services in Tirana: Albanian hospitals need to modernize administrative procedures, clinical methods, and financial management. Through partnership arrangements USAID's program will introduce improvements in administration, nursing, maternal/child care, emergency medicine, and infection control. It is expected that the participating Tirana-based hospitals will serve as models for extension to other hospitals and the Tirana University Hospital will incorporate improved practices in medical/nursing school curricula. 3) Improved Health Administration and Management: Given Albania's comparatively low level of health expenditures, it is especially important to improve health management, performance budgeting, and cost control. USAID's program will help institutionalize improved management procedures in the Ministry of Health, establish university-based health management education courses, and develop in-service training in the Ministry.

Performance and Prospects: The GOA is quite aware of the urgent need to revitalize and modernize its health care system. Working with USAID advisors, key health care administrators have acquired the knowledge and skills needed to manage more efficiently and effectively at the central level (the Ministry of Health) and at the district, hospital and polyclinic levels. Two hospitals, the Durres Hospital and the University Hospital Center of Tirana, have implemented hospital operations improvement techniques and now serve as models for the rest of the hospital system. The number of hospital beds, reflecting vacancies, has consequently been reduced. At the Durres Hospital, where the main hospital building collapsed in 1995, a strategic planning process has matched available resources with a long-range plan for a replacement hospital. At the University Hospital Center, administrative and medical records were computerized. In both hospitals, pharmaceutical and medical supply purchasing and distribution were computerized. Several national conferences have been held to share the information and management techniques developed at the pilot hospitals with over eighty hospital managers and administrators from all over Albania.

The planning capacity of the MOH has been improved through management training, computerization and a hospital facilities survey. A Learning Resource Center has been opened at the National Institute of Public Health which provides access for students and faculty to modern management literature and research through the internet. Health

management courses were designed and are now being taught at the University of Tirana. Four Tirana hospitals have received extensive training in emergency medical services through a partnership program with Spectrum Health which is based in Michigan. Albanian nurses from across the country are receiving in-service training opportunities to improve their skills and status in the health care system.

A total of 95 service providers who have been trained in the two largest urban areas of Albania, are now providing upgraded women's reproductive health services including family planning. Training of additional providers is well underway in two other selected geographic areas of Albania and if security allows, the program will be implemented nationwide. The results of a major focus group research on Albanian attitudes toward family planning has been released in a report entitled, "We Want to Know Everything About It: Albanian Women Speak about Family Planning" which has aided service providers in providing the necessary information sought by Albanian clients. Contraceptives are being provided throughout the country by the United Nations Population Fund (UNFPA) with assistance from USAID/Albania in logistics management.

Possible Adjustments to Plans: The implementation of this strategic objective was set back by the withdrawal of American staff and the resultant prohibition of travel to Albania by American consultants. Program implementors have responded by transferring training programs to locations outside of Albania, increasing the use of third country (non-American) technical consultants, and delegating greater assumption of responsibility to local Albanian staff. The programs have now adapted to this new interim working arrangement and have developed new implementation plans for the coming year.

Other Donor Programs: The World Bank is supporting the reconstruction of rural hospitals throughout Albania. The University of Montreal and the Paris Hospital System are providing planning assistance and management training to the Ministry of Health. The United Nations Development Program (UNDP) is providing health care manuals to medical facilities. Switzerland is providing assistance to the nursing school. The EU has a Public Health Facilities Maintenance project and has supported capacity-building at the Ministry of Health. The United Nations Population Fund (UNFPA) is providing significant contraceptive commodities.

Principal Contractors, Grantees, or Agencies: USAID implements these activities through the American International Health Alliance, John Snow, Inc., and the U.S. Department of Health and Human Services.

Selected Performance Measures:

	Baseline	Target
Health Services Improved:		
Infant mortality (deaths per 1,000 live births)	35.7 (1994)	25 (2000)
Maternal mortality (deaths per 100,000 births)	40.6 (1994)	20 (2000)
Access to Quality Health Services Improved:		
cumulative number of primary health care clinics complying with quality standards	199 (1995)	516 (1999)
clinics providing family planning services	2 (1995)	350 (1999)

ARMENIA

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$87,500,000	$79,900,000	$71,500,000

Introduction.

Armenia is a strategically important republic in the Caucasus that is making steady but uneven progress in its transition to a democratic political order and free market economy. U.S. interests in the region will be advanced by the emergence of a Western-oriented, democratic and economically prosperous Armenia. With a settlement of the Nagorno-Karabakh conflict, Armenia could provide leadership to promote regional economic integration and political cooperation within the Caucasus.

The Development Challenge.

Like other countries of the former Soviet Union, Armenia's economic transition has been hampered by the legacy of central planning, severe economic shocks arising from the collapse of the USSR, and limited will on the part of national decision makers to undertake critical reforms to restructure and privatize the economy. In the political sphere, flawed presidential elections in 1996 and 1998 contribute to widespread public cynicism.

A major impediment to Armenia's emergence as a prospering free market democracy has been the conflict with Azerbaijan over the predominantly ethnic Armenian-populated enclave of Nagorno-Karabakh. Although a ceasefire has held since 1994, successful resolution of the impasse would allow the reopening of trade routes, make Armenia more attractive to potential investors, and reduce the level of hardship endured across the country.

Despite its hardships and challenges, Armenia has significant assets which include a highly skilled and educated workforce, strong national identity, and impressive political and financial support from a large international diaspora and the international community in general. With support from the United States and other foreign donors, the humanitarian crisis spawned by a combination of natural disaster, war and severe energy shortages has receded.

Over the past four years, the Government of Armenia (GOA) has pursued policies that have resulted in solid macroeconomic gains. Growth has been positive since 1994. While inflation was greater than expected in 1997 (at 22%), it fell to about 3% in 1998, below the GOA's target of 9%. Moreover, each year the budget deficit has declined which has contributed to lower interest rates and exchange rate stability. In 1998, foreign direct investment increased significantly and there was some export growth.

Structural reforms have proceeded unevenly with most progress realized in the banking and energy sectors. The privatization program approved by parliament in December 1997 is targeted for completion in 2000. The GOA's commitment to privatization involving strategic investors will be tested with the need for financial rehabilitation of the vital energy sector. USAID and the World Bank have supported the GOA's energy reform efforts, which have resulted in restructuring of the key power sector and improvement in the commercial operation of enterprises, thereby increasing the likelihood of needed private sector investment.

Investment, mobilized from both domestic and foreign sources, is key to breathing life back into the moribund economy. USAID is helping the GOA complete the privatization/liquidation of non-energy enterprises and the sale of residual state-owned shares as a way to provide liquidity to the capital market that is being created, also with USAID assistance. Other aspects of USAID's financial sector development portfolio include banker training, support to the Central Bank of Armenia, and loan programs for small and medium enterprises.

While, a viable legal and regulatory framework is being developed and a stronger civil society is beginning to

emerge, Armenia still needs considerable work to achieve full democratic governance. USAID has provided key assistance in the drafting of Armenia's recently enacted civil code, and of the criminal code, which is close to enactment. Both the judiciary and the parliament are becoming more capable institutions. Supporting the professionalization of the legal sector has been the formation of independent associations representing judges and lawyers. USAID's focus on strengthening the rule of law will in time ensure that the human rights protections afforded by the Armenian Constitution are more scrupulously observed.

USAID's work in civil society has fostered the growth and maturing of the NGO sector and of opposition parties, enabling them to aggregate their collective interests through coalition building and advocate more effectively for democratic reforms. The draft Universal Electoral Code, although the subject of much debate, is likely to improve the chances for free and fair elections in 1999. Supporting greater transparency and fairness in the political process has been an independent print and broadcast media that is emerging and exposing Armenians to divergent views.

Fairly impressive economic growth figures for the past few years are not likely to make much of an impression on the average citizen of Armenia whose standard of living has been steadily eroding since independence. Unemployment is conservatively estimated to be 30% of the workforce and official wages are miserly. The social safety net is inadequate to provide for those who are most vulnerable and the rest of the population may not be much better off, with an overall 55% poverty rate according to the best data available. As direct humanitarian assistance to be reduced, USAID is working to bridge its economic reform agenda with grass-roots programs intended to have a direct impact on people. even The ongoing Russian economic crisis presents a real danger to the success of Armenia's fragile and ill-formed market economy.

Other Donors.

While the U.S. is by far the largest provider of aid to Armenia (some 52% of recorded official development assistance in 1997), other major sources of assistance included the International Monetary Fund, World Bank Group, and the European Union. Bilateral donors included the Netherlands, France, Japan and Switzerland. USAID has worked cooperatively with several donors and been instrumental in leveraging large loans from the World Bank through targeted technical assistance. In addition, UNICEF's vaccine program has contributed to the control of preventable diseases and the World Food Program has supported "food for work" activities.

FY 2000 Program.

USAID's FY 2000 assistance effort will focus simultaneously on economic, political and social institution-building and on grassroots efforts to provide sustainable improvements in the lives of the majority of the population which currently lives at or below the poverty line. In order to create sustainable employment opportunities, USAID will emphasize firm-level assistance as well as policy reform and enforcement. As employment expands incomes, the government's revenue base will improve and the private consumption of goods and services (including social services, such as health and education) will increase. Employment creation is seen as the best barometer of a broad-based economic growth that will contribute most quickly to poverty reduction and sustainable development. At the same time, USAID intends to support GOA's efforts to strengthen the social safety net, and will be seeking to identify pilot activities that will demonstrate the most efficient and effective means of delivering basic services. As the central government devolves more responsibility to local authorities, USAID will work to encourage greater public participation and local initiative.

Under economic restructuring, USAID is requesting funds for strategic objectives in tax/fiscal reform, private enterprise development, financial sector development and energy restructuring. Under the democracy goal area, funds are requested for strategic objectives in citizens' participation and improved enforcement and adjudication of legal systems. Under the social sector rubric, USAID will address the longer-term sustainability of social service delivery mechanisms, including a greater emphasis on decentralized health care reform. As the political situation permits, USAID will seek ways in which its program can support increased regional integration among Armenia and its neighbors. As part of cross-cutting and special initiatives, funds are requested for training programs that support mission strategic goals across the entire assistance portfolio. Included in this request for cross-cutting and special initiatives are funds for other USG Agencies participating in technical coop program with Armenia through inter-agency transfers from USAID (e.g., U.S. Departments of State, Energy, Justice, Agriculture, Treasury, and U.S. Information Agency).

ARMENIA

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	5,250	--	--	--	5,250
Private Enterprise	9,670	--	--	--	9,670
Financial Reform	9,730	--	--	--	9,730
Energy	8,400	--	--	--	8,400
Environmental Management	--	--	--	--	--
Citizens' Participation	--	4,700	--	--	4,700
Legal Systems	--	2,850	--	--	2,850
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	8,900	--	8,900
Environmental Health	--	--	--	--	--
Cross-cutting/ Special Initiatives	--	--	--	22,000	22,000
TOTAL	33,050	7,550	8,900	22,000	71,500
*Freedom Support Act (FSA) funds					

USAID Mission Director: Diane Tsitsos

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: Increased Soundness of Fiscal Policies and Fiscal Management Practice, 110-SOO1.2
STATUS: New
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $5,250,000 FSA
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: At the start-up of the Comprehensive Market Reform Program, USAID did an assessment of the fiscal needs of the Republic of Armenia. The resulting fiscal reform program integrates IMF and US Treasury programs the latter are funded through a 632(a) transfer of funds from USAID. This integrated, broad-spectrum approach is working very well. In addition to prior work on municipal finance and automating the National Treasury's budget process, USAID continues to provide assistance on WTO-related customs advisory issues. With the start-up of the Comprehensive Market Reform Program, USAID's contribution in this area has been expanded. USAID's emphasis is on the review of taxes and fees, with the goal of facilitating private sector trade and investment; and enhancing the efficiency of tax collections through education, audits and better collection procedures. USAID is also providing advisors to the Ministry of Finance and Economy (MOFE) to help revise both the tax codes and the customs code. On the budget side, USAID advisors are working to help create a more transparent and efficient budgetary process with both the Executive branch and the National Assembly of Armenia.

Key Results: Three key intermediate results were concluded to be necessary to achieve this objective:(1) market-oriented budget and financial systems for national and local governments; (2) reduction in non-vital government expenditures; (3) increased revenues from tax collections.

Performance and Prospects: USAID is providing assistance to the MOFE to implement a more transparent and efficient electronic payments and reporting system for the Armenian Treasury and its fifty branches to replace the current paper based multi-account system. Assistance should be completed in 1999. In tax/fiscal reform, agreement has been reached with the tax authorities on a comprehensive modernization plan for district tax offices country-wide. The plan includes completely new organizational structures and business functions as well as

automation of tax administration. The Tax Inspectorate has taken complete ownership of a detailed implementation plan, which will result in modernization of all tax offices by the end of 1999. The plan is currently being implemented in two pilot district offices in Yerevan in preparation for being rolled-out in mid-1999, Extensive assistance has also been provided to the government in the drafting of a new customs code which will comply with World Trade Organization norms and standards. Assistance to strengthen local governments' fiscal capabilities resulted in growing awareness of municipal finance concepts with new trainees being used to disseminate information. In addition, USAID sponsored a conference held in Yerevan in October 1998 which provided an opportunity for policy-makers, legislators, local officials, and financial executives to share best practices and discuss ideas to realize future improvement.

Possible Adjustments to plans: Given the negative impact that Armenian customs has had on the flow of regional trade, there is a critical need for assistance in reform of that institution. USAID, in coordination with other donors, hopes to fund a top-to-bottom World Customs Organization diagnostic study of the customs department. The results of the diagnostic should facilitate the design and implementation of new, comprehensive, multi-year assistance programs by USAID and other donors beginning in FY 2000.

Other Donor Programs: The IMF sends numerous missions which focus on monetary policy and identify systemic problems. IMF recommendations are integrated into USAID technical assistance activities. The UN Conference on Trade and Development (UNCTAD) is providing assistance on customs taxes, as is the World Bank.

Principal Contractors, Grantees or Agencies: Barents Group (tax/fiscal reform); Information Resources Management (electronic payments).

Selected Performance Measures:

	Baseline	Target
Fiscal balance as a percent of GDP	-9.9% (1995)	-3.5% (2000)
Tax revenue as a percent of GDP	12.7% (1995)	17.9% (2000)
Proportion of consolidated government revenues generated from taxes	64% (1995)	90% (2000)

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 110-SOO1.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $9,670,000 FSA
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: To accelerate the growth of private enterprise, USAID has provided firm-level assistance and credit for small and medium enterprises (SMEs), including agribusiness; helped the government institute a land registration system and develop a real estate market; and supported technical assistance for agricultural development. In the area of policy and legislative research, USAID has provided a great deal of assistance to Armenia in its effort to accede to the World Trade Organization. Moreover, significant work has been done to establish the basis for a developing market economy. USAID's privatization program supports the rapid privatization of remaining state-owned enterprises, including residual shares. Shares of enterprises that are privatized will be transferred to the private sector and will then be available for trading in the capital markets framework that USAID is developing. Enterprise accounting reform seeks to develop market economy accounting and auditing in Armenia. USAID's land registration and titling program focuses on creating a favorable legal and regulatory environment for land reform; assisting the government in efforts to register and title all agricultural and urban land; and developing Armenian private sector capacity to support a real estate market.

Key Results: Five key intermediate results were concluded to be necessary to achieve this objective: (1) increased foreign and domestic investment; (2) increased transfer of technology; (3) increased access to credit by domestic enterprises; (4) increased access to export markets and development of domestic markets; (5) improved framework for economic policies, commercial laws and regulations for economic activities.

Performance and Prospects: The Enterprise Accounting Reform program, key to the transition to a market economy, has shown excellent progress in the conversion of accounting systems in pilot private enterprises and

training in international accounting and auditing. With USAID technical assistance, the Ministry of Finance and Economy (MOFE) is completing the process of translating and adapting the most critical International Accounting Standards (IAS).

Privatization efforts have created a comprehensive database of all enterprises remaining in State ownership along with details of their financial condition. The database is now being used to assist the Ministry of Privatization in decision making regarding which modes of privatization should be utilized for divestiture of these remaining assets. The next phase of the project will provide direct assistance to the Ministry in international and domestic tenders, privatization through the capital markets, and liquidations. Privatization of major State assets, such as the telephone company, has had positive impact on foreign direct investment.

Progress in the Land Titling and Registration component is ahead of schedule: Complete review of all current laws and regulations affecting land has taken place; technical assistance has been provided for draft laws; and streamlined methodology for rapid surveying, registration and titling of privatized land has been developed.

Firm level technical assistance, implemented by IESC and ACDI/VOCA, provides direct assistance to solve business problems, develop growth strategies, find partners, and improve products and services. The local NGO, Volunteers in Service to Armenian Agriculture (VISTAA), which provides local consultants to the agricultural sector, is moving toward sustainability.

Possible Adjustments to plans: USAID plans to expand its involvement in SME development. A comprehensive SME development project will focus on association building and information dissemination. Training to SMEs in every region of the country will be provided through the use and development of local training companies and trainers. This activity will run through December 1999 and is likely to be followed by a similar program once the results of this first phase are known.

Other Donor Programs: It is expected that approximately $130 Million in SME credit from all donor sources will be made available to Armenia in FY 1999. Primary donors include the Lincy Foundation, the World Bank, GTZ, EBRD and EU/TACIS. EU/TACIS has a small program providing training in accounting reform that is complementary to USAID's broader program. The GOA is considering a new $10 million credit from the World Bank to support its land titling program.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include Eurasia Foundation, Shorebank (credit to SMEs and technical assistance to lending institutions); FINCA (micro-credit); IESC and ACDI/VOCA (technical assistance to firms and farmers); RONCO (land titling and registration); Sibley International. (accounting reform); IBTCI (privatization); AED (training).

Selected Performance Measures:

	Baseline	Target
Private sector exports	$162 m (1995)	$300 m (2000)
Foreign direct investment	$20 m (1995)	$114 m (2000)
WTO accession	not a member (1995)	accession (1999)
Euromoney's Country risk index (0 - 100)	28 (1995)	40 (2000)

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: A Competitive Private Financial Sector that is more Responsive to the Needs of a Market-Orientated Economy, 110-SOO1.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $9,730,000 FSA
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: USAID and other donors, including the IMF and World Bank, have collaborated to establish the basis for a strong market-oriented central bank. This began with the establishment of the domestic electronic payments system and the creation of the Bank Training Center with the Central Bank of Armenia (CBA) in 1996. USAID also contributed to the opening of Armenia's first commercial lending facilities in three commercial banks to assist small and medium-sized enterprises (SMEs). More recently, USAID has provided training in bank supervision and related

issues to CBA staff that has supported the IMF's work in commercial bank restructuring. Improved CBA supervision has also been facilitated by the provision of reporting software that will enable it to better monitor and correct emerging problems in the commercial banking sector. In addition to credit, USAID's lending program also provides technical assistance to partner banks in assessing and managing SME portfolios. The lending program has been supplemented in the past few months with the arrival of the Shorebank/FINCA consortium to implement the "Enterprise Fund". With the start-up of its new capital markets development program, USAID aims to provide a significant boost to financial sector development. In the initial phase of this program, USAID is providing assistance to the government to create and build the basic infrastructure necessary for the development of a capital market. The second phase of the program is aimed at broadening participation by investors and developing the capacity of the market to aid in the capital formation process.

Key Results: The primary intermediate results needed to achieve this objective: (1) increased technical efficiency of financial sector transactions; (2) increased public confidence in the banking sector; (3) increased availability of financial services.

Performance and Prospects: Between June 1997 and March 1998, over 300 Armenian bankers received short-term training at the Bank Training Center in such areas as risk management, international payment systems, letters of credit, and asset and liability management. However, reduced attendance compared to the previous year prompted the contractor, Barents Group, to undertake a diagnostic and market survey to identify improvements needed to attract greater attendance. A new training program incorporating the improvements began in fall 1998. USAID funded efforts in electronic payment/bank supervision systems have been successfully completed. With regard to credit to SMEs, Eurasia Foundation has loaned over $3.4 million through three partner banks to over 130 firms that have resulted in 866 new employment opportunities. The capital markets development program has resulted in the drafting of a new securities law that puts in place an enhanced framework for security market regulation and creates an independent Securities and Exchange Commission to enforce those regulations. At the same time, a strong collaborative effort between USAID advisors and the government has resulted in the design of a comprehensive national market trading system, which includes clearing, settlement and depository organization and use of a centralized share registry.

Possible Adjustments to plans: Armenia Central Bank supervision over commercial banks will be strengthened through a program for development and implementation of International Accounting Standards in the banking sector as well as institutional development and training for off-site supervision functions. In addition, assistance will be initiated to the Central Bank in the development and installation of an electronic payment system (smartcard). This system will allow the Government of Armenia to proceed with its plans to begin collecting utilities payments from consumers electronically, as well as making social payments (pensions and disabilities) through the same system. This increase in activity through the commercial banks (which will be an integral part of the system) should lead to greater consumer confidence in the banks and higher levels of consumer deposits.

Other Donor Programs: Credit and technical assistance programs starting are funded by the following: the World Bank, GTZ, Lincy Foundation, EBRD, EU/TACIS and USAID.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include Eurasia Foundation, Shorebank (credit to SMEs and technical assistance to lending institutions); Price Waterhouse/Coopers (capital market development); Barents Group (banker training); AED (training).

Selected Performance Measures:

	Baseline	Target
Volume of interbank payments ($US millions)	1,800 (1995)	12,000 (2000)
Real value of bank accounts index	100 (1995)	200 (2000)
Real value of loans index	100 (1995)	125 (2000)

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: A more Economically Sustainable and Environmentally Sound Energy Sector, 110-SOO1.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $8,400,000 FSA

INITIAL OBLIGATION: FY 1996 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: Since the spring of 1995, USAID has reduced humanitarian assistance to the energy sector and concentrated more resources on the systemic economic reform of the sector. Over the last three years, this strategy has contributed strongly to achieving a number of key successes including: the passage of an Energy Law; the creation of an independent Energy Regulatory Commission; the complete restructuring of the power sector; the improved financial viability of the energy sector through increased collections and introduction of International Accounting Standards; the privatization of 13 mini-hydro sites; and the identification of replacement power projects to replace the power produced by the Armenian Nuclear Power Plant (ANPP). USAID funds transferred to the US Department of Energy and the US Nuclear Regulatory Authority have also contributed to short-term safety improvements at the ANPP and the strengthening of the Armenian Nuclear Regulatory Authority. The bulk of USAID's energy sector assistance has gone into the power sector, which is considered pivotal to the economy. Nonetheless, it is fully recognized that developments in the power sector have an impact upon and are influenced by changes in the natural gas subsector and energy resource development activities (coal exploration, oil and gas development, geothermal exploitation, etc.). In fall 1998, USAID and the government reached consensus on the major elements of a $15 million program to strengthen the commercial operation of the power sector. This assistance program was developed, at the request of the Government of Armenia (GOA), in lieu of the purchase of natural gas.

Key Results: Three key intermediate results are necessary to achieve this objective: (1) increased private sector participation in the energy sector; (2) increased efficiency in the energy sector; and (3) reduced environmental hazards of operating the ANPP.

Performance and Prospects: In the past year, the power distribution subsector has been further consolidated from 11 distribution companies to 4, and the management structures of these new companies is being put in place. The overall financial condition of the power sector has continued to improve and the tracking of flows of funds from consumers to distribution company accounts will benefit from the introduction of customer payment of electricity bills using local banks. USAID's pilot billing, collections, and metering activity, which includes about 40,000 customers, has resulted in an improvement in the collections rate from 60% to 95%. In October 1998, an Energy Sector Investment Conference was held in Washington, D.C., to showcase the GOA's energy sector reforms and to highlight some of the projects identified by USAID and the GOA as replacement power for the ANPP (including the identification of indigenous coal resources that could be used for power generation).

In contrast to these positive developments, there has been tremendous political opposition to increasing electricity tariffs, without which the energy sector cannot reach a condition of financial viability. However, late in the year the GOA agreed to increase tariffs by 12.5% beginning January 1, 1999 in order to receive IMF and World Bank financial assistance. The GOA has also continued to drag its feet on privatization of the power sector and seems to lack a coherent plan for moving ahead with attracting private investment in resource development and in building the power facilities needed to replace the ANPP in 2004, as has been its commitment.

Possible Adjustments to plans: USAID will continue to build on the successful reforms implemented to date but will support greater focus on energy investment planning and development in order to expedite the realization of needed investments in the sector. USAID will also attempt to promote regional cooperation in the energy sector by working with the multilateral banks and USAID/Caucasus in Tbilisi, Georgia. On a case-by-case basis and contingent on the availability of funds, USAID may consider providing further assistance to regenerate critical power facilities that are vital to the economy.

Other Donor Programs: The World Bank and USAID coordinate closely in the energy. The World Bank program aims to deepen reforms in the energy sector and aid the financial rehabilitation of the sector. Currently, it is finalizing terms of a $52 million loan to the government for rehabilitating and strengthening the power transmission and distribution system. The European Union assists the Ministry of Energy in developing energy efficiency policies and legislation, and in strengthening billing and collection.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include Hagler Bailly (restructuring and privatization); U.S. Energy Association (exchanges and training); U.S. Geological Survey (coal exploration); AED/Hagler Bailly (training).

Selected Performance Measures:

	Baseline	Target
Amount of electric utility enterprises ownership privately held		
distribution:	0% (1995)	61% (2000)
generation:	0% (1995)	31% (2000)

Collections from end-users paid to distribution companies	65% (1996)	100% (2000)

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: Increased Citizen Participation in Political and Economic Decision-Making, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $4,700,000 FSA
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: Armenia is slowly making the transition to democracy. Many of the institutions necessary for a functioning democracy are either in place or plans to create them are underway. Citizens are learning their roles and responsibilities in a democracy. Armenia has stumbled at times on the road to democracy, most notably in its national elections, but progress can be seen in a variety of areas, such as with independent media and NGO development. The beneficiaries of this program are the citizens of Armenia who will gain more democratic institutions and knowledge on how to act upon their rights and responsibilities in a democracy.

Key Results: Three key intermediate results are: 1) Increased availability and access to information; 2) increased public confidence in citizens' ability to affect change; and 3) sustained public confidence in the political process.

Performance and Prospects: Performance over 1998 was mixed, although lower than expected. Much of this can be attributed to the extraordinary presidential election in March 1998 in which there were many reported incidents of fraud on election day. However, media performance exceeded expectation, and advocacy NGOs progressed as anticipated.

As a result of USAID-funded programs, journalists, production staff, and station managers from 12 independent television stations across the country have benefitted from professional technical/journalistic training and are regularly contributing objective news reports both for a weekly Armenian news program and for a southern Caucasus weekly news program. A new Universal Electoral Code will pass in early 1999, and because of efforts of USAID-funded grantees, this law will contain many key provisions that will allow for more transparent elections. A number of nascent grassroots organizations have successfully implemented projects and garnered the trust and recognition of international organizations working in Armenia. In addition, civic education classes are now being conducted by well-trained teachers in over 200 secondary schools.

Short-term prospects in achieving this objective looks promising. Many of the institutions and laws necessary for a stable democracy are either established or soon will be. Active individuals in the media, NGOs, and political parties are taking their roles seriously and improving their organizations. However, unless the GOA takes serious steps to improve the electoral process, cynicism and apathy will grow as citizens feel that they are not freely selecting their country's leaders.

Possible Adjustments to Plans: Special attention may need to be given to the electoral process to underline its importance to increased citizen participation.

Other Donor Programs: USAID is the lead donor in democratic development in Armenia. Other donors, including Open Society Institute, the European Union, and US Information Service, provide limited assistance to media and NGOs, but USAID has the most comprehensive program which addresses these sectors as a whole. In addition, around the election period, international organizations such as Organization for Security and Cooperation in Europe (OSCE) and the Council of Europe provide assistance to the Central Election Commission and other institutions responsible for administering the elections, but USAID is the only organization which provides ongoing assistance in this area.

Principal Contractors, Grantees, or Agencies: USAID funded activities are implemented by the following grantees: Internews, the Eurasia Foundation, the National Democratic Institute (NDI), the International Foundation for Electoral Systems (IFES), the Armenian Assembly of America's NGO Training and Resource Center, and Junior Achievement of Armenia. Additional grants may be established with other private US firms for expanded assistance in this area.

Selected Performance Measures:

	Baseline	Target

Number of Active NGOs working on public policy issues	3 (1996)	10 (2000)
Number of Independent television stations providing objective news reports	11 (1996)	25 (2000)
% of national legislation passed that is published/covered in media	5% (1996)	25% (2000)
Law enacted protecting press freedom	No (1996)	Yes (2000)

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE AND NUMBER: Legal Systems That Better Support Democratic Processes and Market Reform, 110-S002.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $2,850,000 FSA
INITIAL OBLIGATION: FY 1996 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: The purpose of this objective is to help develop a properly functioning, impartial legal system in the Republic of Armenia, one which provides justice according to the law, rather than based on bribery or connections. USAID began its legal reform assistance program with legislative drafting, with particular emphasis placed on the Civil Code. Limited GOA political will for judicial reform began to emerge in late FY 97. The judicial branch in Armenia has historically been controlled by the executive branch. This control has started to weaken, and USAID has supported independent associations of judges and other legal professionals. The executive branch has also indicated a willingness to relinquish some control, though this willingness has not yet fully manifested. The direct beneficiaries of achievement of this objective will be judges and court personnel, advocates, regulatory agencies, and law students. Indirect beneficiaries will be all Armenians, given that a properly functioning, impartial legal system will benefit anyone dealing with the courts or executive branch, and will smooth the function of the general economy.

Key Results: There are four key intermediate results: (1) impartial administration of laws by regulatory agencies, (2) an independent judiciary, (3) an effective court system, and (4) impartial, efficient enforcement of court judgments.

Performance and Prospects: Performance over the past year has met expectations. A new Civil Code and new laws relating to the legal system have been developed and adopted with USAID assistance. Independent judges and attorneys associations have been created, and are working on issues relevant to their constituencies, such as judicial independence, and continuing legal education. Yerevan State University Law School has created a modern electronic research library and produced new course materials; junior faculty have been trained and have developed new curricula in the United States. USAID helped to develop a judicial examination for new judges to be appointed 12 Jan. 1999, and the examination process appeared honest and transparent.

In addition, USAID expects to work with regulatory agencies on impartial administration and enforcement of laws, and with a new court executors service on enforcement of court judgments. USAID will also work substantially on judicial training, and on court administration issues.

There have been some significant problems. While the judicial examination process went well, the overall plan for the exam was seriously flawed, and the selection of judges from a pool of qualified (by exam score) candidates was not transparent. The selection process was overwhelmingly controlled by the executive branch. The Council of Court Chairmen, responsible for training of new judges, has shown limited interest in training support. The Environmental Public Advocacy Center, which USAID supports as a demonstration that the legal system can be used effectively, has had limited success.

Possible Adjustments to Plans: Constitutional amendments now being considered would substantially enhance the independence of the judiciary by limiting executive branch involvement. USAID is providing advice on this issue. If certain amendments are made, the current program will continue as planned. If not, changes will be made to enhance the effective independence of the judiciary as much as possible, perhaps by limiting executive branch power in legislative, rather than Constitutional, ways. If the Council of Court Chairmen does not develop an interest in near term training for new judges, USAID will focus on longer term training, in conjunction with the planned EU/TACIS Judicial Training Institute. A number of donors are interested in execution of court judgments and court

administration. USAID will coordinate with these donors, and adjust its plans accordingly. The Environmental Public Advocacy Center has focused on some additional areas in addition to court action, but will continue to bring environmental court cases with the expectation that success rates will improve.

Other donor programs: USAID coordinates with the World Bank, which is in the planning stages of a broad legal reform program; with EU/TACIS, which will fund a Judicial Training Institute; as well as with GTZ and the Dutch Government.

Principal Contractors, Grantees, or Agencies: The American Bar Association's Central and East European Law Initiative (ABA/CEELI), AMEX International, Inc., and IRIS. Additional grantees or contractors may receive awards to support programs in this area as well.

Selected Performance Measures:

	Baseline	Target
Judicial reform laws (e.g., regarding the Bar, Courts, Procuracy) enacted	No (1996)	Yes (2000)
Proportion of population that understands civil and economic rights	5% (1997)	15% (2000)

ACTIVITY DATA SHEET

PROGRAM: ARMENIA
TITLE: Strengthened Social Safety Net, 110-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $8,900,000 FSA
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** FY 2003

Summary: The purpose of this strategic objective is to reduce human suffering through efforts to strengthen and make sustainable key aspects of the social safety net. USAID humanitarian assistance in the areas of food, winter fuel, and pharmaceuticals, has been instrumental in avoiding a humanitarian crisis and in buying time for the government to begin to implement economic and social reforms. With the immediate crisis passed, USAID has also funded a program designed to improve the targeting and delivery of humanitarian and government assistance to vulnerable households. Other successful initiatives have included the pilot phase of a Social Investment Fund, which continues to operate with World Bank Funding, and a Community Development activity. While these activities have been successful at averting immediate human suffering, it is increasingly clear that widespread poverty in Armenia remains a serious problem, therefore that attention needs to be shifted to longer-term efforts to rebuild a social safety net that will provide access for all Armenians to adequate and affordable health care, food and shelter that can be sustained domestically -- without donor support -- over time. Through efforts in improving the efficiency and effectiveness of the health sector and through macro-level social safety net assistance (e.g., in assisting in the identification and implementation of appropriate unemployment and/or health insurance plans), USAID plans to benefit all Armenians. Improvements in the efficiency and effectiveness of more targeted assistance will benefit the most poor and vulnerable population groups in the country.

Key Results: USAID will concentrate increasingly on improving the efficiency and effectiveness of social service delivery, in particular improvements in the national health delivery system for all Armenians and provision of basic food and shelter services for the most vulnerable. Improvements will be sought at both the macro (policy) level as well as at the micro (actual service delivery) level.

Performance and Prospects: USAID is currently shifting its focus from direct service delivery to reduce human suffering to assisting Armenia in its search for longer-term improvements in the efficiency and effectiveness of sustainable, domestic service delivery. In recent years, USAID has helped the GOA to develop and implement a monitoring system to track the country's most vulnerable population groups; the GOA has now taken over responsibility -- both financial and managerial -- for this system, demonstrating its sustainability. It is clear that, in order for a population-wide social safety net (e.g., unemployment insurance and pension) to be developed and implemented, Armenia will now need a broader social security numbering and tracking system as well as specific policy making and planning for what types of social safety net mechanisms (centralized/decentralized; public/private) will be pursued. In addition, USAID has supported community development activities which encourage local responsibility for identifying and resolving local problems such as the availability of potable and

irrigation water. These community development activities have been shown to be sustainable and have demonstrated that small-scale employment and income generating activities are viable and profitable. Community-based mechanisms for delivering basic assistance to the most vulnerable now needs to be explored. (Employment and income-generating activities also need to be expanded but not under the social safety net guise.)

Possible Adjustments to Plans: Over the past several years, USAID has been shifting away from direct service delivery to help avert immediate human suffering and toward longer-term, more institutional approaches to social service delivery. By FY 2000, USAID may need to become more actively involved in the identification and development of nation-wide social safety net options that will allow the country (either through public and/or non-governmental means) to sustain these systems on its own over time. USAID also will work with the GOA as well as non-governmental organizations to identify the most appropriate and effective means (e.g., public versus private sector, local versus national) of actual social service delivery.

Other Donor Programs: The World Bank continues to provide major funding for social infrastructure rehabilitation. Armenian Diaspora contributions to charitable organizations (e.g., schools, orphanages, health clinics and hospitals) continue to be significant. The European Union has worked with the GOA to identify what should be included in a social security numbering system but does not plan to fund the actual development and implementation of this system.

Principle Contractors, Grantees, or Agencies: In the health area, U.S. partnerships will be formed with the assistance of the American International Health Alliance. In non-health social areas, USAID currently implements activities through U.S. and local organizations including most prominently Save the Children Federation. Non-health implementors may change by FY 2000 in light of possible program adjustments as noted above.

Selected Performance Measures:

	Baseline	Target
Number of sustainable civic action groups created	0 (1995)	141(2000)
Number of community development projects completed	0 (1995)	96 (2000)
GOA policy agreement on basic social service delivery mechanisms	No (1998)	Yes (2000)
Lower social service delivery costs and/or improved effectiveness of delivery to the most vulnerable	No (1998)	Yes (2000)

AZERBAIJAN

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$34,291,000	$23,840,000	$33,500,000

Introduction.

The emergence of Azerbaijan as a prosperous free-market democracy will advance U.S. national security as well as political, commercial and humanitarian interests. Azerbaijan is a potential alternative source of oil to meet Western energy needs, a key link in the trans-Caspian energy export system, and a promising market for American goods and services. At the same time, a government committed to rule of law and upholding human rights and other norms characteristic of democratic states would serve as a force for stability in the strategically important and historically volatile Caucasus region.

Section 907 of the Foreign Assistance Act restricts direct assistance to the Government of Azerbaijan, preventing the U.S. Government from working with Azeri officials on a range of issues critical to establishing a market-oriented democracy. Assistance has been directed to non-governmental areas. As a result of new exemptions to Section 907 granted by Congress in annual appropriations legislation, program activities have been and continue to be expanded in humanitarian assistance and democracy-building,

The Development Challenge.

In the wake of the dissolution of the Soviet Union, Azerbaijan experienced a precipitous economic decline that was exacerbated by the country's territorial conflict with Armenia over the largely Armenian ethnic enclave of Nagorno-Karabakh. More than four years after a negotiated ceasefire, Azerbaijan still must contend with more than 700,000 refugees and internally displaced persons (IDPs), many of whom continue to live in deplorable conditions.

Despite the beginnings of what is expected to be a financial windfall derived from development of projected huge, off-shore oil reserves in the Caspian Sea, Azerbaijan has made only limited progress in the transition to a market-based economy and democratic polity. Headway on privatization and economic restructuring has lagged even though Azerbaijan has attracted substantial oil-related foreign investment that has turned the capital of Baku into a boomtown. Despite some encouraging developments on privatizing state-owned firms and strengthening banking oversight, failure to tackle endemic corruption and to implement effectively, long-postponed structural reforms is likely to reduce Azerbaijan's attractiveness to would-be investors.

In the political sphere, an authoritarian, highly-centralized regime has blunted democratic reform. Recent presidential elections were judged to be flawed by the international community and domestic observers. The subsequent crackdown on political opponents has reinforced already-strong doubts about President Aliyev's regime's stated commitment to democracy.

Still, the Government of Azerbaijan (GOAz) has achieved a degree of macro-economic stability and growth, and a nascent small business sector concentrated in the capital is taking shape. The foundation for future political change also is being put in place with the emergence of civil society. Opposition political forces are organizing, and an increasing number of citizens are participating in various types of political and social-service-delivery non-governmental organizations (NGOs). These steps, however, do not include comprehensive economic or judicial reforms, laws and policies needed to create a fully democratic, market-based economy.

From the outset, the vast proportion of U.S. assistance to Azerbaijan has been for humanitarian relief to refugees and internally displaced persons (IDPs). Those programs have been administered largely by NGOs and international organizations (e.g., the U.N.) and involve distribution of food, clothing and medicines; provision of basic medical

services; construction of shelters; and rehabilitation of water-supply and sanitation systems. Emergency relief has reduced the level of human suffering but cannot substitute for longer-term development assistance efforts. This continues to be the case even after the introduction of small-scale income generation projects which have helped vulnerable populations acquire the means to lessen their dependence on foreign aid.

Because Azerbaijan is such a vital link in the Transcaspian energy export system, it is essential that the GOAz develop a market-oriented, transparent and corruption-free economic, legal and regulatory system. However, Section 907 still limits the U.S. Government's ability to promote these specific economic restructuring goals with the Government of Azerbaijan and no other donor can substitute for the United States' experience and leadership in this area. With the development of its large oil reserves, Azerbaijan will have the resources necessary to consolidate the transition to a market-based economic system and to meet the needs of the most vulnerable segments of the population. However, the present government's reluctance to introduce admittedly painful structural economic reforms, its poor record in addressing the plight of refugees and IDPs, and its questionable commitment to democratic institutions and practices make the prospects for economic and democratic stability very uncertain.

Other Donors.

Major bilateral donors (France, Germany, Japan and the Netherlands) and multilateral lending institutions (the IMF and World Bank) have approved tens of millions of dollars in credits to support critical reforms geared to restructuring the economy and stimulating small business development, as well as loans for rehabilitation of Baku's main power plant and water-supply system. Under an IMF Systematic Transformation Facility, the GOAz is committed to a comprehensive program of economic stabilization and structural reform. The UN High Commissioner for Refugees (UNHCR) plays a prominent role in coordinating humanitarian assistance. Direct humanitarian aid in large quantities and dollar amounts is provided by several UN agencies (UNDP, UNICEF, World Food Program, World Health Organization) and by numerous other international organizations, including the International Federation of the Red Cross (IFRC) and the International Rescue Committee (IRC).

FY 2000 Program.

USAID's program in Azerbaijan has three central objectives: (1) alleviate human suffering in a post-emergency situation while helping to reduce dependence on humanitarian assistance, in part by strengthening the capacity of indigenous NGOs and community groups; (2) support more responsive, transparent, and accountable democratic governance through increased participation of informed citizens in the country's economic and political life; and (3) stimulate the nascent private sector, focusing on small and medium enterprise and agribusiness development, training, and related areas. A new activity to promote the rule of law and commercial law reform is scheduled to start in FY 1999. Other activities will support preparations for municipal elections, NGO development, independent media and political party training. The USG will continue to implement activities to assist victims of the Nagorno-Karabakh conflict. In the event of a peace settlement, USAID will continue to provide humanitarian and rehabilitation assistance while expanding overall support for economic restructuring and growth objectives. Cross-cutting and special initiatives will include a variety of training programs designed to bolster the capacity of selected Azerbaijani citizens, groups, and institutions to advance the reform process. Increasingly, training will be focused on economics/business development and related leadership fields. USAID-funded training will continue to be U.S.-based or conducted in-country by U.S. implementors, although some third-country training is being promoted. A modest amount of funding also is likely to be dedicated to preliminary efforts at de-mining, resettlement and rehabilitation in some of the areas previously occupied by Armenian military forces. All of these initiatives will be carried out in accordance with Section 907 restrictions.

AZERBAIJAN

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	6,500	--	--	--	6,500
Financial Reform	--	--	--	--	--
Energy	--	--	--	--	--

Environmental Management	--	--	--	--	--
Citizens' Participation	--	5,350	--	--	5,350
Legal Systems	--	600	--	--	600
Local Government	--	--	--	--	--
Crises	--	--	7,500	--	7,500
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	13,550	13,550
TOTAL	6,500	5,950	7,500	13,550	33,500
*FREEDOM Support Act (FSA) funds					

USAID Mission Director: Michael Farbman

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Accelerated Development and Growth of Private Enterprises, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $ 6,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1997; **ESTIMATED COMPLETION DATE**: FY 2002

Summary: This Strategic Objective will foster the growth and development of private enterprises, with a special emphasis on expanding the role of small and medium-sized enterprises in the economy. During this past year, USAID initiated some Section 907-compliant programs to stimulate the nascent private sector, focusing on small and medium enterprise and agribusiness development, training, and related areas. The underlying rationale for pursuing this objective in the Azerbaijani environment is twofold. First, the growth of small and medium enterprises (SMEs) will help create a constituency for macroeconomic reform. Second, the development of SMEs will build support for resolution of the Nagorno-Karabakh dispute because those same businesses stand to benefit from the economic potential of peace. Activities are being designed to speed the transition from emergency humanitarian assistance to sustainable development programs. The direct beneficiaries of this objective are primarily farmers and owners of small agriculture-related businesses which have acquired privatized land, and other private businesses. To the extent that some of the activities can be linked with ongoing income generation projects for IDPs, segments of that population also will benefit.

Key Results: At present, USAID-funded activities focus on three intermediate results: (1) increased number of SMEs operating successfully in the economy; (2) increased availability of market-based loans for enterprises; and (3) improved policy environment for private sector development.

Performance and Prospects: The Caucasus Small Enterprise Finance Program (through ShoreBank Advisory Services (Shore Bank) and Foundation for International Community Assistance (FINCA)) is now mobilized in Azerbaijan. Their efforts are directed at filling the credit gap in Azerbaijan in the $1,000 to $10,000 range. ShoreBank has completed banker/loan officer training for four private Azerbaijani banks with which it is working and has initiated its credit program. FINCA has begun the development of a village banking system which will be providing direct loans to small businesses. This credit program complements other technical assistance and the training efforts of short-term resident-volunteers and technical experts who are advising small and medium-sized retail and wholesale businesses.

In addition, USAID started a Commercial Bankers Training program in Azerbaijan during this past year, offering courses in bank management, risk management, basic international accounting standards, supervision, and reporting. USAID expects to expand this program in FY 1999.

Finally, as a result of USAID's Bureau for Humanitarian Response funding, a number of individual agribusinesses have become successful (e.g., kiwi and mushroom production and export) with technical assistance and training from ACDI/VOCA. In late FY 1998, ACDI/VOCA began a demonstration program for experimental projects to support the work of the volunteer-farmers from the U.S. and established a domestic Azerbaijani farmer-to-farmer technical assistance program.

Possible Adjustments to Plans: USAID considers all of the activities under this SO to be on target and meeting expectations. No new projects are planned at this time. USAID will prepare a new program strategy for assistance to Azerbaijan in Summer 1999.

Other Donor Programs: The World Bank has identified agriculture as a priority sector and they are supporting programs in farm restructuring/privatization, infrastructure rehabilitation (e.g., irrigation systems) and credit. The European Union is concentrating on banking and marketing in the grain and bread industries. Also, the International Islamic Relief Organization, the International Rescue Committee, OXFAM, and the International Federation of Red Cross and Red Crescent Societies are funding income-generation projects, mostly agribusiness-based, and primarily targeted for IDPs and refugees.

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities are implemented by ShoreBank; FINCA; the Eurasia Foundation; ACDI/VOCA.

Selected Performance Measures: *

	Baseline	Target
Number of loans made to small and micro enterprises	288 (1997)	1800 (2000)
Number of strengthened local financial institutions servicing SMEs	3 (1997)	9 (2000)

* This remains a relatively underdeveloped strategic objective. The following indicators are will be refined during strategy development in Summer 1999.

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $ 5,350,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This strategic objective supports increased, better-informed citizens' participation in political and economic decision-making. Azerbaijan's early post-independence progress toward democratic governance was slowed by domestic instability and the consolidation of power by the authoritarian regime headed by President Aliyev, a former Communist Party boss. The conflict in Nagorno-Karabakh further impeded the development of democratic and legal reforms. Limited press freedom, a nominally independent judiciary and legislature, and a weak civil society are an ineffective counter-weight to a powerful executive branch. USAID-funded activities are primarily targeted at citizens' and citizens' groups that can benefit from the training and expertise provided by international private voluntary organizations. These include, but are not limited to: journalists, ecological and social NGOs, political parties, scholars, human rights and women's advocacy groups. USAID also funds technical assistance to the Central Election Commission (CEC), as well as training and voter education.

Key Results: At present, USAID-funded activities focus on three intermediate results: (1) increased public confidence in the political process; (2) better independent news coverage; and (3) citizens and NGOs successfully advocating on behalf of citizens' rights.

Performance and Prospects: The October 1998 presidential election represented a milestone in Azerbaijan's democratic development. Despite the flawed outcome, the presence of U.S.-funded organizations ensured that the public was well informed about the electoral process, that election officials received training in implementing the new election law, and that political party observers were trained in election monitoring. The International Foundation for Election Systems (IFES) provided technical assistance and training to the CEC, as well as a voter education campaign, while the National Democratic Institute (NDI) provided training for local election observers and political party representatives. NDI advisors also worked closely with the GOAz to amend the election law passed in April 1998. Among the key amendments to the flawed law was the inclusion of opposition political party representatives as members of the CEC. Similar activities will be conducted in preparation for the municipal elections that are tentatively planned for 1999, with additional activities to be conducted by the International Republican Institute (IRI).

Despite a highly restrictive environment for the development of independent media, USAID-funded Internews made some headway with independent television (the medium of choice) in Azerbaijan. Through their efforts, Azerbaijan's independent television stations participate in a successful Transcaucasus program-sharing effort. This past year, Internews also conducted seven in-country seminars with an average of 15 participants each. In addition, through the Academy for Educational Development (AED), 15 reporters received U.S. training. Internews helped two independent TV stations to register and obtain broadcast licenses, despite complicated and changing government regulations. USAID-funded advisors also translated a manual on how to conduct media coverage of an election, which was distributed to electronic media representatives.

An average of one dozen dailies, located in the capital, constitute the print market in Azerbaijan. Printing is monopolized by the state publishing house, and newspapers are officially "reviewed" prior to publication. With USAID support, *Yeni Nasil*, an indigenous press association, has been actively working with the Azerbaijani Parliament in an effort to amend the Law on Media, which is vague, limits investigative reporting, and allows arbitrary censorship.

USAID-funded assistance for the development of the NGO sector has made limited progress due to the authoritarian political and restrictive legal environments. ISAR provides extensive training, small grants and information/outreach to fledgling NGOs. To date, 72 groups throughout the country have received grants to implement programs in areas such as environmental reform, services for the disabled, children's rights, and media reform. A small corps of NGOs that have gone through ISAR's management training have developed organizational, strategic planning, and fund-raising capabilities. Nevertheless, the enabling environment for NGO growth and development remains a major barrier, in the absence of laws to facilitate NGO registration or address NGO taxation issues.

Possible Adjustments to Plans: Despite the many difficulties of working in Azerbaijan, USAID believes it is essential to remain engaged in supporting the development of democracy there. Since Section 907 exempts democracy-related assistance to the GOAz, more attention will be given to promoting an improved legal and regulatory environment for NGOs and independent media. USAID will be preparing a new program strategy for assistance to Azerbaijan during Spring 1999.

Other Donor Programs: Complementary efforts to promote steps towards democratic progress are being closely coordinated with the United Nations, Organization for Security and Cooperation in Europe, and the European Union.

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities are implemented by NGOs such as Internews, NDI, IRI, ISAR, IFES, and the Eurasia Foundation. The U.S. Information Agency provides democracy-related training and exchange programs.

Selected Performance Measures:

	Baseline	Target
Law enacted protecting independent electronic media	No (1998)	Yes (2000)
Percentage of polling places covered by election monitors	20% (1996)	80% (2000)
NGOs more effective advocating for public policy issues (using NGO sustainability index with 1 highest and 7 lowest)	7 (1996)	5.5 (2000)

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Legal Systems That Better Support Democratic Processes and Market Reform, SO02.2
STATUS: New Start
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $600,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1999; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This is a new-start for USAID. Specific activities have not been defined in detail, pending the American Bar Association (ABA) assessment that will take place in mid-1999. The broad categories of potential ABA activities are: legal profession reform; judicial reform; legal education reform; and the provision of legal assessments for proposed laws. The GOAz and the business community have expressed support for commercial law reform, as it

will enhance the country's investment profile. Thus, commercial law will constitute a major focus of the aforementioned legal reform activities. Success with commercial law reform also should build support for Azerbaijani reformers to move forward with judicial reform.

Key Results: USAID-funded activities will focus on two intermediate results: (1) increased citizen respect for legal systems; and (2) increased capacity and independence of the judicial branch.

Performance and Prospects: The success of the activities will depend on the maintenance of economic and political stability in the country and the commitment of the Government of Azberbaijan, the business community, and NGOs to move forward on legal reform initiatives.

Possible Adjustments to Plans: Adjustments will be made as the activities are defined and implemented. In FY 1999, USAID will develop a new program strategy for assistance to Azerbaijan, including design of this new strategic objective.

Other Donor Programs: TBD

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities will be implemented by the American Bar Association's Central and East European Law Initiative (ABA/CEELI).

Selected Performance Measures: *

	Baseline	Target
Major legal reform laws enacted	No (1998)	Yes (2000)
Proportion of population understanding civil and economic rights	TBD (1999)	TBD (2000)

* This is a new strategic objective; performance measures with baseline and targets will be developed as part of strategy development during Summer, 1999.

ACTIVITY DATA SHEET

PROGRAM: AZERBAIJAN
TITLE: Human Suffering and Crisis Impact Reduced, 110-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $7,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This strategic objective helps reduce human suffering and the impact of crises. Over 700,000 refugees and internally displaced persons (IDPs) remain in Azerbaijan under difficult conditions, as a result of the continued dispute over Nagorno-Karabakh (NK). As a matter of policy, the Government of Azerbaijan (GOAz) has not provided support for these people. The Azerbaijani NGO sector is weak and limited in its ability to respond to this humanitarian situation. As a result, the international donor community, in which USAID is a major player, will have to continue to support this vulnerable group for the foreseeable future. Priority beneficiaries of humanitarian assistance continue to be the approximately 700,000 refugees and IDPs residing throughout the country. Increasingly, assistance is oriented to helping the vulnerable populations acquire the means to lessen their dependence on foreign aid, through such activities as small-scale income generation projects.

Key Results: At present, USAID-funded activities focus on the following intermediate results for the vulnerable groups targeted by this objective: (1) improved living conditions; (2) improved health and nutrition; and (3) improved economic opportunities.

Performance and Prospects: Through USAID-funded programs and contributions to UN agencies, USAID has provided humanitarian assistance since 1992 to the refugees and IDPs in Azerbaijan. USAID grants to NGOs have provided food, clothing, shelter and sanitation, medical assistance, and commodities to more than 650,000 crisis victims. USAID donations to the UN's World Food Program have helped IDPs throughout the country receive food parcels, and contributions to UNICEF have resulted in the immunization of IDPs against diphtheria. Recently, USAID-supported income generation projects have begun to help a number of these economically vulnerable people to become more self-sufficient. Over the past year, there have been no major health epidemics in these camps and shelters, nor have there been any instances of civil unrest or instability. These facts suggest that the conditions in which these refugees and IDPs live have reached some level of acceptability.

USAID's new cooperative agreement with Mercy Corps International has continued to provide subgrants to a variety of U.S. NGOs in Azerbaijan. Relief International has successfully implemented a system of twelve mobile and eight fixed health clinics which has provided primary health care to approximately 300,000 refugees and IDPs in fourteen districts of Azerbaijan. In addition, through Relief International's UNHCR-funded reproductive health program, training has been provided to all USAID-funded physicians and nurses.

The United Methodist Committee on Relief has provided an integrated health care program which provides approximately 140,000 IDPs with primary health care, immunization, micronutrient supplementation and health education services. While it is as yet too early to report on actual health results from this activity, drop-out rates from health education classes have been very low and over 80% of the women (roughly 5,500 individuals) in one target area have attended health training classes.

Among a number of housing subgrants, International Rescue Committee and World Vision have undertaken public building rehabilitation projects and have completed work on over 80 public buildings in Baku and Sumgait which house approximately 33,000 refugees and IDPs. As another example, CARE and the International Rescue Committee have provided materials and guidance which has enabled the construction of housing for over 3,100 IDP families. This housing generally includes latrines and often includes hand pumps for water.

Funding was also provided to UNHCR for the shelter portions of the World Bank Resettlement Program. During the initial stages, it is anticipated that 3,000 IDPs will be resettled back to their home villages.

Possible Adjustments to Plans: As shelters are rehabilitated and the incidence of health epidemics remains low, USAID will turn its efforts increasingly toward supporting self-sufficiency among the vulnerable populations through income generation, improved health care, and community mobilization. This "new era" of assistance was initiated during 1998, through a new umbrella grant awarded to Mercy Corps International. It will also be supported through funding for the Victims of the Nagorno-Karabakh Conflict earmark, which is bringing USAID-funded assistance into a new region in Azerbaijan. This latter activity will address the range of services needed to attract and keep IDPs in their home communities. USAID will be preparing a new program strategy for assistance to Azerbaijan during Summer 1999.

Other Donor Programs: The European Union (EU) and USAID continue to coordinate shipment and delivery of humanitarian assistance to the Caucasus. In addition, the United States, the EU, Japan, and other bilateral donors have provided millions of dollars worth of food, medical and other humanitarian supplies. UNHCR plays a major role in coordinating humanitarian assistance provided by the EU and other bilateral donors.

Principal Contractors, Grantees, or Agencies: The primary U.S. NGOs operating in Azerbaijan are Mercy Corps International, Save the Children, UMCOR, Mercy Corps International, CARE, Adventist Development and Relief Agency, World Vision, International Rescue Committee, Relief International, and the American Red Cross.

Selected Performance Measures: *

	Baseline	Target
Improved living conditions		
- Public Building Rehabilitation	0 (1992)	66 (2000)
- Mudbrick Shelters	0 (1992)	1,400 (2000)
- Shelters in resettlement areas	0 (1992)	2,000 (2000)
Improved health and nutrition * (Continuation of current programs, numbers of beneficiaries)		
- Food Distribution	188,000	188,000
- Access to Primary Health Care	328,000	328,000
- Access to immunizations	300,000	500,000
Improved economic opportunities		
- Persons Trained	0 (1992)	2,000 (2000)
- Number of Loans	0 (1992)	3,500 (2000)

* Note: Where a baseline is the same as the target, it is because the USAID goal is to continue essential activities for the same target population.

BELARUS

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$7,260,000	$9,780,000	$10,500,000

Introduction.

The goal of U.S. assistance in Belarus is to promote stability, democracy, a market-oriented economy, and respect for internationally accepted principles of human rights. Belarus is strategically placed country with the potential to enhance stability and security in the region, having already voluntarily and completely eliminated its nuclear arsenal. Enormous problems must be overcome to realize that potential, not the least of which is the impact of exposure to radiation from the Chernobyl accident, affecting perhaps two million people, especially the young generation. The people of Belarus are highly skilled, well-educated and resourceful, and the country has the potential to be independent, democratic and prosperous. Responsible and effective leadership is the missing ingredient.

Since his election to office in 1994, President Lukashenko has consolidated his power through a widely criticized constitutional referendum, extended his term in office, and ruled Belarus in an authoritarian manner. Based on the results of the severely flawed constitutional referendum, the Constitutional Court lost its independence, and the democratically-elected Parliament was abolished, replaced by powerless Presidential appointees. President Lukashenko has used his increased power to suppress individual freedoms, especially the freedoms of speech, press, association and assembly. Despite criticism from the Organization for Security and Cooperation in Europe, the European Union, Council of Europe, and the United States, President Lukashenko has eliminated the system of checks and balances over the executive branch.

The Development Challenge.

Now, despite the potential of this strategically-placed country and its people, Belarus has the unfortunate distinction of being one of the slowest reformers among the New Independent States. Both economic and democratic reforms have deteriorated under President Lukashenko. A 1998 year-end poll by the Government’s Ministry of Economy reports that almost 80% of families believe that their material well-being has worsened in the last six months. Inflation, dropping exports and disappearing foreign exchange reserves are putting tremendous pressure on the people and their government.

The current U.S. policy of "selective engagement" towards Belarus limits contact with Belarusian government authorities. In 1998, in response to Lukashenko’s eviction of the Western ambassadors, the U.S. further limited its contact with Belarusian officials, most U.S. Government-funded assistance activities involving Belarusian government authorities were suspended, and a travel ban to the United States by high-level Belarusian government officials was imposed.

The future of Belarus in this region depends on its citizens realizing that only democracy and a free market economy can bring them to their potential. A formidable surge of small, private organizations has steadily arisen in communities throughout Belarus. The neighboring nations in Eastern Europe are giving evidence of successful democratic and free-market economic reforms. Policy-oriented private research organizations are informing leaders in and out of government about the facts of the current economic crisis. The USAID program supports these trends, aiming to empower citizens to take initiative and responsibility for solving their individual and community problems and relying less on the government to meet their needs. Through activities in small-scale privatization, independent media, promotion of the rule of law, humanitarian assistance, and NGO development, USAID is providing support for an open, democratic, civil society with a market economy. The increasing private and democratic action by individuals and organizations working at the grassroots level is evidence that the authoritarian trend of President

Lukashenko's policies cannot succeed.

For many Belarusian families, economic collapse heightens concern about their welfare, especially the health, of their families. The dramatic fall in life expectancy during the past decade provides compelling testimony to the human cost of three tragedies: the many years of governmental abuse of the environment, the collapsing life-force of some individuals in economic distress, and the ever present radiation from Chernobyl fall-out which continues to undermine human health, particularly among children. USAID will continue to establish and promote sustainable U.S./Belarus health partnerships which foster more effective and efficient delivery of health services, emphasizing the establishment and maintenance of comprehensive primary care centers.

In contrast to Belarus' highly interventionist economic policies and the expensive subsidies of public sector economic entities, the USAID-funded small-scale privatization program, implemented through the International Finance Corporation (IFC), is a market-oriented, economic program in the commercial, profit-making sector. The IFC has worked in 14 cities, divested over 1,500 small and medium enterprises, and helped create more than 4,000 private business owners. These small businesses, the employment they provide, the market-oriented goods and services they offer are eloquent testimony in their communities.

USAID has also had notable success in its democracy program. A new indigenously-inspired "street law" program is providing practical information about civil and human rights to leaders, teachers and professionals and the youth in communities. These USAID-funded workshops have exposed Belarusians to democratic values, and inspired many to promote and respect the rule of law and reform efforts. The street-law program will be expanded to all regions during the coming year. Support to reform-minded former Constitutional Court justices has resulted in the creation of an NGO which promotes the rule of law. Independent trade unions have gained access to better legal services for its members. A new group of attorneys expert in media law is protecting the rights of journalists and the independent press.

Other Donors.

Because of the lack of policy reform progress and failure to comply with agreements, the World Bank and the International Monetary Fund have suspended operations in Belarus and withdrawn their resident representatives.

FY 2000 Program.

The U.S. assistance program will continue to support programs which encourage political and economic reforms through non-governmental entities. Modest USAID activities are underway in the areas of economic restructuring, democracy and health, are categorized under the rubric of "crosscutting" or "special" initiatives.

Small-scale privatization. The USAID-funded small-scale privatization program (SSP), managed by IFC, is one of the U.S.'s top assistance priorities, which can generate understanding and needed support for economic reforms. Small-scale privatization in many towns throughout Belarus has helped to demonstrate the benefits of a market-driven economy. Through SSP, improvements in the regulations governing privatization and local level capacity-building have been positive. SSP provides, as needed, consultation to other cities throughout the country. City selection is demand-driven in that the project only extends assistance to cities that approach IFC and are willing to initiate a comprehensive auction-based privatization program. All proceeds generated by auctions are utilized by democratically-elected city councils for social services and infrastructure development.

Under another component of the SSP, private independent homeowners' associations, have been created to facilitate the sale of commercial premises in residential buildings so that the privatized small businesses have secure tenure. These associations are democratic in structure and empower members to resolve issues independently, without input from state agencies.

Democracy. The American Bar Association/CEELI (ABA/CEELI) has fostered the development of the rule of law by strengthening local institutions dedicated to changing Belarus' legal culture; supporting reform in legal education; and organizing workshops on the rule of law, democratic procedures and institutions. For much of the reformist element of the Belarus legal community, USAID grantees are an important contact with the Western democratic world. This contact has inspired lawyers, judges, law faculty and others to continue to believe in and work for the establishment of the rule of law in Belarus. To bring objective reporting to citizens of Belarus, IREX/ProMedia works with print and broadcast media to improve management and effectiveness, enabling the independent media outlets to become financially self-sufficient and with modern production standards. It also helps to improve professional standards among publishers, editors and journalists through training, and assists journalists' and independent media's efforts to expand press freedoms in Belarus. Under the new Women's Economic Empowerment activity, Belarusian women will receive training in leadership, advocacy and entrepreneurial skills through a grant to

Winrock International.

Eurasia Foundation. Local non-governmental organizations (NGO) building momentum toward political and economic reform are being assisted by Eurasia Foundation seed grants and its NGO resource center. Eurasia provides grants to Belarusian organizations that work in areas that complement USAID's other developmental programs such as economics education, grassroots democracy building initiatives, civic education, and initiatives raising public awareness about democratic principles and citizens' rights in Belarus and in free societies. Other activities will provide support for media and communications development, and for cooperation and exchanges with reform-minded elements in Ukraine.

Non-Government Organization (NGO) Development. Since independence, the number of local NGOs has increased dramatically in Belarus. To strengthen the NGO sector's capacity to provide needed social services to vulnerable groups, to express and protect citizens' interests in dialogue with the government, and to promote continued democratic and economic reform, USAID created the Counterpart Alliance Program (CAP). CAP provides seed grants and training to a variety of advocacy and social service NGOs, focussing on the areas of general NGO management and public and community relations. In particular, CAP has provided seed grants to social service organizations, and groups devoted to improving the legal and regulatory environment for NGOs in Belarus. The Counterpart Humanitarian Assistance Program (CHAP) will continue to provide both emergency and technical/humanitarian assistance to Belarus.

Health Partnerships. To address fundamental health needs in the NIS, USAID is supporting a health partnership program which focuses on primary health care service delivery. Coordinated through the American International Health Alliance (AIHA), the partnership program in Belarus will provide a sustainability grant to the Women's Wellness Center in Minsk to continue their activities in women's health, nurse leadership and management, and medical school curriculum revision. The sustainability grant will finance seminars, conferences and curriculum module development, as well as the creation of a satellite women's wellness center outside the capital. The U.S. partners are the Magee Women's Hospital in Pittsburgh and the University of Pittsburgh Medical School. Two additional partnerships will be developed over the next three years. It is anticipated that one of the partnerships will focus on primary care, and the other on emergency medicine.

BELARUS

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Special Initiatives	--	--	--	10,500	10,500
TOTAL	--	--	--	10,500	10,500
*FREEDOM Support Act (FSA) funds					

USAID Mission Director: Gregory Huger

BOSNIA AND HERZEGOVINA

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Support for East European Democracy	$215,000,000	$195,000,000	$175,000,000
Economic Support Fund	5,000,000	--	--
P.L. 480 Title II	14,748,000	--	--

Introduction.

The Dayton Peace Accords and the associated multinational military and civilian peace implementation efforts have resulted in three years of visible peace and economic recovery in Bosnia and Herzegovina (Bosnia). Maintaining that peace continues to be of direct importance to U.S. strategic and economic interests in Europe. U.S. leadership has been critical in setting the course for rapid reconstruction and critical economic reform. By focusing on well-defined goals and moving quickly to produce visible results, U.S. reconstruction assistance is creating economic and democratic incentives for Bosnians to cement into place the framework for longer-term peace. A continued U.S. role in Bosnia assures peace and progress.

The Development Challenge.

Bosnia is faced with a dual challenge: to move from a socialist to a market economy while also recovering from the war. The most immediate task facing Bosnia continues to be economic revitalization. Paralleling the reconstruction process, the country needs to continue to build the legal and institutional framework for a private sector market-led economy. In order for the transition to be sustainable, it must be based on a democratic and active civil society. SEED and PL-480 resources have been augmented with International Disaster Assistance (totalling over $11.5 million in FY 1998) to aid Bosnia's recovery from war and to help make the shift from crisis to economic restructuring, growth and democracy-building.

The resumption of economic activity will enable returning refugees to be reintegrated into their communities with gainful employment, and acquire a stake in lasting recovery. Refugee returns have gained momentum, including 30,000 minority returns reported by UNHCR in 1998; this momentum is expected to continue. Numerous unregistered returns have also taken place, but official estimates do not exist. By helping create the necessary conditions at the community level, U.S. assistance programs facilitate returns. A combination of functioning infrastructure and employment opportunities, especially when linked with democracy building activities, serves as a magnet, drawing refugees home.

Recovery of the economy has been dramatic, primarily in the Federation, where commitment to Dayton principles resulted in larger and earlier donor investment than in the Republika Srpska (RS) in 1996 and 1997. Massive inflows of foreign assistance continue to fuel economic growth. Estimates vary, but most analysts accept World Bank figures for GDP growth: 62% in the Federation and 25% in the RS in 1996, 35% in the Federation in 1997, (RS flat). Estimates for 1998 indicate that growth in the Federation was maintained, while the RS economy improved dramatically as donor investment increased in 1998 following the emergence of a more moderate and market-oriented government.

The establishment and strengthening of critical economic institutions and the implementation of economic reforms are central to promoting a secure and prosperous future for Bosnia. Movement, however, towards achieving these goals has been slow. With U.S. assistance, some progress has been made, such as the establishment of a Central Bank in late 1997; the successful conclusion of debt negotiations with the London Club in December 1997 and the Paris Club in October 1998; and issuance, albeit forced by the international community, of a new currency in mid-1998.

Challenges in moving toward a democratic Bosnia remain formidable. Holdovers from communist times such as authoritarian governments, with rubber-stamp parliaments and weak judiciaries, hinder progress. There are few checks and balances between branches of government. Fifty years of communism and a bitter war have inhibited Bosnian civil society. Citizens remain generally disengaged and apathetic towards government and civic involvement. Government corruption and lack of accountability promote apathy rather than protest.

Citizens of Bosnia went to the polls for the fourth time since the signing of the Dayton Accords in September 1998. Each post-Dayton election has contributed to emerging political pluralism by eroding single party strength, but non-nationalistic parties continue to require assistance in developing practical campaign agendas, voter outreach capacities, increasing and mobilizing membership, and democratic internal structures. Bolstered by their success in the 1998 elections, moderate opposition parties in both entities are uniformly optimistic that they will finally be able to guide the country's economic and political transition. Sustained peace, the promise of an extended international military presence, and political opening in the RS suggest that considerable systemic and institutional reform will be possible in the next few years.

The media, operating in a murky regulatory environment, is in transition. State-owned radio and TV stations, many created during the war, are preparing for privatization. The majority, however, will not survive due to unsound business practices and a poor economy (and the fact that Bosnia is a small country) which cannot support the large number of outlets. Other weaknesses include passive, neophyte journalists reluctant to challenge authority.

The judicial system remains far from impartial and independent. Political parties continue to control the selection process for judges, and political pressure ensures that the courts rarely reach decisions on controversial cases. Few citizens expect that they can get a fair trial or use the judicial system to right a wrong. Considerable attention will be paid to the judicial sector over the next several years to ensure that the courts are transformed into an independent, credible branch of government in which a fair, impartial justice is meted out. USG support for police restructuring covers the costs of 200 experienced U.S. law enforcement personnel assigned to the 2,000 member International Police Task Force (IPTF), training in basic police skills offered through the Department of Justice's International Criminal Investigation and Training Assistance Program, and the creation of special police units to deal with civil disorder, narcotics trafficking and organized crime. IPTF activities have helped establish multi-ethnic police forces in the Federation, which in turn create a security environment conducive to minority refugee returns.

Against this background, U.S. assistance remains a critical element for creating both the economic and democratic institutions necessary to sustain peace in Bosnia over the long term. While other donors are expected to assume the greatest financial burden for rebuilding Bosnia, the U.S. program serves as a model and catalyst.

Other Donors.

U.S. assistance is part of a broad-based Priority Reconstruction Program, spearheaded by the World Bank and the European Union, involving 48 donors who have committed a total of $4.37 billion since 1996 for reconstruction in Bosnia. The European Commission has pledged just over $1 billion (23% of total commitments), which does not include bilateral pledges made by European countries. The United States has pledged a total of $766.65 million (17.5%). The World Bank has pledged $590 million (13.5%). Multilateral and bilateral donors, international financial organizations, international organizations such the United Nations and the Organization for Security and Cooperation in Europe (OSCE), and the North Atlantic Treaty Organization (NATO) work closely on implementing the Dayton Peace Accords at a variety of levels. Regular meetings of Peace Implementation Council members help prioritize broader program policies and set concrete implementation objectives. On-the-ground coordination, through sectoral task forces covering issues such as infrastructure rehabilitation, economic reform, and refugee returns, strengthens donor effectiveness and maximizes U.S. assistance program resources by leveraging other donor funding, avoiding project duplication, and ensuring that constraints to implementation are addressed as common donor concerns.

FY 2000 Program.

The period 1996-1998 saw enormous multinational support for Bosnia's reconstruction and recovery from war. U.S. programs helped lay the groundwork and create a conducive environment for an enduring and just peace by restoring economic productivity, generating employment and supporting democratic reform. Building on these recovery efforts, U.S. priorities in 1999 and 2000 focus on accelerating Bosnia's movement towards a market economy, meeting remaining infrastructure rehabilitation needs, particularly at the community level in support of refugee returns, and continued support for democratic reforms. In all cases, Bosnians will be active managers and participants.

The United States' key reconstruction activities in Bosnia, the Municipal Infrastructure and Services (MIS) program and the Business Development Program (BDP), will continue producing significant results in economic revitalization and refugee return in FY 2000. Funding needs for MIS rehabilitation projects are expected to decline in light of other donor funding coming on-line and as many of the highest priority reconstruction needs will have been met. USAID will continue MIS activities directly facilitating refugee return and assistance related to the institutional strengthening of public utilities in order to improve local capacity to maintain and sustain USG-repaired infrastructure, as well as initiate utility privatization. In FY 2000, the BDP program will continue to provide balance-of-payments support and liquidity to the economy through the provision of loans to commercially viable private enterprises. Privatization getting underway in FY 1999 is expected to increase demand for credit into FY 2000.

In FY 2000, USAID will continue supporting the development of a sustainable market economy to ensure that Bosnia rejoins the European and global economy and attracts foreign investment. Technical assistance will focus on accelerating critical macroeconomic, financial and legal reforms necessary for the emergence of a vibrant private sector, including reform of the payments systems, strengthening of the banking sector, the establishment of post-privatization institutions in a context of good corporate governance, and continued work on making Bosnia's public accounting, taxation and budgeting systems more transparent and compliant with global standards. Success in these areas should help Bosnia move away from international donor finance and become reliant on private foreign and domestic investment to sustain economic growth. USAID recognizes the vital importance of quickening the reform process so as to stimulate foreign investment and continue support for the Dayton Peace Accords.

Democracy assistance in FY 2000 will continue to focus on strengthening independent media, particularly on improving business skills to ensure the commercial viability of broadcast and print media outlets. Civil society activities will continue institution-building support for advocacy-oriented Bosnian NGOs which represent citizen views, initiatives, and projects. Governance activities will focus on making government procedures more transparent and efficient, and parliament more accessible to citizens. Rule of law programs will continue to support Federation and national-level courts, particularly cantonal courts, as well as lawyers' and judges associations. Support for election administration will decline in FY 2000 as the process is placed in the hands of Bosnian officials.

BOSNIA AND HERZEGOVINA

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Recovery from Crisis	--	--	175,000	--	175,000
TOTAL	--	--	175,000	--	175,000
*Support for East European Democracy (SEED) Act funds					

USAID Mission Director: Craig Buck

ACTIVITY DATA SHEET

PROGRAM: BOSNIA and HERZEGOVINA
TITLE: Recovery from Crisis, 180-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $175,000,000 SEED
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: The U.S. assistance program is striving for a stable post-war Bosnia with a functioning and dynamic free-market economy and a democratic society. USAID's reconstruction programs provide balance-of-payments support to the Government of Bosnia and Herzegovina. Overall, USAID coordinates its assistance program using the natural linkages among its reconstruction, democracy and economic reform projects, as well as the work of other donors and USG agencies. Because of the broad nature of this objective, the beneficiaries include all residents of Bosnia and Herzegovina. More specifically, the Business Development Program (BDP) benefits enterprise loan recipients and employees, the commercial banking sector, and Bosnia and Herzegovina which receives the balance-of-payments benefit. The Municipal Infrastructure and Services (MIS) program is benefiting over 1,500,000

Bosnians through repaired basic utility and other community services. Economic technical assistance programs directly benefit Ministries of Finance in the Federation and RS, the Central Bank, the Federation and RS Banking Agencies, business associations, local business consulting firms, private entrepreneurs and firms. Democracy assistance directly benefits political parties, voters, civic groups, Parliament, independent television, radio and newspapers, and media audiences.

Key Results: USAID activities are focused on four major intermediate results: (1) Restoring private sector productive capacity to restart production quickly and create immediate, self-sustaining employment; (2) Repairing war-damaged infrastructure to facilitate refugee return and reactivate the local economy; (3) Establishing a policy and institutional framework conducive to the emergence of a market economy, by supporting rapid privatization, critical macroeconomic reforms, sound fiscal policies, and a viable banking system; and (4) Strengthening democratic institutions that promote a multi-ethnic society and political pluralism, by fostering an independent media, free and fair elections, a responsive and transparent government, citizen advocacy, and a professional, independent judiciary.

Performance and Prospects:

Economic Recovery: USAID's BDP program provides quick-disbursing loans (average loan size $350,000) to private Bosnian businesses, enabling them to restart production quickly and create immediate employment. Bosnian banks serve as agents, identifying viable enterprises, transferring funds to the borrower, monitoring loan implementation, and ensuring loan collections. An expert on-site team of U.S. bankers performs the final credit analysis and makes recommendations to USAID for decision. The program also offers business consulting services to improve financial management, marketing, and business plan development skills. The BDP is by far the largest and most effective donor effort underway dedicated to revitalization of the business sector and is pointing the way for other donors and investors to follow.

The BDP has made a major contribution to private sector reactivation in the form of 398 loans worth over $140 million, as of December 1998, primarily in the U.S.-SFOR sector, Sarajevo, Central Bosnia, and Western RS. The majority of financing has been provided in the manufacturing, construction, wood products, processed food and agribusiness sectors. These loans provide employment to over 17,000 Bosnians, including women, returning refugees and demobilized soldiers of all ethnic groups, contributing to the rapid improvement in employment rates in the Federation and increasingly in the RS. Thousands more have found work in related business ventures (suppliers, vendors). A related bank training program has introduced American bank lending and management concepts to more than 2,600 bankers, over 50% of whom are women.

According to preliminary data collected on 103 BDP loan recipients, it is estimated that their total revenues increased about 64% between 1996 and 1997 and that combined net worth moved from a negative 5 to 10 million *DEM* to a positive 10 to 20 million *DEM*. In most firms, sales are doubling in the first year of the loan with smaller but substantial (over 60%) increases in later years.

The Business Consulting component of the BDP, working in partnership with loan operations, has conducted over 525 diagnostic reviews of potential borrowers and assisted over 580 companies in problem analysis. 65% have pursued follow-up assistance in strategic planning, financial management, and marketing skills. USAID advisors have helped a number of companies establish new markets and suppliers. EKIS, a Sarajevo-based communications company, formed one of the first joint venture transactions between a major U.S. company and a Bosnian partner. With BDP assistance, including a $230,000 loan in March 1998, EKIS now represents AT&T in Bosnia.

The BDP has also helped leverage reforms. In May 1997, USAID stopped making loans to state-owned enterprises due to the lack of progress on privatization. Pressure from would-be borrowers on political leaders helped generate the necessary political will in the Federation and the RS to pass privatization laws in 1998.

Infrastructure Repair: USAID's MIS program is meeting urgent infrastructure reconstruction needs in support of refugee returns and economic recovery, primarily in the US-SFOR sector, Central Bosnia and Western RS. Through this program, Bosnian contractors are repairing municipal electricity distribution systems, resurfacing roads, repairing bridges and municipal water systems, and rebuilding local schools and health facilities. MIS funds are also being used for a related Community Infrastructure Rehabilitation Project (CIRP), being implemented in partnership with local officials and SFOR troops in both the Federation and RS. CIRP projects are designed to provide short-term employment for demobilized soldiers and other community residents to implement high-impact community activities.

Over 180 MIS projects worth $165 million are underway or completed in the energy, water, transportation, health, and education sectors. MIS construction activities have created 5,000 short-term jobs and some 17,000 people will

be permanently employed working in reconstructed facilities or through the use of refurbished infrastructure. Over 8,700 demobilized soldiers have been temporarily employed through over 400 Community Infrastructure Rehabilitation Projects worth $24 million. In addition, 8,000 children are attending schools rehabilitated by USAID and approximately 25% of Bosnia's population are benefitting from USAID-repaired power systems.

USAID MIS activities in 1998 contributed to an estimated 80,000 refugee returns, including approximately one-third of the minority returns reported by UNHCR. The flexibility of the MIS program has allowed USAID to complement refugee return initiatives such as UNHCR's "Open Cities" program, as well as to respond rapidly to spontaneous returns. In the Middle Bosnia Canton, one of two ethnically mixed cantons in the Federation, USAID supported a joint Croat and Bosnian effort to restore power in twenty-one villages where over 5,000 minority returns were taking place in 1998.

Continuing its support for the arbitration efforts of the Brcko Office of the High Representative, USAID restored power and water to targeted villages in the Zone of Separation helping facilitate the return of 1,200 minority refugee families in 1998. USAID has invested over $17 million in infrastructure rehabilitation, business development and technical assistance in Brcko since 1996.

MIS projects in the Federation and the RS demonstrate the tangible benefits for those municipalities which support Dayton. Before undertaking MIS projects, each municipality must sign a Memorandum of Understanding which publicly confirms the municipality's commitment to Dayton, such as freedom of movement for refugees and the surrender of publicly indicted war criminals. Those municipalities which refuse to sign do not receive assistance. Any subsequent violations of terms prevent further USAID-funded assistance.

Economic Reform: Since 1996, the US has implemented a comprehensive economic policy reform agenda to accelerate Bosnia's transition to a market economy in the context of post-war reconstruction. USAID has taken the lead in supporting key financial and economic institutions implementing macroeconomic policy and provides technical assistance in a range of critical areas for Bosnia's economic transformation, such as privatization, commercial law and banking reform, capital markets, and corporate governance. The objective is to provide sound guidance to decision-makers at all levels of government to undertake defined responsibilities, smoothly transfer economic functions to the private sector, and regulate the new market economy fairly and transparently. Rapid and transparent privatization, coupled with sound legal, policy and regulatory framework, will allow Bosnia to better attract foreign investment and rejoin the European and global economy over the next several years.

USAID advisors contributed to the formation of the Federation Banking Agency (FBA) and, in 1998, helped establish its counterpart in the RS, the RS Banking Agency (RSBA). All professional FBA and RSBA staff have been trained in key areas such as bank supervision, audit, and asset/liability management, supervisory policies and procedures, as well as in anti-corruption (e.g., white collar crime, money laundering, and ethics). Bank inspections are leading to the closure of poorly-managed and weak banks, helping create a more stable banking sector necessary for private sector growth and foreign investment. Functioning and effective banking supervision agencies have increased public confidence in the banking system. Most importantly, the FBA is now becoming self-financed, operating on revenues generated through bank examination fees.

USAID technical assistance is helping Bosnian authorities implement a comprehensive privatization program and re-orient current commercial and non-banking financial laws towards a market economy. In the Federation, privatization laws were passed in 1998 and nine Cantonal Privatization Agencies have been formed (1 pending). In the RS, the Dodik government revoked the previous government's unfair lottery privatization program in March 1998, and, with USAID assistance, put in place a voucher-based mass privatization scheme harmonized with the Federation in June 1998. Advisors have played the key role in establishing critical privatization institutions, formulating implementation policies and strategies for enterprise and strategic sector privatization efforts as well as post-privatization structures and markets, conducting on-going training for government officials, enterprise managers, and the media on the privatization process, and providing hardware and software for the electronic claims registry and auctions system. USAID is also conducting direct public education campaigns using a variety of media.

USAID's commercial law advisors have drafted critical legislation for the Federation on corporate governance issues, addressing the most appropriate methods for regulation of private corporations and capital markets in the post-privatization period. This includes the formation of a Corporation and Securities Board and Laws on Share Registries, Securities, Privatization Investment Funds, and Commercial Enterprises. All but the last passed in September, 1998. In the RS, a similar package of capital markets laws was also passed. USAID advisors are also working with local accountants and auditors to develop internationally-accepted accounting systems useful for enterprise managers, bank officials, privatization agencies, and corporate regulators, and the development of professional associations that could serve as self-regulating organizations.

In July 1998, the joint USAID-European Union customs modernization program was completed ahead of schedule. The project trained 100% of customs officials (over 1,250) in both the Federation and RS, leaving behind a cadre of experienced Bosnian customs trainers to ensure long-term sustainability and continuity. Monthly customs revenues in the Federation have increased by over 50% since 1996, while the average waiting period for customs clearance in the Federation has been reduced from 6-7 days to 3-4 days.

USAID-funded Treasury advisors have provided significant technical assistance and policy advice in the areas of budget, fiscal reform, tax policy and administration, external debt, and bank privatization/restructuring. These advisors helped Bosnian officials prepare for and successfully conclude negotiations with the London Club in December 1997 and the Paris Club in October 1998, both essential for Bosnia to normalize its relations with external creditors. The debt team is also helping establish debt management units at the State and entity levels.

USAID's fiscal federalism activities (completed in August 1998) strengthened budgeting and financial management systems in the Federation. Training in the use of budget classification codes enabled regional and local governments to account for their funds in accordance with international standards. These activities have also promoted transparency and accountability of Federation and canton governments. Public budget hearings have now been held in six cantons (Sarajevo, Gorazde, Zenica, Bihac, Central Bosnia, and West Herzegovina) and five municipalities (Maglaj, Lukavac, Celic, Tuzla, and Bihac) to allow citizen input into decision-making on the allocation of public funds.

The anti-corruption efforts of the international community focus on institutional and legislative reforms needed to ensure good corporate governance, to develop a strong judiciary and legal system, to combat fraud and organized crime, as well as to introduce international standards governing banking, public accounting, and taxation along with methods to enforce these regulations. The international community looks to the Bosnian government to move quickly on passing appropriate legislation eliminating opportunities for corruption, tax evasion and diversion of public revenue, establishing enforcement mechanisms with appropriate penalties to ensure compliance, and raising public awareness of the negative effects of corruption.

Democratic Reform: The United States is working to build enduring democratic institutions in a just and multi-ethnic society through its assistance programs. The USAID-funded democratic reform agenda gives top priority to achieving the following results: (1) viable and independent media offering consistent, objective, and balanced information to all citizens and candidates; (2) free and fair elections with a pluralistic party structure and high voter participation; (3) a pro-democratic political leadership governing in response to a vibrant civil society; and (4) a professional and independent judiciary operating in an environment governed by the rule of law.

Continued manipulation of information flow by nationalist political leaders and the lack of an effective regulatory environment remain major impediments to enabling independent media in Bosnia to thrive. USAID, through Internews, continues to support independent broadcast media with a comprehensive package of assistance focused on seven television and five radio stations; helping production houses provide programming for a starved local market; and the development of an independent broadcasters association to encourage program sharing and lobbying on behalf of members. In 1998, USAID initiated a print media program to focus on ensuring the commercial viability of promising print outlets; strengthening news wire services; and creating a professional and unified journalist's association. US funding also helped establish the Independent Media Commission (IMC), tasked with creating a regulatory environment to eliminate nationalistic broadcasting as well as a legal framework to support independent media. With significant support from the US, the Open Broadcast Network's (OBN) news and information programming continue to be praised for its lack of political partisanship. USAID advisors are working with the OBN management on a business plan to help ensure commercial viability of the only cross-entity network in Bosnia.

USAID training seminars in 1998 helped RS radio journalists improve newsroom efficiency and productivity by reducing editing time for a typical news broadcast from ninety to thirty minutes. A seminar for Chief Editors and Managers of RS radio stations resulted in five additional stations in the RS agreeing to broadcast Radio Free Europe.

USAID on-site training at targeted television stations, using Bosnian technical professionals supplemented by foreign journalism and business management advisors, has helped stations produce better programming, introduce neutral graphics and programs, make better business decisions, and overcome equipment shortfalls. For example, GLS TV in Srbac, RS, used USAID-provided audio equipment to produce election roundtable and information programs, enabling local viewers to make more informed choices on election day. TV Gorazde in the Federation has expanded its news coverage to include on-site field reports from RS communities to encourage cross-entity information exchange. It has agreed to join the OBN, enabling it to broadcast the OBN national news program, ranked by viewer surveys as the most balanced and accurate news program available. Seven TV stations receiving USAID assistance pooled their funding to successfully negotiate and legally acquire a variety of copyrighted

entertainment programming at an international television programming sales exhibition. RTV Travnik and CV7 in Vitez, both in the multi-ethnic Middle Bosnia Canton in the Federation, eliminated ethnic-based iconography from their station identification in order to serve a broader population and improve the professional look of their local news and information programming. In addition, CV7 in Vitez, a hardline Croat town, also broke away from municipal control and registered as a private company during 1998.

On-going USAID programs to develop a pluralistic political environment yielded results in the 1998 elections as moderate opposition parties gained in all races, except the RS Presidency. The national parties, however, continue to benefit from lingering distrust between ethnic groups, and from the perception that they alone can offer resources, jobs, and protection from "others" who vote along national lines. USAID, through the International Foundation for Election Systems (IFES), has provided specialized technical assistance to directly support the OSCE in supervising all four elections held since Dayton. The team of IFES elections administration experts, which includes the Director General for Elections, the Director of Out-of-Country Voting, and the Director of Voter Education, has provided crucial continuity and expertise to OSCE's oversight of the electoral process. Efforts are currently focused on electoral law reform, institution-building and training Bosnians gradually to take over this responsibility.

USAID, through the National Democratic Institute for International Affairs (NDI), has provided targeted training in message development, media relations, voter contact, strategic planning, and volunteer recruitment to Federation and RS political parties; in the run-up to the 1998 general elections, USAID focused its assistance on democratically-oriented parties that support the Dayton Accords and have a significant political constituency. 1998 marked the first year in which opposition parties actively campaigned in the field, conducted voter interest surveys (34 local branches of 15 parties collected 11,000 voter surveys), and ensured that party candidates at all levels shared a unified message. USAID-funded public opinion polling across Bosnia assisted political parties in gauging voter attitudes and finessing campaign strategies. The result was a dramatic increase in political pluralism in Federation cantons and at the parliamentary level in both Entities at the expense of the ruling national parties.

USAID, through NDI, also enhanced Bosnian ownership of the electoral process by supporting a nationwide non-partisan monitoring effort. Prior to the 1998 elections, local non-governmental organizations in Tuzla, Sarajevo, Mostar, and Banja Luka established four citizen monitoring leagues, involving ninety-six citizen organizations. The leagues recruited and fielded 2,500 volunteers who covered 865 polling stations in fifty-seven municipalities. Each league held a press conference to report preliminary findings and hosted a joint press conference in Sarajevo to release a common election assessment. In addition, NDI's Bosnian staff trained over 2,000 party agents in multi-party poll watcher training sessions held throughout the country. IFES's interactive voter and civic education project has now reached nearly 33,000 voters in 2,200 discussion groups held in four Federation Cantons and 11 RS municipalities.

USAID-funded judicial reform assistance is helping establish a professional and independent judiciary operating in an environment governed by rule of law. Since 1995, USAID has supported the American Bar Association's Central and East European Law Initiative (CEELI). With CEELI assistance, two working groups of Bosnian experts completed codes and procedures that significantly enhance due process protections and bring Federation legislation into compliance with the international standards set forth in the BiH Constitution. Both codes were adopted in July 1998, and include a rape shield law; right to counsel; the right to remain silent; and mandatory reporting on child abuse. As a follow-on activity, CEELI, in conjunction with the U.S. Department of Justice, is implementing a training program in which foreign and local legal professionals train Bosnian lawyers, prosecutors, and judges regarding the new codes.

Building on its earlier work in establishing a Federation-wide Judges' Association (AJF), USAID/CEELI advisors in 1998 helped municipal, district, supreme and constitutional court judges in the RS create the Association of Judges and Prosecutors of Republika Srpska. The Association is the first voluntary, non-partisan, professional association dedicated to strengthening the judiciary and enhancing administration of justice in the RS.

In 1998, USAID funded the International Human Rights Law Group (IHRLG) to implement an advocacy initiative to foster the development of a more dynamic civil society. Through technical assistance and training, the program is empowering local non-governmental organizations to mobilize and develop advocacy campaigns around human rights issues linked to the incorporation of the European Convention for Human Rights into Bosnia's legal system. IHRLG is also assisting a local women's organization to produce a national status report on women in Bosnia for submission to the United Nations and for use as an advocacy tool.

Cross-Cutting Activities: Since 1995, USAID's participant training program has sent over 500 (35% women) mid and senior level officials, business leaders, and citizen activists from both entities to the United States and third countries for intensive short-term training. Training topics have ranged from commercial banking to public utility

management to NGO development. Each training program is designed to directly complement USAID activities in support of economic growth and reform, infrastructure rehabilitation, and democracy building in Bosnia. Participants are recruited and selected competitively from the professional and functional levels identified as critical to effecting change in institutions with which USAID is working.

International NGOs have played a vital humanitarian role in Bosnia. Today, there are at least 250 Bosnian NGOs operating in Bosnia, many of which are now providing the trauma counseling and humanitarian assistance once handled by the international NGO community. To facilitate the development of a pluralistic civil society in Bosnia, USAID provides direct support to civic groups throughout Bosnia such as women's organizations, children's groups, and cultural organizations.

The Delphi International "STAR" (Strategies, Training, and Advocacy for Reconciliation) project, completed in 1998, helped foster women's participation in the development of civil society in Bosnia through technical assistance and financial support to non-nationalistic, advocacy oriented women's NGOs and women leaders. The STAR project emphasized public policy advocacy, democratic leadership, sustainability, and regional networking.

In 1999, the American Refugee Committee will complete the "Reintegration of Children and Youth into Society" program, which repaired or constructed nearly 300 playgrounds, and play fields at 275 sites in 60 municipalities throughout the country. The program is helping reintegrate communities through recreation programs to foster youth participation and build a sense of community ownership for the repaired sites. In October 1998, ARC organized the first inter-entity bicycle race.

The International Rescue Committee's NGO Development Project (completed in 1998) through organizational development training, seminars, and technical assistance has improving the capacity of local NGOs to respond to crisis situations, address community needs, and offer trauma rehabilitation. One sub-grantee in 1998 successfully lobbied the Sarajevo Canton government to make existing sidewalks accessible for people with disabilities.

Save the Children implements a program in Bosnia to establish community based pre-schools and provide training for local teachers. Since 1995, 440 sites have been opened and over 21,400 children enrolled. Approximately 60% of these sites are now self-sustainable. In 1998, the program expanded into the RS to open 49 playrooms serving over 2,300 children.

Through the American International Health Alliance (AIHA), USAID completed in 1998 a health partnership between Buffalo General Hospital and the Tuzla Medical Center which focused on improving healthcare services and quality for local citizens through training and professional educational exchanges. AIHA also established a modern nursing resource center at the Tuzla Medical Center.

Other Donors Programs: As outlined earlier, the United States is the second largest donor in Bosnia, after the European Commission. USAID’s BDP complements other donor commercial lending programs. The MIS program is closely coordinated with the infrastructure rehabilitation efforts of the World Bank, the EU, and other multi or bilateral organizations. USAID's economic advisors actively coordinate with the IMF, the EBRD, and World Bank to ensure a common donor approach on promoting critical reforms. USAID's leadership of the Industry Sector Task Force has helped maintain the necessary momentum to get privatization underway in Bosnia. U.S.-European Union partnership in modernizing Bosnia's customs system has created a cadre of trained professionals, reduced the average customs clearing time, and generated much-needed revenue for Bosnia's war-torn economy, while similar cooperation on institutional strengthening in the water sector is paving the way for the long-term sustainability of donor repaired infrastructure and the eventual privatization of Bosnia's utilities. In the democracy arena, USAID works closely with other donors, primarily the OSCE, the OHR, the EU, Council of Europe, other bilaterals, and private organizations, in efforts to support independent media, political party development, judicial reform, and civil society building. USAID-funded NGOs partnered with both international organizations and European NGOs on a variety of multi-sector projects which helped leverage funding and create greater project impact.

Principal Contractors, Grantees, or Agencies: USAID implements activities under this strategic objective through private U.S. and local companies such as the Ralph M. Parsons Company and local construction firms; U.S. consulting firms such as the Recovery Group, Price Waterhouse, East/West Management Institute, Overseas Strategic Consulting, and the Barents Group; U.S.-based and local NGOs, such as the International Foundation for Election Systems, the National Democratic Institute, the American Bar Association, Internews, the American Refugee Committee, CARE, and Catholic Relief Services, and other USG agencies such as Treasury, State, TDA, Justice, and the U.S. Information Agency.

Selected Performance Measures: Due to the special nature of this program, USAID reports periodically throughout the year on U.S. assistance to Bosnia. For this reason, annual targets are not established. Indicators used in reporting

include the following.

Real GDP growth.
Unemployment rate.
Number of jobs created through USAID programs.
Number of BDP Agent banks taking on own lending.
Number of residents provided with repaired infrastructure and restored services.
Number of residents returning to their communities.
Financial system providing financing to private entrepreneurs.
Private sector investment in industry.
Number and effectiveness of local NGOs promoting citizen concerns.
Public confidence in the courts.
Self-generated revenue of cantons and municipalities.
Political party platforms are communicated to citizens and reflect citizen input.
Balanced information being reported by Bosnian media.

BULGARIA

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Support for East European Democracy	$33,675,000	$28,200,000	$28,000,000
P.L. 480 Title II	5,685,000	--	--

Introduction.

National Security is the overwhelming U.S. national interest in Bulgaria. A peaceful, democratic and economically prosperous Bulgaria will help to ensure a stable Balkan region, parts of which remain dogged by ethnic tension and social unrest. Consequently, the U.S. priority in Bulgaria is to help the country stay on the path of economic reform, democratic consolidation and regional cooperation which it embarked on in February 1997. The consolidation of democracy and a market economy in Bulgaria, and the country's accession to the European Union (EU), including increasing participation in western institutions, is consistent with the U.S. objective of building security and stability throughout Europe. Bulgaria is in good position to assist with regional efforts to combat terrorism, arms proliferation and narcotics trafficking.

The Development Challenge.

The reform-minded government of the Union of Democratic Forces (UDF), which took power in mid-1997, renewed Bulgaria's commitment to fundamental economic reforms, and established accession to the EU and NATO as national policy priorities. Negotiations with the International Monetary Fund (IMF) were resumed and led to the introduction of a currency board on July 1. The currency board strictly links the domestic money supply to the level of foreign currency reserves, and fixes the exchange rate at 1,000 *lev* to the D-mark. The effects have been dramatic: the economy has stabilized; inflation and interest rates have been slashed. Reported inflation in 1998 was 1% for the year, down massively from the 565% annual rate racked up in 1997. GDP growth has resumed and is forecast to be 4.5% in 1998. Key economic achievements realized in the past eighteen months include: (1) A three-year $864 million Extended Fund Facility loan signed with the IMF on September 25, 1998, with an additional $800 million to be provided by the World Bank, EU and G-24; (2) A modest budget surplus in 1998 and foreign currency reserves approaching $2.5 billion amounting to more than six months import cover; (3) Substantial progress in negotiating outstanding Paris Club debts, including the settlement of obligations to Germany ($359 million), Spain ($30 million), Poland ($76 million); (4) Bulgaria is now signatory to Central European Free Trade Agreement (CEFTA) with its membership effective on January 1, 1999. As a result of CEFTA membership, trade within the region will increase as duties on industrial goods and selected agricultural products will be reduced or eliminated through 2002.

The Government of Bulgaria has successfully implemented the first phase of its economic reform program and now faces the difficult task of economic restructuring, which includes the privatization and possible liquidation of state-owned enterprises, utilities and banks. In addition, the Government faces a number of other difficult tasks in the continuation of legislative, judicial and administrative reforms, and in the ongoing effort to combat crime and corruption. Sufficient progress was made in these priority areas, however, to lead the EU to conclude in its November 1998 assessment of Bulgaria's accession preparedness that the country had fulfilled *"the Copenhagen political criteria."*

Responding to the challenges presented by Bulgaria's reform effort, USAID adopted a new country strategy in late 1997 designed to accelerate the country's transition, and help it to meet the essential Maastricht and Copenhagen criteria which are preconditions to opening accession negotiations around 2002, which is coincident with Bulgaria's graduation from U.S. assistance.

Other Donors.

International donor support to Bulgaria is substantial, with total donor assistance projected at well-over $1 billion in both 1998 and 1999, with the IMF, EU and World Bank providing the lion's share of this amount. Among bilateral donors, the U.S. manages the largest technical assistance program, which is closely coordinated with multilateral and other bilateral programs. The World Bank and IMF often prepare the policy and legislative environment for USAID programs to be effective, and USAID reciprocally provides targeted technical support assisting Bulgaria to meet multilateral conditionalities. Bulgaria's commitment to EU accession is bolstered by significant EU assistance totaling $100 million in both 1998 and 1999. This level is expected to double to more than $200 million a year thereafter. The EU assistance program targets judicial legislative, regulatory and administrative "gaps" in Bulgaria's preparation for accession. U.S. coordination with the EU is strong and the potential for ongoing cooperation continues to grow. The EBRD program is comprised principally of equity and debt investments, but also includes a $55 million post-privatization fund for long-term support to small and medium enterprises (SMEs), where USAID has long-standing and very successful investment and technical assistance programs. The United Nations Development Program (UNDP) has projects focused on SME development and also on government decentralization, both of which are closely coordinated with relevant USAID efforts. USAID's work with judicial and administrative reform is closely coordinated with the U.S. Embassy in Bulgaria, and is supported by EU and other donors' assistance in criminal law enforcement, notably from the German and Italian Governments. The Dutch, United Kingdom and Swiss provide support to local government capacity building.

FY 2000 Program.

Under the economic restructuring goal, USAID will help Bulgaria modernize and strengthen its financial system, particularly key banking and capital markets institutions. USAID will assist a network of private business associations and organizations; further improve the policy, legal, and regulatory framework for business development; and support public-private dialogue on strategies for private enterprise growth. Strategic objectives in this area include: accelerated development and growth of private firms in a competitive environment, and a more competitive and market-responsive private financial sector.

As a result of the GOB's responsiveness, assistance has intensified in key areas of legislative and judicial reform in an effort to advance the basic tenets of a civil society governed by a rule of law. Efforts promoting a rule of law support both democracy and economic programs, with related activities supporting the government's efforts to combat crime and corruption. Under the democratic transition goal, USAID supports three strategic objectives: Increased, better-informed citizens' participation in public policy decision-making; an improved judicial system that better supports democratic processes and market reforms; and more effective, responsive, and accountable local governments.

USAID will continue assistance in building local institutions and grass-roots democratic structures that contribute to Bulgaria's transition to a stable and democratic political system. Efforts will increase citizens' participation in decision-making and governance through projects improving municipal administration and thereby increasing access to local policy-makers. Efforts will also promote a free press and media. Finally, USAID programs in FY 2000 and thereafter will focus on judicial reform and court administration, and rule of law, including efforts to combat crime and corruption, which is essential to protecting individual political and civil rights.

In FY 2000, modest funding will support cross-cutting activities including support to labor organizations and free-trade unions, and to valuable U.S.-based and regional training.

BULGARIA

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	5,950	--	--	--	5,950
Financial Reform	5,400	--	--	--	5,400
Energy	--	--	--	--	--
Environmental Management	--	--	--	--	--
Citizens' Participation	--	6,300	--	--	6,300

Legal Systems	--	2,650	--	--	2,650
Local Government	--	5,100	--	--	5,100
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	2,600	2,600
TOTAL	11,350	14,050	--	2,600	28,000
*Support for East European Democracy (SEED) Act funds					

Acting USAID Mission Director: William S. Foerderer

ACTIVITY DATA SHEET

PROGRAM: BULGARIA
TITLE: Accelerated Development and Growth of Private Enterprise, 180-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $5,950,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Summary: This strategic objective promotes the accelerated development and growth of private firms in a competitive environment. The direct and primary beneficiary is the private sector. All citizens are, in effect, secondary beneficiaries, as a result of the overall improvements in the economy, the increased availability of jobs, and the increased quality, quantity and availability of consumer goods.

Key Results: The results being sought in support by this objective include: (1) improved private business performance of target firms; (2) strengthened private sector business support associations and institutions; and (3) establishment of the legal, policy and regulatory framework for competition and private sector growth.

A cornerstone to USAID's strategy under this objective is to strengthen prominent business associations and organizations, consulting firms, think-tanks, and other business support institutions that will broaden the base for sustainable private enterprise growth. In response to the current government's structural reforms, the Firm Level Assistance Group (FLAG), the principal instrument through which USAID enterprise-level assistance is delivered. has focused training and advisory assistance on exporters and foreign-exchange earners, although the preponderance of assisted firms remain in agribusiness, light manufacturing, and tourism.

As credit remains a significant constraint to enterprise growth, USAID will continue to support efforts which increase private sector access to loans and equity. This includes ongoing equity programs, such as the Small Enterprise Assistance Fund (SEAF) which invests a maximum of $250,000 for up to 49% of an enterprise. Sectoral activities will focus on the nationwide extension of the highly successful warehouse receipts program launched in 1998, and under which short-term loans are extended against grain held as collateral. Other initiatives will include the introduction of credit guarantee facilities supporting the introduction of energy efficiency technology in municipal and regional hospitals. Already, pilot projects in three hospitals have produced significant energy cost savings and simultaneously improved internal air quality. Future efforts in this area will extend this extremely successful program which has been closely tied to other USAID programs related to fiscal decentralization and strengthened municipal administration.

Activities also seek to institutionalize the means by which the private sector influences and contributes to policy, legal, and regulatory reform. USAID advisors will help in defining a long-term enterprise reform agenda which will include land titling/ownership, competition, customs and taxation. USAID will also seek to strengthen the Government's own policy-making capabilities by improving its economic forecasting and modeling. In conjunction with this latter initiative, a limited-scope advisory/training effort targeting macro-economic policy formulation will be implemented under the Ron Brown Fellowship Program, which is closely coordinated with the U.S. Information Service, Under the Ron Brown Program key economic policy-makers, particularly fast-rising government professionals, will receive one-year of U.S.-based training.

Performance and Prospects: USAID reformulated its private enterprise strategy in 1998, and laid a new foundation comprised of more active assistance to business associations such as trade and professional organizations and

chambers of commerce. These institutions are now at the core of all USAID/Bulgaria's private sector initiatives, and will serve as a conduit for technical assistance and training, and will be the voice representing enterprises' interests in policy and legislative advocacy. Working directly with business associations, USAID is helping them to improve and introduce new member-services, and to increase revenues and thereby promote sustainability. Assistance efforts helped increase fee-paying membership in these associations by 20%. Under the FLAG, USAID has assisted more than 50 associations representing hundreds of enterprises across all sectors, and close to 100,000 workers.

This new framework underscores the shift from specific enterprise-level assistance to strengthening the institutions that will remain after Bulgaria has graduated from U.S. assistance. To this end, USAID has worked to foster improved relations between private sector associations and government. For example, a group of associations together with the newly-formed Bulgarian Agency for Small and Medium Enterprises (SME) developed a National Strategy for SMEs, which was approved and adopted by the government in 1998. As an addendum to the strategy, the SME Agency, with association input, drafted a SME Law which will substantially improve the business climate for small and medium-sized firms once ratified. As testament to the dramatically improved relations between government and business, business associations also influenced a long list of key legislation which was ratified in 1998, notably the Foreign Investment Act, a new Grain Law which establishes a Grain Warehouse Receipts System, and the Privatization Law.

Although increasing emphasis is now dedicated to association-building, USAID continues to provide technical assistance to Bulgarian enterprises through the FLAG. This assistance focuses on key sectors such as consulting, light manufacturing, agribusiness and tourism, with increasing emphasis on exporters and foreign exchange earners. Among FLAG-assisted firms, revenues increased more than 15% in 1998, more than 4,000 new jobs were created in two years, and business linkages generated nearly $6 million in transactions.

Lack of capital remains a significant constraint for small and medium-sized business growth. Two U.S. programs assist in financing business: CARESBAC and the congressionally-funded Bulgarian American Enterprise Fund (BAEF). CARESBAC and BAEF made more than $10 million in equity investments in 1998, with BAEF providing more than $25 million in debt finance. CARESBAC works closely with the FLAG program to increase the productivity of Bulgarian enterprises and create employment. The BAEF is pioneering new areas of consumer finance including mortgage and retirement finance.

Possible Adjustments to Plans: None at this time.

Other Donors Programs: Among donors, USAID has the most significant assistance program targeting private enterprise growth and development. Multilateral agencies have not played an important role at the enterprise level, although their support for growth-oriented macro-economic policies is crucial. EU assistance to management training, and support for a new SME Agency are among the most complementary of the ongoing donor programs. In addition, the British Know-How Fund, the Dutch and the Swiss have provided limited assistance to SMEs.

Principal Contractors, Grantees, or Agencies: USAID implements activities through numerous intermediaries; GOB ministries and courts; the International Executive Services Corps (IESC); University of Delaware; World Learning, Agriculture Cooperative Development International/Volunteers Oversees Cooperative Assistance (ACDI/VOCA); Management Systems International (MSI); ABA/CEELI

Selected Performance Measures:

	Baseline	Target
Percentage of GDP provided by the private sector	45 (1996)	60 (2000)
Percentage increase in non-energy exports[1]	-0.6 (1997)	4 (2000)

[1] This statistic measures the performance of only the private sector portion of the economy

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ACTIVITY DATA SHEET

PROGRAM: BULGARIA
TITLE: A More Competitive and Market-Responsive Private Financial Reform, 180-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $5,400,000 SEED Act
INITIAL OBLIGATION: FY 1997; **ESTIMATED COMPLETION DATE**: FY 2001

Summary: In early 1997, when depositor confidence deteriorated and a run on Bulgarian banks threatened the financial system as a whole, urgent U.S. assistance was requested by the government in an effort to contain the crisis. Former Senior U.S. FDIC Officials with long-experience in crisis banking arrived in April 1997, and began work with the Bulgarian Bank Consolidation Company (BCC) to stabilize, and ultimately privatize six of the remaining seven state-owned banks. In conjunction with the U.S. Mission to Bulgaria, the IMF and World Bank, the government forged a bank privatization strategy by mid-1997. U.S. advisors have played critical roles in advising the Executive Director of the BCC who is charged with implementing the bank privatization strategy updated in February 1998. The purpose of this strategic objective is to help develop a more competitive and market responsive private financial sector. Whereas the Bulgarian banking system, will directly benefit from this assistance, the Bulgarian population at large will have access to a financial system, in which they can place greater confidence and which will provide normal banking services, not yet available in Bulgaria.

Key Results: The two primary results sought in support of this objective are: (1) establishment of a stable, regulated and efficient banking system; and (2) development of a regulated, transparent and liquid securities market.

USAID's strategy for the banking system relies on a three-pronged approach: stabilizing the banking system including privatization of state-owned banks; strengthening banking supervision and the supporting legal/regulatory framework; and improving commercial bank operations and training bankers. In this way, the strategy works from top-down and bottom-up to promote systemic change. These mutually-reinforcing technical assistance elements will remedy past errors and develop the regulatory institutions and community of professional bankers necessary to future stability. All are key in restoring public confidence in the banking system and in accelerating the development of a sound, functioning banking sector.

U.S. assistance was requested this past year to establish and strengthen the principal capital markets institutions In an effort to bolster the government's privatization efforts and to provide Bulgarian business with an alternative source of finance. In late 1998, USAID launched two new initiatives, one providing assistance to the Bulgarian Securities and Stock Exchange Commission (BSSEC), the other focused on the non-regulatory institutions including the Bulgarian Stock Exchange (BSE), the Central Depository and the Bulgarian Association of Licensed Investment Intermediaries (BALII). The larger of the capital markets initiatives is designed to increase the number of companies listed and traded on the BSE, and to assure that transactions occur transparently and efficiently.

Bulgaria's public pension system is increasingly ill-equipped to support a growing number of retirees. In conjunction with other donors, and in response to a request from the GOB, USAID launched its Pension Reform Program in August 1998. The program will assist Bulgaria to develop a private pension system which seeks to secure and preserve retirement income for pensioners, and which will contribute to the comprehensive reform of the Bulgarian pension system. The project supports the development of the enabling legislation and the regulations that will govern a private pension system, and will also provide training for regulators and fund managers.

Performance and Prospects: Progress to date has been significant. Over the past 18 months, all state Bulgarian banks have been stabilized, of which two have been sold, one is being tendered currently, and two are being prepared for sale in 1999. The sixth bank, Commercial Bank Biochim, is the most distressed, and resolution plans are being implemented, isolating the bank pending its restructuring for sale or liquidation. The most recent achievement of the privatization program was the sale of the Bulgarian Post Bank in November 1998. As a result of the combined efforts of the U.S. Embassy and the USAID-supported advisors, the Bulgarian Post Bank was sold to a consortium led by U.S.-owned American International Group (AIG) and Consolidated Eurofinance Holding, a subsidiary of a Greek-owned banking group. The $38 million Post Bank privatization was sealed in less than one year, confirming the GOB's commitment to bank privatization and setting a record as one of the fastest transactions concluded in the region.

U.S. assistance to the Bank Supervision Department of the Bulgarian National Bank (BNB/BSD) is dedicated to improving the Central Bank's ability to oversee and regulate all licensed banks. Efforts focus on the institutional development of the on-site supervision/ examination functions performed by the Supervision Department. This effort is closely coordinated with the assistance provided by the IMF resident advisor on bank supervision policy and the EU-supported assistance in strengthening off-site and special supervision. USAID-supported advisors have been instrumental in developing and implementing an internal bank rating system known as the CAMELS system, which rates the major risk factors of a bank - Capital, Assets, Management, Earnings, Liquidity and System Risk, and is the standard bank-rating system used in the U.S. and in an increasing number of countries worldwide.

A principal reason for the 1996-1997 banking crisis was the lack of well-trained bankers experienced with credit analysis, collections, and basic operations and management. The Commercial Banker Training program was launched in early 1998 with the primary objective of institutionalizing a training program within a host country

association. To this extent, USAID has been working with the International Banking Institute, a majority shareholder in which is the Association of Commercial Banks. Nine courses have been held with more than 200 participants since the initiation of the program. Interest in the courses is ever-increasing.

Possible Adjustments to Plans: With the addition of the new capital markets initiative, no further adjustments are planned at this time.

Other Donors Programs: The World Bank's Financial and Enterprise Sector Adjustment Loan (FESAL) reinforces USAID's efforts through conditionality related to an improved banking/credit legal and regulatory framework, bank supervision, and bank privatization. Early start-up of USAID assistance in these areas has advanced Bulgaria's progress on FESAL conditionality. The EU is mobilizing assistance to the financial sector which is linked specifically to EU accession criteria. EU assistance to off-site bank supervision which was launched in late-1998, complements the USAID's ongoing work on prudential regulations and on-site supervision. The EU is also provided limited assistance to Bulgaria in implementing "International Accounting Standards," which are critical to transparency and to attracting significant foreign investment and trade.

Principal Contractors, Grantees or Agencies: Barents Group, CARANA Inc., Institutional reform of the Informal Sector (IRIS), U.S. Securities and Exchange Commission.

Selected Performance Measures:

	Baseline	Target
Private bank assets as % of total bank assets	32.7 (1997)	85 (2000)
Market capitalization as % of GDP	0 (1997)	15 (2000)

ACTIVITY DATA SHEET

PROGRAM: BULGARIA
TITLE: Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making, 180-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $6,300,000 SEED Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE**: FY 2001

Summary: This strategic objective will foster citizens' participation in public policy decision-making. Indigenous grass roots organizations and, more generally, the Bulgarian populace will benefit from these activities at the community level.

Key Results: USAID seeks to build the capacity of non-governmental organizations (NGOs) which play a key role in facilitating broad public participation in policy and decision-making. The strategy is to develop grassroots organizations and the enabling legal/regulatory environment for them, as well as promote information sharing and improve the credibility of information available through the media. Anti-corruption activities undertaken by indigenous NGOs are further contributing to the achievement of this objective. Activities are focused on achievement of the following results: (1) institutionalization within Bulgarian civil society organizations capabilities to obtain political access, services, and funds; (2) improved professional capacity of independent broadcast media; (3) expanded public awareness about the impact of corruption on the economic well-being of individuals and the need to focus public disapproval on corruption; and (4) enhanced institutional capacity of the Parliament, including increased public dialog on policy and legal issues.

Performance and Prospects: Through the Democracy Network and Democracy Commission small grants, more than 111 NGOs received assistance to strengthen their organizational skills and program activities. All have attended NGO training courses and continue to have in-house training scheduled upon request. Additional outreach was made to more than 40 NGOs to participate in the training program, even though they did not qualify for financial assistance. A total of 94 group-training modules were delivered to 900 representatives from 133 organizations.

In September 1998 the Democracy Network Program entered its second phase. The purpose of Phase II of the program is to institutionalize, through Intermediary Support Organizations (ISOs), within Bulgarian organizations the capability to provide the civil society sector with political access, services, and funds. ISOs are here defined as organizations that provide support to the non-for-profit organization community to strengthen its capacity to serve its constituency--multi or single serviced ISOs such as ISOs specializing in the areas of grant making, training and

technical assistance, advocacy, networking, minority issues, social issues, women's issues, etc. Rather than providing services to individual organizations, as was done in Phase I, Phase II will deliver support to civil society organizations solely through and in partnership with ISOs.

ProMedia program has focused mainly on strengthening relevant legislation and the associations most closely involved. ProMedia seeks to train professional and trade associations and non-governmental organizations helping them to protect free speech and advocate on behalf of journalists and the media. These associations will also serve as the future providers of in-service training to journalists and managers. ProMedia has worked with the Association of Bulgarian Broadcasters (ABBRO) since early 1997, helping the Association to provide training and other member-services. As a result, ABBRO has more than doubled its membership from 21 to 66.

In 1998, ProMedia worked with the Free Speech Civic Forum and the Group for European Media Legislation to develop a draft Broadcast Media Law which was subsequently introduced into Parliament. This law was finally ratified by the Parliament in November 1998, though some concerns about possible political control over the electronic media remain.

In March 1998 seven indigenous NGOs formed "Coalition 2000" to support the government's efforts in fighting crime and corruption. The initiative is supported by USAID through a grant to the Rome-based International Development Law Institute. Coalition 2000 has developed an Action Plan which in November was endorsed by government representatives and civil society leaders, and is recognized as "a most comprehensive document" by partner institutions including the World Bank, UNDP and Open Society Foundation.

Possible Adjustments to Plans: With a new program strategy approved in late 1997, all plans reflect current needs.

Other Donors Programs: There are numerous foreign donors in the NGO sector. A few work to some degree through networks of intermediaries which they have helped to create (e.g., Soros Open Society Fund and Open Society Clubs), while other donors provide funding and assistance to individual NGOs (e.g. the EU Democracy-funded Civil Society Development Foundation). EU's support for public administration reform will provide critical reinforcement to USAID-financed NGO efforts to reduce public tolerance of corruption and press for corrective action. Among other things, civil service reform will seek to overcome poor working conditions and low salaries which contribute to corruption of government officials and strengthen oversight mechanisms such as the Government Accounting Office and inspector general functions.

The variety of players in the country and diversified nature of the NGO sector have led many donors and NGOs to conclude that closer coordination and information sharing is needed. However, while this problem is recognized and meetings have taken place, there is no consensus on an appropriate mechanism for pulling the NGOs and donors together to discuss their activities, share experiences and develop a sense of community needed to work together on common problems. The mission anticipates that the Democracy Network Program will continue to act as a facilitator for improved in-country donor coordination in the not-for-profit sector.

Principal Contractors, Grantees, or Agencies: USAID implements activities through U.S NGOs including The Institute for Sustainable Communities, Freedom House, and the International Center for Not-For-Profit Law; International Development Law Institute; the Bulgarian Parliament; and the Bulgarian local government.

Selected Performance Measures:

	Baseline	Target
NGO Sustainability Index (7 point scale, with 7 indicating a low or poor level of development,and 1 indicating a very advanced NGO sector)	4 (1997)	31 (2000)
NGO legal framework adopted/implemented	No (1997)	Yes (2000)
Code of Ethics adopted by all Broadcast Media	Drafted (1997)	Adopted (2000)

ACTIVITY DATA SHEET

PROGRAM: BULGARIA
TITLE: Legal Systems that Better Support Democratic processes and Market Reforms, 180-S002.2
STATUS: New

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $2,650,000 SEED Act
INITIAL OBLIGATION: FY 1999; **ESTIMATED COMPLETION DATE**: FY 2001

Summary: An improved judicial system is critical to advancing the government's declared campaign against corruption, to promoting integrity within the judiciary, and to more expeditiously prosecute all proceedings, including corrupt practices. Uncurbed corruption threatens to stunt economic growth by draining away limited state resources, e.g., state enterprises that operate in an environment of corrupt practices or by providing incentives to investment ranging from excessive/unclear regulations for "doing business" to payment of protection money. In part, corruption has become pervasive because of the lack of professional esteem within the civil service, including the judiciary, reinforced by low pay and limited career development opportunities. Judges will be the primary customers of this program. The purpose of this strategic objective is an improved judicial system that better supports democratic processes and market reforms. The direct beneficiaries of these activities are a significant percentage of the Bulgarian judiciary, including judges, prosecutors, investigators and law students, and indirectly every member of the public who comes in contact with the legal system.

Key Results: Together with the Association of Bulgarian Judges and the Ministry of Justice, USAID will help establish the curriculum and training activities of a Judicial Training Institute to provide continuing education for judges. Major results being sought include: 1) improved professionalism of the judiciary; 2) judicial training institute established; and 3) improved court administration. Continuing education will serve both to elevate professional standards and provide an incentive for judges to work for extended periods in the system and pursue their own self-improvement. USAID will also provide assistance to improve curricula and teaching methods at Bulgarian law schools to further enhance the educational preparation of prospective judges.

Performance and Prospects: In support of the Government-initiated judicial reform, USAID is working with the Ministry of Justice (MOJ) and the Association of Judges to identify priority needs and to design a program to improve administrative procedures, case and docket handling, and information management. In October 1998, USAID supported an initial assessment that examined needs in areas such as administrative training, recording/accessing court proceedings and case information, court filing systems, improving law student court apprenticeship programs, publication/indexing of court opinions, and reformed civil procedure and criminal procedure codes. Based upon the results of the assessment, a new four-year program will be initiated in FY 1999.

Possible Adjustments to Plans: This is a new program beginning in FY 1999.

Other Donors Programs: At present, donors' interest on the judiciary is high. Although the GOB requested the World Bank to provide assistance to the judicial system, no plans have been developed. The EU program has listed judiciary reform as a high priority within its public administration reform agenda. USAID anticipates that once a framework for continuing education and career development of judges has been established with USAID's support, other donors will help fund the continued strengthening effort.

The Government of Bulgaria is actively pursuing accession to the EU, which requires demonstrated commitment to reducing and eliminating public sector corruption. Bulgaria is also a participant in the Council of Europe's regional Octopus program which is developing strategies to combat crime and corruption. Council of Europe experts have helped Bulgaria develop guidelines for legislative initiatives which have led to amendments in the penal code.

USAID's work with judicial reform is complemented by other U.S. Government agencies, and other donors which are assisting with criminal law enforcement. The EU, and the governments of Germany and Italy have provided considerable assistance in enforcement. In addition, joint efforts are contributing to the drafting of anti-crime legislation, and are providing technical assistance, training, and equipment for law enforcement activities conducted by the Interior Ministry, the Customs Administration, and to a lesser extent, the Prosecutor's Office and National Investigative Service.

Principal Contractors, Grantees, or Agencies: Since this a new strategic objective for FY 1999, principal contractors and grantees have not been determined.

Selected Performance Measures:

	Baseline	Target*
Percentage of cases brought to trial and completed	10 (1997)	TBD (2000)
Average experience of judges	3 years in court (1997)	TBD (2000)

* This is a new Strategic objective and targets are still being formulated.

ACTIVITY DATA SHEET

PROGRAM: BULGARIA
TITLE: More Effective, Responsive, and Accountable Local Government, 180-S002.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $5,100,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Summary: This strategic objective envisions Bulgarian local governments that make choices responding to citizen expectations; act on those choices effectively, and increase accountability for their choices and actions. Local governments that exercise well-informed choice in partnership with citizens and community-based organizations can solve problems, identify and maximize opportunities, narrow the gap between resources and responsibilities, and successfully engage the central government on policies and laws to encourage local initiative. This local government initiative (LGI) will directly benefit the people and local officials of the majority of municipalities. Replication of successful models developed in target municipalities and the public policy work and dissemination efforts of national and local associations will strengthen democracy at the local level.

Key Results: Bulgaria's administration is still highly centralized and local governments lack both the authority and experience to adequately serve their constituents. USAID/Bulgaria launched the LGI in 1995 to: (1) Increase capacity of the local government to govern effectively and promote necessary democratic reforms; (2) Promote decentralization and improve intergovernmental relations; (3) Assist in reinforcing the principles of local self governing.

Performance and Prospects: Local government partners (municipal organizations, mayors, municipal staff) have been actively involved in the planning and implementation of the LGI. There are 3 areas where substantial progress has been achieved. First, there is a vital network of municipal associations to advocate and help improve local services. Second, reform legislation is moving forward in a positive direction. The National Association of Municipalities in the Republic of Bulgaria (NAMRB) now represents 86% of all municipal governments, and has presented more than 25 statements and proposals on various pieces of national legislation. Representatives have advocated on behalf of the association membership, and have participated in drafting amendments of key legislation, including the Municipal Property Act, the State Property Act, and the Act on Tourism. New laws have been passed on local governance, municipal property, local taxes and fees, and municipal budgets. Third, the non-profit Foundation for Local Government Reform (FLGR), established in 1995 by a reform-minded former woman mayor, is already an important force in advocating local government reform, strengthening a network of associations, and establishing public-private partnerships.

Through a small grants program, the LGI has helped ten target cities put in place numerous reform practices designed to improve service delivery, strengthen governance, and facilitate the local government role in economic development. Examples such as a local economic development agency are now being replicated in other municipalities without USAID assistance. New processes to facilitate citizen participation in local government also are being replicated in other municipalities.

In addition, USAID helped foster a twinning program with U.S. cities. To date, 22 Bulgarians have participated in exchange visits with three U.S. cities, and one result is the development of an economic plan and the creation of a coalition of NGOs to work with the local government in Haskovo in partnership with Abington, PA. Another twinning with Duluth, MN has helped Rousse in encouraging citizens' participation in efforts to improve social, economic and environmental conditions.

A new Partners in Economic Development and Government Effectiveness (PLEDGE) program was initiated in September 1998. It is aimed at local/regional economic growth, job creation, and worker retraining, with labor organizations full participants in planning and development. These activities will fortify municipal/regional partnerships by helping municipalities address problems of economic stagnation on a regional basis.

Despite this progress, most local governments still lack the knowledge and skills to apply improved management and service delivery techniques. Further, the instruments for disseminating the most successful practices are still being developed. Increasing public participation in local government affairs remains a challenge because of local government inexperience with genuine public involvement, coupled with only partially developed NGO advocacy skills. On the other hand, the LGI has many assets to build on: (1) budding political will to examine and act on

complex issues of fiscal decentralization; (2) increasingly competent and professional municipal leadership and front line workers; (3) slowly strengthening local government systems, practices, and structures; (4) clear, albeit lengthy, local government reform agenda, and (5) most importantly, an increasingly able set of institutions committed to advocacy, training, technical assistance and dissemination of best practices.

USAID is already implementing the second phase of LGI that works towards sustainability of the local government reform effort by placing major emphasis on building up local support capabilities and progressively shifting the lead role in upgrading local government operations to indigenous institutions.

Possible Adjustments to Plans: None at this time.

Other Donors Programs: Several bilateral donors and EU provide assistance to various associations and municipalities in ways that complement USAID's efforts. The Dutch provide capacity building assistance to the National Association of Municipalities through the Foundation for Local Government Reform. The Swiss helped establish a regional municipal association in central Bulgaria and support community action projects through this association. The British Know How Fund provides technical assistance to four Bulgarian municipalities and supports twinning relationships between Bulgarian and UK municipalities. EU's Local Democracy Program supports citizens' participation in community partnerships and sustainable regional development.

Currently USAID is the only donor organization carrying out a comprehensive program of local government improvement. However, EU contemplates a major support program for regional development, and the World Bank is considering a community-level job creation fund. USAID will coordinate closely with these development partners to enhance prospects for replication of successful LGI approaches to regional planning.

Principal Contractors, Grantees, or Agencies: USAID implements activities through U.S. and local organizations, including the International City Managers' Association, Management Systems International, U.S. Department of Labor, and other private firms and NGOs.

Selected Performance Measures:

	Baseline	Target
Number of policy positions local government groups advocate before central government	6 (1997)	10 (2000)
Growth of own source revenues generated	30% (1997)	45% (2000)
Achievement of business plan targets identified by municipal organizations	5% (1997)	35.5% (2000)

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	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Support for East European Democracy	$23,215,000	$12,000,000	$6,000,000
P.L. 480 Title II	500,000	---	---

Introduction.

Croatia is a key partner in the effort to achieve long-term peace and stability among the countries of the former Yugoslavia. In the immediate term, durable peace in former Yugoslavia is contingent on success in implementing key civilian aspects of the Dayton Peace Agreement. In this regard, the most significant unresolved issue is to enable all remaining internally displaced persons (IDPs) and refugees throughout the region to return to communities of origin and live under conditions of security. Without Croatia's cooperation, the regional problem of IDPs and refugees cannot be resolved equitably, and unassimilated populations will remain a source of instability and potential violence for the foreseeable future. Over the longer term, stability in Croatia and the region is contingent on establishing open democratic societies based on the rule of law, including respect for human rights, with sustainable market economies. Unless democratization takes root throughout the region, it is unlikely that the violent cycle of authoritarian nationalism will ever be broken.

The Development Challenge.

Since the end of the war, bilateral relations between the United States and Croatia have focused on fulfillment of Dayton and Erdut Agreement commitments, including support for ethnic reconciliation (particularly facilitation of return of all displaced persons and refugees to communities of origin regardless of ethnicity) and implementation of broader democratization reforms. The United States, the European Union, and other representatives of the international community have indicated that improved performance in each of these areas is necessary both to sustain Croatia's eligibility for bilateral and multilateral financial support and to advance Croatia's prospects for further integration into Euro-Atlantic institutions. Over the past several years, Croatia's uneven performance in each of these three areas has inhibited relations with the United States and Europe and impeded its progress toward fuller integration with the community of western democracies.

In FY 1998, Croatia made some notable progress towards fulfilling its Dayton and Erdut Agreement commitments. The transfer of authority over Eastern Slavonia from the UN to the Government of Croatia in January 1998 was a milestone which permitted greater attention to peaceful reintegration of war-affected regions and populations in the region. Improved cooperation between the GOC and the international community in 1998 also led to a series of agreements to establish a non-discriminatory framework to allow all displaced persons and refugees to return to Croatia, regain access to their personal property and receive reconstruction assistance or compensation without regard to ethnicity. Croatia's progress in facilitating returns and promoting ethnic reconciliation, however, has been slow to materialize, requiring the intensive engagement of the United States and the international community. Despite agreements on return and reconstruction procedures, tangible results have been limited, and the number of actual returns to date remains relatively small. Achieving a comprehensive solution of the IDP and refugee situation in Croatia and the region and resolving other post-war issues will remain the priority short-term development challenge in Croatia for several years to come.

Croatia's performance in implementing broader democratization reforms remained unsatisfactory in 1998. The ruling Croatia Democratic Union (HDZ) party's open hostility towards independent media, civil society organizations, and other advocates of reform continues to raise questions about the government's commitment to basic democratic principals and norms. Areas of concern include: restrictions on freedom of speech and freedom of association, one-party control of public television and radio, government intimidation of independent media, unfair electoral

regulations and procedures, lack of independence of the judiciary, and inadequate protection of human and civil rights. Despite strong and persistent pressure from the international community to improve performance, the GOC has failed to move resolutely to resolve any of these issues.

The intransigence of the current government to democratic reform notwithstanding, there exists in Croatia a cadre of impressive and well-respected democratic reform advocates outside of government circles who merit and need outside support to survive and gain influence in a markedly adverse political environment. For the independent media, the NGO sector, alternative political parties, and trade unions, USG and other donor assistance is a vital source of technical assistance, training, and financial support to maintain operations and achieve long term viability. U.S. disaster assistance (nearly $1.0 million in 1998), through the Office of Transition Initiatives, has complemented efforts under SEED at grassroots strengthening in media and development of local organizations. Over the medium term, the biggest development challenge in Croatia will be to continue to foster the development of diverse civil society institutions in order to prepare the way for a new generation of democratic leaders in Croatia and help overcome the lack of political will for reform.

Other Donors.

The United States has been the most important bilateral donor in the areas of reintegration of war-affected areas and democratic transition. The European Union (EU), Germany, Norway, Belgium, Italy and others are also supporting ongoing reconstruction and reintegration efforts. The UN High Commissioner for Refugees (UNHCR) and the Organization for Security and Cooperation in Europe (OSCE) are major partners on issues related to return of populations and broader democratization. The Open Society Institute, the EU and the governments of Norway, Canada, Britain, and Sweden have also provided significant support for independent media and civil society development. In the area of economic development, the International Monetary Fund has supported structural adjustment, and the World Bank and the European Bank for Reconstruction and Development are providing substantial resources to support economic development and increased private investment.

FY 2000 Program.

Facilitating the return of displaced persons and refugees to communities of origin and encouraging broader democratization will continue to be the primary objectives of the USG assistance program in Croatia through FY 2000, Support for general economic restructuring is a lower priority in Croatia due to concerns about the existing government’s commitment to genuine reform and Croatia’s relatively advanced level of economic development. If, however, the next round of parliamentary and presidential elections result, as expected, in significant positive change in the political environment in Croatia, USAID anticipates reactivating support for broader economic restructuring to assist new leaders to deal effectively with a broad range of unresolved economic reform issues and particularly to implement reforms needed to promote broader based growth.

In FY 2000, U.S. assistance for democratic reform in Croatia will continue to support a broad range of civil society organizations, including NGOs, trade unions, independent media practitioners and alternative political parties to support broader democratization in Croatia and encourage broader public participation in political processes. By opening up the political system to such participation, grassroots pressure should build for ethnic reconciliation and reintegration. Because prospects for jobs and income, safety and essential services are key to IDP and refugee returns to their communities of origin, U.S. assistance will continue to support improved municipal services and local governance, human and civil rights protection, small and medium scale private enterprise and agricultural development. Funds under cross-cutting and special initiatives support participant training activities across the portfolio and cover audit, evaluation and other activity support costs.

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FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	--	--	--	--	--
Financial Reform	--	--	--	--	--

Energy	--	--	--	--	--
Environmental Management	--	--	--	--	--
Citizens' Participation	--	4,550	--	--	4,550
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	1,450	1,450
TOTAL	--	4,550	--	1,450	6,000
*Support for East European Democracy (SEED) Act funds					

Acting USAID Mission Director: William S. Foerderer

ACTIVITY DATA SHEET

PROGRAM: CROATIA
TITLE: More Competitive, Market-responsive Private Financial Sector, 180-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $0 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1999

Summary: Since independence in 1991, Croatia has made satisfactory progress in implementing basic economic reforms needed to create a foundation for development of a market economy. Croatia currently ranks seventh in overall economic restructuring among 27 CEE and NIS countries receiving bilateral support from the US. Despite overall macroeconomic progress, fundamental economic restructuring in areas including banking sector reform, large scale privatization, enterprise restructuring, competition policy and investment policy is still needed to sustain economic growth and enable Croatia to compete in the global economy. Of particular concern is the need to support economic reforms in Croatia to provide a basis for broader distribution of the benefits of economic restructuring.

Key Results: Since 1995, USG funded assistance for economic restructuring in Croatia has been limited to support for financial sector restructuring and development. The principal goals of USAID's economic reform activities have been to develop an effective and enforceable legal and regulatory framework to support development of transparent, reliable, and participatory financial markets. USAID projects have been important complements to World Bank and IMF programs in Croatia.

Performance and Prospects: Between 1995 and 1998, USAID-funded technical advisors and trainers made excellent progress towards building the technical capacity within the bank supervision unit at the National Bank of Croatia (NBC) and at the Bank Rehabilitation Agency (BRA). Notable intermediate results at the national bank included completion in 1998 of the official manual for on-site supervision of all banks in Croatia, and development of a new uniform off-site bank reporting system maintained at the National Bank. At the BRA, good progress was made towards building technical capacity and developing effective procedures to ensure that the process of rehabilitating and privatizing state-owned banks would be carried out effectively and transparently.

Progress in capacity building was not matched, however, by effective utilization of that capacity. For example, the uniform off-site bank reporting system has not been fully adopted. Further, reluctance on the part of the National Bank and the GOC to authorize trained bank supervisors to undertake regular on site visits, and to take action on information collected during bank reviews, has severely impeded further implementation of the banking sector reform activity. At the BRA, overall progress has been inhibited by reluctance on the part of key managers and partners both at the BRA and within the GOC to authorize the Agency to take bold and resolute action needed to deal effectively with the problems identified.

Possible Adjustments to Plans: Throughout 1998, it became increasingly evident that the financial sector in Croatia is facing severe problems. The near total collapse of Dubrovacka Banka in March 1998 was a powerful indicator of the poor health of the formal banking sector. Despite growing concerns about the urgency of dealing with problems facing many of Croatia's banks, the GOC has been slow to acknowledge or to take action to begin to address the

major issues. Genuine financial sector reform has been severely compromised by apparent political considerations. In the absence of sufficient political will and commitment by the GOC to deal effectively with problem banks and other financial sector issues, USAID support for financial sector reform in Croatia has been largely curtailed pending a change in political will and direction. There are, however, strong indications that the next 12-24 months in Croatia will set the stage for major change in the country's political leadership. In that event, USAID would seek to reinvigorate its banking sector reform activities and perhaps -- as needed-- provide other macroeconomic and structural, policy, legal and regulatory reform advice and assistance in support of new political leadership. If that occurs, USAID would extend performance targets for this objective.

Other Donor Programs: USAID coordinates its assistance under this objective with the World Bank, the International Monetary Fund (IMF), and the British Know How Fund.

Principal Contractors, Grantees, or Agencies: KPMG/Barents Group, Financial Services Volunteer Corps; World Learning.

Selected Performance Measures:

	Baseline	Target
Interest rate spread between deposits and loans declines	19% (1996)	10% (1999)
Share of assets in private banks increase	48%	60%
Gov. Debt Securities issued domestically	0 (1995)	2.5 billion KN
Ratio of Household deposits to GDP	18%	21%
Bankruptcy law implemented	No (1995)	Yes (1999)
% of non-performing bank assets identified and reduced	8% known (1995)	15% (1999)
% of banks examined annually	10% (1995)	100% (1999)
Companies with securities officially registered with the Stock Exchange	1 (1995)	14 (1999)
Capital markets laws and CROSEC regulations in place	No (1995)	Yes (1998)

ACTIVITY DATA SHEET

PROGRAM: CROATIA
TITLE: Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making, 180-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $4,550,000 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2003

Summary: Since independence, Croatia has made unsatisfactory progress towards full democratization. Croatia currently ranks 13th in overall democratic reform among 27 CEE and NIS countries receiving bilateral support from the US. Since the end of the war in 1995, Croatia has failed to improve any of the basic democratic indices of political rights and civil liberties and has actually regressed in the area of media freedom. The principal obstacle to systemic democratic reform in Croatia remains the ruling party's ambivalent commitment and, at times, open hostility to basic democratic principals and civil liberties. The GOC's unsatisfactory performance in supporting and encouraging broader democratization has restricted the country's access to European and trans-Atlantic institutions. Performance in this area will continue to be monitored closely and will be the basic litmus test for determining Croatia's further participation in the process of European integration as well as its eligibility for participation in trans-Atlantic institutions.

In reviewing USG-funded support for democratization in Croatia, it is important to make the distinction between support to the government and support for democratic reformers. Outside of government circles, there exists in Croatia an impressive and well-respected cadre of democratic reform advocates who merit and need outside support to survive and gain influence in a markedly adverse political environment. For the independent media, the NGO sector, alternative political parties, and trade unions, USG and other donors' assistance funds have been a vital source of badly needed financial support, training, and technical assistance to maintain operations and achieve long term viability.

Key Results: U.S. support for democratic reform in Croatia is aimed primarily at improved performance in civil

society development, independent media, and political processes. USAID and other USG funded projects support a broad range of NGOs, independent media outlets and political parties to support broader democratization in Croatia and encourage greater public participation in political processes. Key intermediate results under this Strategic objective are: increased capacity of civil society organizations, more diverse and independent sources of public information, and more representative composition of national and local governments.

Performance and Prospects: Progress toward achievement of this SO has been meeting expectations. In the area of independent media, USAID-funded assistance under the Professional Media Project has supported the development of professional associations including the Croatian Journalists Association with 2,800 members, the nine-member Association of Independent Television Stations and a 14-member Association of Independent Radio Stations. These associations are playing a vital role in efforts to break the government's monopolistic control of electronic media and to provide alternative sources of news and information for a broad segment of Croatian citizens. USAID has also provided key technical assistance, managerial training, and financial support to sustain independent media outlets currently operating in Croatia. USAID-funded political party development activities implemented through the National Democratic Institute and the International Republican Institutes have enabled alternative political parties to expand political bases through public outreach, professionalize operations, strengthen platform development capacity, advocate more effectively in support of changes to the existing electoral law (which is widely viewed as a major obstacle to a more competitive and representative multi-party democracy in Croatia), and develop a program of national opinion polling to assist the leadership ranks to prepare for and compete more effectively in the next round of national elections. USAID is supporting a broad range of advocacy NGOs under its NGO Sector Development Program administered by the Academy for Educational Development (AED) to encourage increased participation of private citizens in public decision making.

Possible Adjustments to Plans: There is growing evidence that the next 12 to 24 months could set the stage for significant political change in Croatia and mark the advent of a new, more democratic era. New parliamentary elections must be held no later than early 2000 and the next presidential election must be held no later than 2002. The results of a series of national opinion polls in 1998 indicated deep concerns among the voting populace about the overall direction in which the country is headed and clearly underscored a broad-based desire for political change. The poll results also revealed general economic anxiety as well as substantially declining support for the ruling party. If alternative parties can sustain momentum towards effective coalition building and platform and message development, prospects are excellent for a major breakthrough in representation at both the national and local levels. The rise to power of more moderate pro-democracy political leaders from the opposition or from within the ruling party itself would give a major boost to efforts to accelerate the process of democratic transition in Croatia. In FY 2000, USAID's democratization program will continue to support independent media, political party strengthening and civil society development. USAID will continue to monitor political developments and events closely to identify opportunities to catalyze change.

Other Donor Programs: The USG continues to play an important leadership and coordination role among the international community in promoting democratization in Croatia. The United States has been instrumental in developing an agenda of key policy reforms to support independent media, ensure protection of human rights, strengthen the rule of law and develop more open and equitable electoral processes. USG leadership has also been crucial for developing consensus within the international community to apply pressure on the GOC to adopt reforms. USAID has been effective in using its assistance activities to leverage and coordinate support from other donors to support democratization. USAID coordinates its assistance under this objective with the OSCE, the EU, Norway, other bilateral donors, and international NGOs, including the Open Society Institute.

Principal Contractors, Grantees, or Agencies: The International Research and Exchange Board (IREX), the National Democratic Institute (NDI), the International Republican Institute, the International Center for Not-for-Profit Law (ICNL), the American Center for International Labor Solidarity (ACILS), the Academy for Educational Development, and the American Bar Association Central and Eastern European Legal Initiative.

Selected Performance Measures:

	Baseline	Target
Improvement in the Freedom House Combined Average rating for Croatia*	4.0/Partly Free (1996)	2.0/Free (2000)
Improvement in Freedom House Press Freedom Rating	5.8/Partly free (1996)	4.5/Partly Free (2000)
Improvement on NGO Sustainability Index	4.5/Moderate (1996)	2.5/ (2000)

*Freedom House and NGO sustainability index measures are on a scale of 7 (lowest) to 1 (highest)

ACTIVITY DATA SHEET

PROGRAM: CROATIA
TITLE: Reintegration of War-Affected Populations 180-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $0 SEED Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Summary: Despite good progress in Croatia since the end of the war to rebuild war-damaged housing and infrastructure and restore economic growth, there remain several hundred thousand ethnic Croats, Serbs and others from Croatia who have been unable to exercise their right to return. This group includes internally displaced persons (IDPs), Croatian refugees in Bosnia and Herzegovina (BiH) and the Federal Republic of Yugoslavia, and ethnic Croats displaced from BiH.

Resolution of the IDP and refugee crisis throughout the former Yugoslavia remains a high priority US foreign policy objective. In 1998, the GOC made substantial progress in improving relations and cooperation with the international community on a broad range of issues affecting return of IDPs and refugees to communities of origin. Agreements with the GOC on return procedures, a national return plan and national reconstruction and development plan were significant milestones towards improved GOC performance in meeting its Dayton and Erdut agreement commitments. At the core of these agreements is a commitment by the GOC to adopt more transparent and non-discriminatory policies to encourage return and implement reconstruction assistance. Whether the GOC will actually do what it has promised remains uncertain. USG-funded activities in support of returns in Croatia are important foreign policy tools both for catalyzing returns and for verifying GOC compliance with the terms of its agreements.

Key Results: U.S.-funded activities in Croatia to support return and reintegration of war-affected populations is aimed at three principal intermediate results: (1) growth of small and medium scale enterprises and agriculture to provide jobs and incomes to support returning and remaining populations; (2) improved human rights monitoring capacity and access to legal services for affected populations; and (3) development and implementation of plans by municipalities and local governments to enable all displaced persons and refugees to return to communities of origin.

Performance and Prospects: Progress toward achievement of key results has been as expected. In 1998, USAID initiated the Return Assistance Program (RAP) with the International Organization for Migration (IOM) to support municipalities which demonstrate a commitment to encourage and support returns. During this past year eight municipalities entered into RAP partnership agreements with a total return target of approximately 14,500 people. Actual returns to RAP partner municipalities were estimated at 6,700. In 1999, RAP will expand to a minimum of 16 partner municipalities with a total return target of at least 30,000. Returns facilitated directly under RAP are expected to catalyze larger scale returns throughout Croatia. In the area of humans rights monitoring and protection, USAID-funded assistance has directly supported the development of a legal services and assistance network consisting of 25 local NGO service providers. In 1998, the network provided services to over 25,000 displaced persons, refugees and returnees to resolve legal and administrative issues including citizenship, property rights, professional licensing, business registration and certification, and access to social benefits. USAID support for private enterprise and agricultural development in war-affected areas has benefited over 3,000 entrepreneurs and farmers throughout Croatia. In 1998, the Firm Level Assistance Group (FLAG) provided direct technical assistance and training to thirty client firms and twelve farmers' associations. FLAG has expanded its support network to include all war-affected areas in Croatia. Firms receiving FLAG support reported an average 4% increase in employment and 17% increase in sales revenue. FLAG also helped to establish over 250 new business linkages in Croatia and abroad for firms in eastern Slavonia-- a major war-affected area. Through the end of 1998, the USAID funded micro-loan project implemented by Opportunity International had disbursed approximately 650 loans valued at $3.8 million to small scale entrepreneurs and farmers in the region. Micro-loan recipients have been able to sustain nearly 900 jobs while creating over 700 new jobs for area residents.

Possible Adjustment to plans: The originally envisioned time frame of December 1999 for achievement of this strategic objective needs to be extended through at least 2000 to allow adequate time to achieve a comprehensive solution to the IDP and refugee situation in Croatia and the region. During FY 2000 remaining funding under this objective will be used to sustain USAID funded activities in the area of local governance and economic development. As progress in Croatia is closely linked to progress in Bosnia and Herzegovina (BiH) and the Federal Republic of Yugoslavia (FRY), greater emphasis in will be placed on facilitating cross-border returns between

Croatia and BiH and the FRY and in identifying opportunities to support regional cooperation on trade and investment issues.

Other Donor Programs: The GOC in 1998 estimated the forward costs of reconstruction of war damaged housing and infrastructure at $2.5 billion. The GOC has committed itself to allocating $500 million annually through 2003 from the national budget to meet these costs. USG assistance is closely coordinated with the GOC, the OSCE, the EU, the World Bank, UNHCR, and the governments of Norway, Belgium and other bilateral donors. Strong donor coordination among the international community has been instrumental in pressuring the GOC to adopt more fair and transparent policies and procedures to support multi-ethnic returns.

Principal Contractors, Grantees, or Agencies: America's Development Foundation, the International Organization for Migration (IOM), Opportunity International, the Small Enterprise Assistance Fund, the University of Delaware, World Learning, and the Urban Institute.

Selected Performance Measures:

	Baseline	Target
Overall Number of displaced persons and refugee returns	0 (1997)	210,000 (2000)
Number of Partner Municipalities	0 (1997)	16 (1999)
Number of returnees to Partner Municipalities	0 (1997)	30,000 (1999)
Human and civil rights monitored and protected	Unsatisfactory (1996)	Significant qualitative improvement each year

CYPRUS

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Economic Support Fund	$15,000,000	$15,000,000	$15,000,000

Introduction.

Cyprus continues to feel the strain of inter-ethnic conflict, distrust and misunderstanding. The divided island of Greek and Turkish Cypriots could be a flash point for regional problems. Approximately 200,000 Cypriots, almost one-third of the total Cypriot population, were displaced during the July 1974 coup and Turkish military intervention. The U.S. Government has continued to provide funds which, over the years, have shifted in emphasis from relief to long-term reconstruction and development activities. The US national interest in a settlement of the political division of Cyprus, is consistent with the International Affairs Strategic plan. The approach seeks to promote a greater appreciation, by both sides, on how the principles of federalism can contribute to a political settlement based on a bizonal, bicommunal federal framework, as called for in UN Security Council resolutions. This interest is consistent with the USAID Agency goal of strengthening democracy and good governance.

The Development Challenge.

Both the Greek and Turkish communities on Cyprus confront varying economic problems: the GDP per capita on the Greek Cypriot side has risen to over $13,000; while on the Turkish Cypriot side it has stagnated at around $3,000. While USAID assistance helps to address some economic constraints, the main democracy/governance-related challenge is to promote bicommunal participation in programs that benefit both island communities. This assistance is directed at underpinning our efforts to reduce inter-communal tension on the island. The United Nations Development Program (UNDP) and the Fulbright Commission act as the implementing agencies for the U.S. program through a series of program grants. UNDP and the Fulbright Commission have the ability to work with both Greek and Turkish Cypriots and are well positioned to promote bicommunal cooperation. The Nicosia Master Plan and the Nicosia Sanitary Sewerage System projects are two examples of programs that have been planned and implemented by both communities, and from which each community derives benefit. In December 1997, the leadership of the Turkish Cypriot community officially suspended Turkish-Cypriot participation in bicommunal meetings. Thus, while thirty-eight bicommunal meetings were held in FY 1997 to implement these projects, very few in-country meetings were conducted in FY 1998, following the suspension of formal bicommunal contacts. Informally, however, progress on some priority bicommunal initiatives, such as the expansion of the Nicosia sewerage plant, continues.

Other Donors.

After 1974, emergency humanitarian assistance was provided to both Greek and Turkish Cypriots by the International Committee of the Red Cross and by the United Nations High Commissioner for Refugees (UNHCR) with contributions from the United States and other countries. In 1974, the top five Official Development Assistance (ODA) donors to Cyprus provided $41 million in assistance with the United States share equal to 53%. Subsequently, donors other than the U.S. have discontinued assistance. In 1997, the UNHCR ceased to act as an implementing agent for the US. The US is the only major donor still active in Cyprus and, since early 1998, provides financing to the UNDP program.

The FY 2000 Program.

Working through UNDP and the U.S. Information Service (USIS), USAID funding promotes activities which encourage participation and cooperation among representatives of both communities. A business leaders economic

cooperation conference held in Istanbul, Turkey, in December 1998, is an example of such initiatives. This bicommunal approach is designed to demonstrate the positive, substantive results of cooperation. Further, the linkages established between individuals and groups from a variety of sectors will contribute to: (1) increasing the pressure on each side's leadership to compromise on an equitable solution; or (2) providing opportunities for contacts and increasing the number of stakeholders in a solution.

The Bicommunal Development Project, implemented through the UNDP and the Cyprus Red Cross includes bicommunal activities in the fields of public health (municipal sewerage system upgrading) environment, forestry, water resource management, education, historic preservation, and urban renewal especially in areas near the dividing line.

The Scholarship Project, implemented through USIS and the Cyprus Fulbright Commission, offers U.S. scholarships for undergraduate and graduate degrees, and short-term professional training and bicommunal training through conferences, workshops and seminars, on conflict resolution and business management.

CYPRUS

FY 2000 PROGRAM SUMMARY
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
--	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	15,000a/	15,000
TOTAL	--	--	--	15,000a/	15,000
a) Economic Support Fund					

Director, Office of European Country Affairs: Paula Feeney

GEORGIA

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$92,500,000	$84,360,000	$83,500,000

Introduction.

A democratic, prosperous and independent Georgia advances U.S. long-term geo-political, economic and humanitarian interests. Georgia is a strategically-located country, sharing a border with Russia and offering Black Sea ports for the transportation of energy and other crucial commodities. As a vibrant, free-market democracy, Georgia can become a stabilizing force in a region that is likely to be an important alternative source of oil supplies to the West. The consolidation of democratic order, introduction of market-oriented reforms, and the privatization of important industries under the leadership of President Eduard Shevardnadze and a progressive parliament are helping Georgia to recover the momentum lost during the years of civil strife. Despite slower-than-expected reform, lingering secessionist threats, and the effects of the Russian economic crisis, Georgia's direction is clear, and the country and her people continue to look West for partnership and assistance.

The Development Challenge.

Since independence, Georgia's economic and political stability has been hampered by internal conflicts (civil war, the Abkhazian revolt, and the South Ossetian separatist movement) and the dissolution of regional trade links caused by the break-up of the former Soviet Union. Compounding the effects of those problems, the recent Russian economic crisis is placing additional stress on Georgia's transition to a market economy. While there have been notable economic and democratic successes, such as a progressive and market-friendly urban-industrial land privatization law and the use of qualifying examinations as a basis for determining judgeships, Georgia still faces formidable challenges in its transition. The Georgian public is also increasingly anxious to see improvements in the quality of their life as the result of legal and regulatory reform, judicial reform, and privatization.

Georgia must resolve a number of problems in order to ensure a strong market economy and democracy. While improving, financial markets remain weak, privatization and economic restructuring moves slowly, and a heavy per capita debt (largely the result of the purchase of energy) is a drag on the economy. Corruption is endemic and tax collection rates remain low. Georgia has successfully privatized the largest electrical distribution company in the country, but the system needs additional reform and investment to eliminate the power outages which cause suffering among the population and hamper industry. Unemployment, under-employment, and constraints on credit conspire to keep living standards low, while social programs are unable to keep pace with the population's needs. Political parties, independent media and the non-governmental organization (NGO) sector continue to mature, but are not yet sustainable.

Despite these obstacles, Georgia has made encouraging headway since 1995, and its leadership is determined to continue the reform process. With backing from the International Monetary Fund (IMF), World Bank, the U.S. and other donors, Georgia has cut inflation, imposed fiscal discipline, liberalized prices, set up a functioning banking system, and pushed ahead with privatizing state-owned enterprises. The result has been four straight years of GDP growth. Georgia also held its first-ever local government election in 1998, highlighting the importance of effective and responsive local government. USAID works closely with the Government of Georgia (GOG) in the areas of legal and regulatory reform, economic and energy sector restructuring, and tax and fiscal reform and is the lead donor in democracy-related assistance. USAID food and fuel assistance has been credited by the GOG with the survival of Georgia as an independent country. Immunization levels have been restored to minimally acceptable levels, and the needs of internally displaced persons for shelter and other basics have been addressed. USAID's program strives to eliminate corruption by working with the GOG and private and NGO sectors to establish checks and balances such

as fair, transparent, and widely disseminated "rules of the game", independent regulatory bodies, and a transparent budgeting system.

Other Donors.

The four largest donors to Georgia are: the World Bank, the United States, The European Bank for Reconstruction and Development (EBRD), and the European Union (EU). To date the World Bank has provided approximately $375 million to Georgia. Since 1993, U.S. assistance has totaled approximately $357 million. World bank assistance includes structural adjustment credits, agricultural development loans, assistance to the health and power sectors and technical assistance to strengthen the private sector. USAID works closely with the World Bank and supports its economic reform conditionalities. EBRD provides direct funding for the power and transport sectors and in support of private sector development. The EU's technical assistance program for the NIS (EU-TACIS) has focused on the rehabilitation of transportation infrastructure, strengthening the private sector and food security. Since joining the IMF in 1992, Georgia has borrowed about $250 million through annual structural adjustment loans. USAID provides technical assistance to the Ministry of Finance and works closely with the IMF to address fiscal policy issues.

FY 2000 Program.

USAID-Implemented Programs: The Georgia program integrates institutional and policy reform at the national level with local and grass-roots capacity-building. FY 2000 funding is requested to support economic and energy sector restructuring; strengthen the private sector; bolster civil society; develop democratic local governance; and promote the rule of law. Funding also is sought to advance social, economic and political reform at the community level and reduce human suffering among victims of the Abkhazia conflict. In the economic sphere, USAID will build on past progress in privatizing state-owned firms, creating a legal and regulatory framework to help stimulate the growth of small and medium enterprises, and fostering the development of a competitive capital market to increase access to credit, all with a continued emphasis on accountability and transparency. FY 2000 funding will support strategic objectives in privatization, enterprise growth and development, fiscal reform, private financial sector development, and energy restructuring. In the area of democracy and governance, FY 2000 funding will continue to support strategic objectives in citizens' participation (including efforts to strengthen NGOs, political parties and independent media), legal and judicial reform, and effective local government. In the social sector, efforts will continue to meet the basic needs of the most vulnerable segments of the population -- particularly among victims of the Abkhaz conflict -- while working at the community level to increase household self-sufficiency and provision of basic services. In expanding its support for grassroots programs that tangibly improve people's lives, USAID will build on the World Bank's successful Social Investment Fund which was established to support community-level projects that stimulate local employment and income generation while fostering citizen participation in decisions that directly affect their lives. These programs, which boost the capacity of local actors to work together to solve community problems, also support economic development and democracy-strengthening goals.

Under Cross-cutting and Special Initiatives, USAID's principal activity is a large training program (including U.S.-based) focused on developing Georgia's human resource base. Training programs advance USAID strategic goals across the entire portfolio. USAID also will contribute to the GOG's health reform efforts through institutional partnerships, strengthening of national health information systems, and technical assistance in the area of women's reproductive health. In addition, USAID will provide vaccines, medicines and equipment to help combat health problems such as infectious diseases, including tuberculosis.

Other U.S. Agency Programs: Included also with this request are programs implemented by other U.S. Government agencies. The request for cross-cutting and special initiatives, in particular, reflects expanded emphasis on the need to reduce the risks of proliferation of weapons of mass destruction through programs which enhance our mutual security, such as export controls, science centers and efforts designed to employ scientists in non-military areas. In addition, other USG agencies participating in technical cooperation programs with Georgia through inter-agency transfers from USAID include the Departments of Justice, Treasury, State, and the United States Information Agency.

GEORGIA

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total

Privatization	3,500	--	--	--	3,500
Fiscal Reform	1,500	--	--	--	1,500
Private Enterprise	8,150	--	--	--	8,150
Financial Reform	4,930	--	--	--	4,930
Energy	6,150	--	--	--	6,150
Environmental Management	--	--	--	--	--
Citizens' Participation	--	4,350	--	--	4,350
Legal Systems	--	1,600	--	--	1,600
Local Government	--	2,000	--	--	2,000
Crises	--	--	7,000	--	7,000
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting/Special Initiatives	--	--	--	44,320	44,320
TOTAL	24,230	7,950	7,000	44,320	83,500
*FREEDOM Support Act (FSA) funds					

USAID Mission Director: Michael Farbman

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Increased Transfer of State-Owned Assets to the Private Sector, 110-SO01.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $3,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1998; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This strategic objective will help facilitate the transfer of state-owned assets to the private sector. The privatization of land and general assistance to the Government of Georgia (GOG) in privatizing remaining state-owned enterprises are major pieces of the broad multi-year market reform program recently initiated by USAID. In one element of the program, USAID assists the GOG in its efforts to privatize land, especially the land under and adjacent to privatized enterprises. USAID technical advisors have begun working with the State Department of Land Management and Parliament to introduce a favorable legal and regulatory environment for urban and industrial land privatization. Land privatization will convey ownership and title of the land in use by privatized enterprises to those enterprises so that they can sell or otherwise use that land as collateral. USAID funded a Phase I of a project to privatize Poti Port. In FY 99 USAID will provide a privatization advisor to the Ministry of State Property Management and stands ready to assist the GOG in the privatization of state-owned assets. Privatization of state-owned assets will reduce the fiscal and management burden on the state and improve the delivery of services to the average user. It also will support the development of capital markets and the recovery of the industrial sector. The beneficiaries of this SO are Georgian private enterprises.

Key Results: USAID currently is focused on completion of the land title registration process. Without title, registration is considered incomplete and the land cannot be used as collateral for much-needed credit. This objective is also being redesigned to expand its scope to include the titling and registration of the rural small holdings in the agricultural sector.

Performance and Prospects: With USAID assistance, Parliament has passed what USAID believes to be the most progressive and market-friendly urban-industrial land privatization law in the CIS. Within 60 days of promulgation of this law over 2000 enterprises had satisfied the requirements to receive and register the ownership of the land associated with their enterprises. The GOG appears to have selected a plan for the privatization of Poti Port which reflects a less market-oriented approach than that recommended by USAID. Accordingly, USAID's continued participation in the privatization of Poti Port is unclear at this point.

Possible Adjustments to Plans: Continued assistance in the privatization of Poti Port is in question. USAID's interest in strategic privatization is now focused on other key state enterprises. USAID will be preparing a new program strategy for assistance to Georgia during Spring 1999, at which time the scope of this objective will be expanded to include rural land privatization.

Other Donor Programs: USAID land markets advisors work with the State Department of Land Management and Parliament. Both the World Bank and the German Organization for Technical Assistance have activities addressing land privatization. The activities of these two donors are monitored by USAID with the objective of avoiding duplication and promoting better donor coordination. The European Union TRACECA project, World Bank, EBRD, U.S. Trade Development Agency, and United Nations Development Program all have programs affecting privatization.

Principal Contractors, Grantees, or Agencies: The privatization of urban and industrial land is being implemented by Booz-Allen & Hamilton. International Business and Technical Consultants was responsible for the restructuring of Poti Port. The Privatization Advisor will be provided by Barents Group.

Selected Performance Measures:*

	Baseline	Target
Land titling and registration system established	No (1998)	Yes (2000)
Urban land registered with owners of associated enterprises	No (1998)	Yes (2000)
Percentage of Small farm holdings registered/titled	0 (1998)	50% (2000)

* These are illustrative indicators. Performance measures will be established as part of the new program strategy for assistance to Georgia during Spring 1999.

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Increased Soundness of Fiscal Policies and Management Practices, 110-SO01.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $1,500,00 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This strategic objective will help improve fiscal policies and fiscal management practices in Georgia. During the past two years, the Government of Georgia (GOG) made some headway in strengthening the fiscal system. However, low revenue collections in the past year have complicated the fiscal reform effort and undermined it's fragile infrastructure. During the fall of 1998, Georgia's relationship with the IMF was complicated by the GOG's difficulties in meeting its commitments to the Fund with respect to increasing tax revenues, levying excise taxes, and developing realistic budgets to operate within existing income. Georgia (mainly in the areas of trade and foreign income repatriation) also has been adversely impacted by the Russian economic collapse last fall. Beneficiaries of this objective are the citizens of Georgia, who will be able to see how their government allocates tax revenues for public expenditures.

Key Results: At present, USAID-funded activities focus on three key intermediate results: (1) Budget/Financial Systems: the development of market-oriented budget and financial systems for national and regional governments; (2) Taxes: the establishment of open and transparent tax codes which are conducive to accelerated legitimate business activities; and (3) Government Securities: the establishment of a Treasury Securities System. In order to upgrade GOG budget planning and analysis capacity, a Budget Analysis office was established at the Parliament, and fiscal reform apparatus established at the Ministry of Finance.

Performance and Prospects: This objective may undergo some redesign during upcoming strategy development in order to ensure maximum tax collection coordination and efficiency vis-a-vis U.S. Treasury activities and maximum impact of all USAID fiscal reform activities. The tax and budget activity includes a comprehensive training program on the new tax law and regulations, business and accounting practices, collection and audit techniques, and general management. This training program will be operated in conjunction with the training program provided under the accounting reform element of the overall market reform program. USAID expects to have completed new regulations pertaining to the Tax Code soon, and in cooperation with the US Treasury Tax Advisor will provide training for the tax inspectorate to improve tax administration and collection and professionalize the tax department. These actions will lead to reduced corruption, and enhanced revenue collection. The Mission will also include leadership training as an integral part of its fiscal policy and management portfolio.

Possible Adjustments to Plans: Within the framework of USAID's existing fiscal reform projects, a joint U.S.

Treasury/USAID Tax Assistance Program is being prepared in close coordination with other donors and the GOG. The new program will highlight revenue mobilization as its strategic goal, by focusing on tax administration and collection and reducing emphasis on tax policy.

Other Donor Programs: USAID assistance in budget formulation augments IMF support to develop a Treasury Department and to establish a primary securities market. This program also complements World Bank assistance in fiscal reform.

Principal Contractors, Grantees, or Agencies: U.S. Department of Treasury, and the Barents Group.

Selected Performance Measures:

	Baseline	Target
Fiscal balance as percent of GDP, excluding grants	-7.5% (1995)	-3.0% (2000)
% of GOG budget deficit financed by government securities	less than 1%	-20% (2000)

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Accelerated Development and Growth of Private Enterprises, 110-SO01.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $8,150,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2000

Summary: Georgia's positive economic growth rate over the past four years attests to the success of its macroeconomic stabilization policies, as well as the depth to which its economy had sunk in the wake of the collapse of the former Soviet Union. While much of the country's Soviet-era industry has remained largely idle or at low capacity, economic growth has been driven by the nascent private sector, particularly agriculture and new small businesses. This strategic objective will help accelerate development and growth of private enterprise in Georgia. USAID is undertaking a broad, multi-year economic reform programa, which includes comprehensive accounting reform, commercial law, market development for Georgian products. The direct beneficiary of this objective are private enterprises, although Georgians in general stand to gain from an active, growing private sector.

Key Results: At present, USAID-funded activities focus on five intermediate results: (1) increased foreign investment; (2) increased transfer of technology; (3) increased access to credit by domestic enterprises; (4) increased access to export markets and development of domestic markets; and (5) development of an improved framework for economic policies, commercial laws and regulations for economic activities.

Performance and Prospects: The USAID-funded Institutional Reform in the Informal Sector (IRIS) Caucasus Center replaced the Center for Economic Policy and Reform (CEPAR) in developing a legal and regulatory framework supportive of foreign investment under this objective. Membership in the World Trade Organization (WTO) will be a major benchmark in terms of making Georgia attractive to foreign investors, over the long-term. This activity is on track; USAID and GOG anticipate that WTO accession will be accomplished by the end of 1999. In addition to this WTO work, IRIS provides both legal and technical assistance in the areas of commercial law reform and macroeconomic indicators. ACDI/VOCA has been successful in developing appropriate new technologies for the Georgian seed industry and has an excellent record in recovering loans to farmers.

With respect to accounting reform, the Georgian State Chancellery and Parliament signed an MOU establishing the Georgian Association of Professional Accountants and Auditors. Mass conversion to International Accounting Standards will commence in early 1999, due in part to provisions of the Securities Law passed in December 1998.

The Shorebank/FINCA Small and Medium Enterprise Finance Program provides credit, in the range of $50 to $500,000, to small and medium entrepreneurs. Initial efforts have focused on establishing basic microfinance and small business lending capabilities. Future effort will focus on expansion, and on creating permanent and sustainable capacities within indigenous institutions to lend to and invest in small and medium enterprises.

Possible Adjustments to Plans: The current IRIS contract expires on March 27, 1999; a follow-on contract is being

designed. In its second year, ACDI/VOCA will focus on the commercialization of its seed production efforts. In accounting reform, the contractor is currently identifying a list of 300 private enterprises to be targeted for mass conversion by the end of the project in October 1999. In addition, USAID will be preparing a new program strategy for assistance to Georgia during Spring, 1999.

Other Donor Programs: The World Bank, EBRD, EU TACIS, and UNDP are supporting Small and Medium Enterprise development with various projects including access to financing, technical assistance, grants, and institutional development.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented by IRIS, Shorebank/FINCA, and PVOs such as the International Executive Service Corps, ACDI/VOCA and the Eurasia Foundation.

Selected Performance Measures:

	Baseline	Target
Private sector share of employment	28% (1995)	70% (2000)
Private sector share of GDP	50% (1996)	65% (2000)
Foreign direct investment (US$ Millions)	$6m (1995)	$80m(2000)
WTO Accession	No (1998)	Yes (1999)

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: A Competitive Private Financial Sector that is More Responsive to the Needs of a Market-Oriented Economy, 110-SO01.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $4,930,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2000

Summary: This strategic objective contributes to the development of a more competitive and market-responsive private financial sector. During the past year, USAID technical assistance has helped establish a bank training center in a joint effort with the National Bank of Georgia (NBG) and a consortium of leading local commercial banks; installed an electronic payments system for expediting international and domestic financial transactions; and spearheaded a legal and regulatory base for the establishment of a capital markets infrastructure.

USAID is financing technical assistance to implement electronic payment and integrated accounting systems that will permit real-time financial transactions to take place among domestic banks and between the central bank and its seven regional clearing branches. The systems will also facilitate international transactions from the NBG platform provided to commercial banks. USAID will continue to provide a resident advisor and short-term technical assistance to train commercial bank managers and officers. The focus of this training is credit analysis, portfolio management, asset and liability management, international accounting standards, and internal audit.

Key Results: USAID-funded activities focus on two major aspects of the financial sector: banking and capital markets development. Under banking, there are 3 intermediate results: (1) transaction efficiency aimed at increased technical efficiency of financial sector transactions in commercial banks; (2) increasing increased public confidence in the banking system; and (3) financial services aimed at increased availability of financial services. The capital markets program is designed to (1) establish an independent securities and exchange authority; (2) develop a mechanism for securities trading; (3) create a centralized clearing, settlement and depository system; (4) properly train broker-dealers, investment funds managers and other members of the securities community; and (5) assist newly-privatized enterprises to improve corporate governance and shareholder rights, and compliance with securities regulations pertaining to disclosure and reporting.

Performance and Prospects: An Integrated Accounting System and Electronic Interbank Payments System is now being established, implemented in National Bank of Georgia through Montran. The Montran system will provide the technical capacity for real-time settlements and payments in Georgia for the first time ever. The implementation of the new accounting and payments systems for the NBG is a major change impacting almost every part of the organization. USAID's technical assistance to NBG will improve the capacity of the Bank to implement and maintain

a Local Area Network, Bank Supervision Database, and Data Security systems.

The Shorebank/FINCA Small and Medium Enterprise Finance Program will establish locally independent financial and non-financial intermediaries by approximately 2001. An important element of USAID's comprehensive market reform program is its capital markets development program. This two year program was initiated in FY 1998, and plans to achieve the following results by 2000: the establishment of a Securities and Stock Exchange State Inspection Board regulatory capacity; the development of a securities trading mechanism; the development of a centralized clearance, settlement and depository system; the creation of a network of trained market professionals (particularly broker-dealers and investment funds); and corporate governance, promotion of shareholder rights, and improved participation and compliance with regulations by newly-privatized enterprises.

As noted above, Barents has been working on a banker training center called the Banking Finance Academy of Georgia. This Academy will be self-sustaining financially, as well as programmatically, by the end of 1999 or mid-2000. Local courses now are being developed and local instructors trained. Five additional training courses are expected to be completed by September 1999, including a series of seminars on International Accounting Standards for bankers.

In addition, a new program for the institutional development of bank supervision capacity at the National Bank of Georgia (NBG) will be implemented over the next three years. In the framework of its Bank Supervision and Enforcement program, USAID will focus on implementation of international accounting standards for the financial sector and development of a risk-based, off-site supervisory capacity and related early regulatory intervention and problem bank resolution mechanisms. Improving the framework and procedures for legal enforcement of prudential banking regulations and institutional development of the NBG legal department also will be a goal of the program.

Possible Adjustments to Plans: USAID will be preparing a new program strategy for assistance to Georgia during Spring, 1999. In light of Georgia's current financial difficulties, the timing of the Capital Markets Development Program will be examined during Strategy preparation.

Other Donor Programs: USAID is coordinating its assistance activities with the NBG, the Ministry of Finance, the Securities and Stock Exchange Inspection Board, the World Bank, the IMF, and the EU.

Principal Contractors, Grantees, or Agencies: USAID's investments in the electronic payments system are managed directly by USAID; the Barents Group manages both the bankers training and capital markets activities.

Selected Performance Measures:

	Baseline	Target
Percentage of banks adapting international accounting standards	None (1995)	50% (2000)
Percentage of banks offering basic set of financial services	8% (1996)	50% (2000)
Independent securities & exchange authority	No (1997)	Yes (2000)
Commercially viable securities trading system	No (1997)	Yes (2000)

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: A More Economically Sustainable and Environmentally Sound Energy Sector, 110-SO01.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $6,150,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2001

Summary: This strategic objective is a more economically sustainable energy sector. USAID's emphasis is two-fold: (a) to create a climate that will attract private sector participation and ownership, with subsequent improvements in the management of resources and provision of services; and (b) to improve energy sector efficiency in economic terms, with subsequent increases in capital and operating resources. Beneficiaries of this objective are the approximately 1.3 million residential household and commercial consumers of electricity and potentially an equal number of natural gas customers.

Key Results: At present, USAID-funded activities focus on 2 intermediate results: (1) privatization of the energy sector aimed at increasing private sector investment in the energy sector; and (2) energy efficiency aimed at more

efficient use of resources and conservation.

Performance and Prospects: The successful privatization of Telasi, the Tbilisi-area local electric distribution enterprise, through a transparent international tender process has been the greatest success in promoting private enterprise in the Georgian energy sector. Telasi was successfully sold to AES, an American electric distribution and generation company, in January 1998. This privatization is the first step in providing reliable, efficient electric energy services to Georgia. Another key USAID-funded accomplishment was the successful development of a pilot project in the Rustavi Electric Distribution Enterprise service area. This project has been successful in rewiring electric meters and developing new meter reading, billing and collection systems to improve revenue collection to 100%. USAID also funded development of a Least Cost Plan for the Ministry of Fuel and Energy to assist them in planning for new or to refurbish old electric generation sources in a least cost way. USAID will continue to provide technical assistance to the Ministry to assure that staff is fully trained to operate and maintain this planning model.

Another important success was the completion of the Tbilisi District Heating System assessment and the examination of the Zugdidi geothermal heating potential for industrial applications. USAID is investigating the possibility of implementing a natural gas demonstration project in the Tbilisi area.

USAID provided technical, legal and regulatory assistance to the Georgia National Electric Regulatory Commission (GENERC) staff and provided training and skills building in the areas of rate setting, cost analysis, hearings procedures and policy implementation. USAID has prepared amendments to the Georgian Electricity Law to expand the authority of GENERC to regulate gas supply, transmission and distribution. USAID is also providing technical assistance in the establishment of of a Wholesale Electric Market, including development of wholesale market rules and training for the Wholesale Market group's staff.

In the gas sector, USAID purchased four electronic "SuperFlo" high pressure gas transmission pipeline meters at Sioni, Saguramoi, Rustavi and Red Bridge. These meters enable Saktransgasmretsvi, the state-owned gas transmission enterprise, to meter gas flows from Russia into Georgia and, from Georgia to Armenia. The installation of these meters has practically eliminated the disputes between these countries related to gas deliveries.

Possible Adjustments to Plan: USAID will be preparing a new program strategy for assistance to Georgia during the Spring of 1999 and any needed adjustments to plans will be made at that time.

Other Donor Programs: The European Union has undertaken comprehensive assessments in tariff structure, accounting, billing, and metering practices, while the World Bank is conducting a loan appraisal of maintenance and rehabilitation work in electric generation, transmission, and distribution systems. USAID complemented other donor activities with a pre-loan analysis of the Inguri Hydroelectric Station. The European Bank for Reconstruction and Development (EBRD) approved a loan to a local power company to rehabilitate the Rioni hydro station and improve operations and water treatment. The EBRD also is also developing loan packages to repair the Inguri Hydroelectric Station, the largest hydropower station in the country, and to rehabilitate the Zugdidi geothermal field to provide heat to light industries and households in the region.

Principal Contractors, Grantees, or Agencies: There are currently two institutional contractors: Hagler Bailly (restructuring, privatization and legal assistance) and the US Energy Association (training in all energy areas).

Selected Performance Measures:

	Baseline	Target
Oil-Gas pipeline legislation passed	No (1996)	Yes (2000)
Independent regulated utilities with meaningful financial statements established	0 (1996)	6 (2000)
Percent of power generation companies that are privately-owned	0 (1996)	70 (2000)

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Increased Citizens' Participation in Political and Economic Decision-Making, 110-SO02.1
STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $4,350,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Summary: This strategic objective fosters the growth of civil society and grassroots democratic reforms in Georgia. The National Democratic Institute (NDI) provides tailored assistance to parliamentarians and staff to reform the committee system and improve monitoring and constituent outreach, through consultations on policy and management issues, conferences and workshops on draft laws, and performance evaluation and parliamentary oversight of the executive branch. NDI also provides training to political parties and parliamentary factions, on organization, effective management of parliamentary factions inside the legislature, upgrading parliamentary skills, strengthening party-constituency linkages, and building substantive political platforms. The International Republican Institute works with regional chapters of the political parties, concentrating on message development, election monitoring and procedures to file election complaints. The International Foundation for Electoral Systems (IFES) provides technical assistance and training to the Central Election Commission, support for electoral reform and voter education. ISAR (the Initiative for Social Action and Renewal) and the Eurasia Foundation provide assistance to indigenous NGOs, working to improve management and communications capacity, and their ability to participate effectively in the development of democratic legislative and social reforms. NDI provides technical assistance and training to community-based organizations, fostering dialogue with local officials. Working with Georgian independent television media, Internews provides training programs to bolster TV reporters' capacity to produce high-quality daily news reports on political and economic developments. Media assistance also focuses on developing media associations and networks, providing training in management, advertising, and journalists' rights and responsibilities.

Key Results: At present, USAID-funded activities focus on four intermediate results: (1) improved availability of and access to information; (2) human rights institutions established to ensure fair enforcement; (3) increased public confidence in citizens' ability to effect change; and (4) sustained public confidence in the political process.

Performance and Prospects: USAID continues to support and encourage the passage of legislation appropriate to and supportive of citizen participation in decision-making. IFES will conduct expanded activities, including a voter registration campaign and voter list updates, in preparation for the parliamentary elections in 1999, and the presidential election in 2000. In NGO development, Horizonti (ISAR subgrantee) will continue to build up its regional (Caucasus) outreach and integration efforts as well as further expanding to the provinces, concentrating more on work with human rights NGOs and development of community-based organizations, and increasing NGO strengthening efforts within the Caucasus. As part of this effort, Horizonti will start a regional cooperative grants program. In addition, Horizonti will provide assistance in developing effective strategies for communicating NGO interests/positions to the press and general public. Internews will continue to work on increasing the professionalism of journalism, through new TV programs and on-the-ground assistance. Internews will reorient its focus from standard technical training to tailored topics, e.g. investigative reporting, campaign and election coverage, judicial reform. Similar activities, and assistance with the development of a Media Law and Freedom of Information Act, will continue in FY 2000, and evolve based on the changing needs and growth of Georgian civil society. In FY 1998, the program concept embodied in the weekly news programs, produced in conjunction with the Georgian Television Network (TNG), was expanded to include the entire South Caucasus. The news program -- *Zakavkazie* -- involved member stations in all three republics and focused on news, conflict resolution, local stories and other issues of common interest. In 2000, USAID will initiate a new-start for print media activities. To improve Parliament's technical capacities, in FY 1998 USAID donated significant computer equipment to the Parliament through the National Academy for Public Administration, which is currently finalizing the development of a local area network and a legislative database.

Possible Adjustments to Plans: USAID will be preparing a new program strategy for assistance to Georgia during Spring 1999.

Other Donor Programs: In addition to general donor coordination, in 1998 USAID initiated a series of donor meetings in advance of the local council elections, involving the United Nations Development Program (UNDP), European Union (EU), Organization for Security and Cooperation in Europe (OSCE), the British Government, the German government, and others that fund and/or implement democracy assistance programs. This coordination mechanism was extremely successful, not only in avoiding duplicative investments, but in adding value to USAID-funded election-related programs through cooperative efforts.

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities are implemented by the NDI, the International Republican Institute, the International Foundation for Electoral Systems, Internews, the United Nations High Commission for Human Rights, Eurasia Foundation, Initiative for Social Action and Renewal , Horizonti and the National Academy for Public Administration.

Selected Performance Measures:

	Baseline	Target
Number of NGOs advocating for legal and policy changes	0 (1993)	65 (2000)
Number of NGOs rated as sustainable (based on NGO sustainability index)	1 (1995)	3 (2000)
% of national legislation passed that is published/covered in media	5% (1996)	35% (2000)
Number of media outlets with access to international/national independent sources	12 (1998)	20 (2000)
Number of weekly news and information programs	37 (1998)	50 (2000)
Revised election law	No (1998)	Yes (2000)

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Legal Systems that Better Support Democratic Processes and Market Reforms, 110-SO02.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $1,600,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2000

Summary: This Strategic Objective supports the creation of legal systems that better support democratic processes and market reforms. Whereas Judges are immediate beneficiaries of activities under this objective, the Georgian population stands to benefit from an legal system administering the rule of law During FY 1999, USAID continues to provide assistance in drafting key pieces of legislation, including the Administrative Code, the Law on Enforcement of Judgements, the Criminal Code, major amendments to the Law on the General Courts, and the Law on the Bar.

Key Results: At present, USAID-funded activities focus on two intermediate results: (1) increased citizen respect for legal systems; and (2) increased capacity and independence of the judicial branch.

Performance and Prospects: USAID programs have provided technical and financial support to the Georgian Young Lawyers Association, Georgia’s most progressive and only independent lawyers' association, in the provision of training, including a focus on commercial law. USAID assistance is being provided for the development and implementation of a judicial certification system, as well as limited support in the initial planning and development of judicial training programs. Significant impact can be seen in the comprehensive judicial staffing of the entire appellate court system with judges who have passed the qualification exam and received specialized training in judicial skills, ethics and demeanor.

Citizen respect and support for judicial reform was demonstrated with the extensive and positive media coverage that occurred during the administration of judicial certification exams. To date, almost one-third of the judiciary has passed the qualification examination, a first in the NIS region. While the GOG is putting in place a core of competent judges, corruption remains a pervasive problem. If the GOG fails to provide the significant pay raises mandated by law, judicial reform will be hampered. After passage of the Administrative Code, private citizens will have an important mechanism to contest over-intrusive government regulations.

The program will also provide training and materials to Georgian legal practitioners, focused on the commercial law section of the new Civil Code. USAID will fund practical how-to manuals written by the Code’s drafters, and will support their dissemination throughout the country.

Possible Adjustments to Plans: Assistance with preparing and printing the judicial examinations in the United States has been a significant component of USAID’s judicial reform activities. In 1999, the Georgians will play a larger role in preparation and printing of the exams. After the major new pieces of reform legislation are passed, the focus of USAID's efforts will shift to implementation of the new laws. USAID plans to add a significant new component to its legal and judicial reform activities which will provide legal advocacy NGOs opportunities to monitor the courts. This new component will be reflected in a new assistance strategy being prepared during Spring

1999.

Other Donor Programs: USAID works in close coordination with a newly established Government of Georgia (GOG) Council of Justice, comprised of representatives of the legislative, executive, and judicial branches. In addition, USAID has established excellent working relationships with both the German and Dutch bilateral assistance providers, and cooperates with the European Union and the Council of Europe. USAID is working in partnership with the World Bank as they begin the process of implementing a judicial reform loan to the GOG to streamline and strengthen its judicial infrastructure. The European Union is also contributing to this effort.

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities are implemented by the American Bar Association's Central and East European Law Initiative (ABA/CEELI), AMEX International, Inc., National Academy of Public Administration, Georgian Young Lawyers Association and other NGOs. USAID will work with the US Department of Justice, which plans to send a prosecutor to provide technical assistance to the Procuracy.

Selected Performance Measures:

	Baseline	Target
Number of major legal reform laws enacted	0 (1996)	6 (2000)
Percentage of judges certified	None (1997)	50 (2000)

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: More Effective, Responsive and Accountable Local Government, 110-SO02.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $2,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996 (?); **ESTIMATED COMPLETION DATE:** FY 2000

Summary: Though a de-facto decentralization occurred prior to the election of President Shevardnadze in 1995, consolidation of the ruling party's power under Shevardnadze has led to the establishment of a system of regional governor appointments, which has effectively "re-centralized" the system. The constitution of Georgia includes a clause relating to the establishment of a decentralized local government system only after the resolution of the issue of territorial integrity, i.e., the re-integration of South Ossetia and Abkhazia. However, in early 1996, the Government of Georgia (GOG) determined that despite lack of resolution on these issues, it was critical for the development of the nation as a whole, particularly in light of conditionalities for accession to European conventions, to move forward in establishing a legal framework for a local government system, as well as scheduling as quickly as possible local government elections. This Strategic Objective supports more effective, responsive, and accountable local government. Local council elections were held in November 1998, following a two-year delay.

Key Results: At present, USAID-funded activities focus on two intermediate results: (1) increased citizen participation in local government; and (2) free and fair local government elections held.

Performance and Prospects: With USAID technical assistance, the GOG finally passed a local government law in 1997, followed by a local election law in 1998. Though not a fully decentralized system, this effort was a step in the right direction, and the elections took place in November 1998. To date, USAID has not undertaken a major program in local government, although it has provided opportunities for local and municipal officials to attend workshops on local government issues in the NIS region. In FYs 1999 and 2000, USAID will work with elected officials, senior municipal staff and community leaders in selected cities and communities to provide training and technical assistance in key areas such as budget, municipal finance, taxation, city management, constituent outreach, and service delivery. Contractors/grantees also will work to develop a mayors' association, which will aid in the dissemination of lessons learned and best practices among municipal officials and local council members, to help create an effective mechanism for lobbying the central government on issues of concern to local governments and their constituents.

Possible Adjustments to Plans: USAID will be preparing a new strategy for assistance to Georgia in Spring, 1999. USAID will closely coordinate in this sector with other donors, including the World Bank and the European Union, to maximize impact and preclude duplication. This could affect the selection criteria for USAID local government support target communities.

Other Donor Programs: USAID coordinates its efforts with World Bank municipal development activities and with the European Union, which is working with the GOG on civil service reform at the central government level.

Principal Contractors, Grantees, or Agencies: Since activities to date have only been in training and exchanges, principal implementors are yet to be determined.

Selected Performance Measures:

	Baseline	Target
Legislation passed favoring local government autonomy	No (1996)	Yes (2000)
Local government elections held	No (1996)	Yes (2000)
Local budget law passed	No (1998)	Yes (2000)
Fiscal decentralization policies in place	No (1996)	Yes (2000)
Fiscal decentralization policies implemented	No (1996)	Yes (2000)

ACTIVITY DATA SHEET

PROGRAM: GEORGIA
TITLE: Human Suffering and Crisis Impact Reduced, 110-SO03.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $7,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This Strategic Objective helps to meet basic human needs, while emphasizing local self-help and conflict resolution activities. Activities under this objective contribute to political and social stability and assist in the peace process. Since 1993, USAID has provided humanitarian assistance to the Government of Georgia (GOG) and through U.S. Non-Governmental Organizations (NGOs) and international organizations. This assistance met vital human needs and was a key component in the political and social stabilization of Georgia, allowing the GOG to embark upon democratic and economic reforms. The beneficiaries are internally displaced persons (IDPs) and other socially vulnerable groups throughout the country, but with areas of emphasis in the Samegrelo region. Although the immediate crisis has passed, ethnic conflict has not been resolved and economic progress remains slow. As recently as May 1998, armed conflict has caused 35,000 persons to be displaced from the Gali district of Abkhazia. Ethnic tension remains an area of concern in the Armenian-populated district of Samtske-Javakheti, and Adjara continues to be nearly independent of the central government in Tbilisi.

Key Results: At present, USAID-funded activities focus on 3 intermediate results: (1) meeting immediate human needs through food, shelter, heating and immunization assistance programs; (2) responding to the needs of the victims of the Abkhazia conflict; and (3) creating a capacity within the GOG to better identify the truly vulnerable within its population.

Performance and Prospects: USAID food and fuel assistance has been credited by the GOG with the survival of Georgia as an independent country. Additionally, USAID-funded immunization programs through UNICEF have halted a severe diphtheria epidemic and restored immunization levels within Georgia to minimally acceptable levels. Recent programs have provided shelter and water/sanitation for the recent IDPs from Gali region, while initiating self-help projects conceived and implemented by local communities. Two youth houses have been opened -- one in Abkhazia and one in Tbilisi -- which offer services to children effected by the Abkhazia conflict and which also seek to improve mutual understanding between Abkhaz and Georgian children. The first steps have recently been taken to establish a computer database of vulnerable households in Tbilisi.

Throughout 1998, the security situation in Abkhazia and Western Georgia has remained volatile and has hindered the development and implementation of programs in those regions.

Possible Adjustments to Plans: A peace settlement for Abkhazia would necessitate a rapid deployment of resources to assist the resettlement of displaced persons.

Other Donor Programs: Humanitarian and transition assistance is provided in close coordination with the European Commission and other bilateral, primarily European, donors. The EC is particularly active in supporting programs in Abkhazia, where it is more difficult for USAID to operate.

Principal Contractors, Grantees, or Agencies: USAID-sponsored activities are implemented by the United Nations High Commissioner for Refugees, the United Nations Children's Fund, the International Federation of the Red Cross, the United Methodist Committee on Relief, and the Adventist Relief and Development Agency .

Selected Performance Measure:

	Baseline	Target
Number of IDPs participating in USAID income-generating projects	58,600 (1997)	75,000 (2000)
% drop in estimated vulnerable population	700,000 (1997)	35% (2000)

IRELAND

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Economic Support Fund	$19,600,000	$19,600,000	$19,600,000

Introduction.

Peace has arrived in Northern Ireland and the six counties of the Republic of Ireland which border Northern Ireland (Donegal, Sligo, Leitrim, Cavan, Monaghan, and Louth). This year the process of reconciliation achieved pivotal breakthroughs in the form of the Good Friday Peace Accord between Protestant and Roman Catholic leaders, the May 22 public referendum confirming those agreements, and the ongoing development of political structures to encompass both communities and replace British control. However, despite the fact that the Republic of Ireland's economy is among the fastest-growing in Europe, the decades of armed struggle have had a devastating effect on the economy of Northern Ireland and the border counties. Investment remains inadequate, unemployment and under-employment are high, and economic opportunity is beyond the reach of many. Economic assistance at the community level is the most effective means of directly reaching wards, sub-wards, and individuals in need. Job growth is the chief determinant of civic stability. The United States provides economic assistance to address these concerns through the International Fund for Ireland (the Fund).

The objectives of the Fund are to promote economic and social advancement and to encourage contact, dialogue, and reconciliation between Nationalists and Unionists throughout Ireland. The Fund seeks to reach these objectives by supporting and promoting social reconciliation through economic development in Ireland and Northern Ireland, with priority given to new investments that create jobs and reconstruct disadvantaged areas. Fund policy requires that in order to promote reconciliation, all projects should benefit both communities, and that the implementing organization must include members of both communities. The Fund has been very successful in encouraging communities to take ownership of projects which can benefit their areas. The jobs and social stability which result from the U.S. contribution to the Fund are a tangible expression of the U.S. policy of encouraging peace and reconciliation through economic progress. As of autumn 1998, about 3,600 Fund-supported projects have created some 31,000 jobs. Over 500 organizations have been assisted to promote social and economic development, involving more than 6,000 community leaders. The Fund is also leveraging additional investments at a ratio of approximately 2 to 1. That is, for every U.S. $1 invested by the Fund, an additional U.S. $2 is raised from private and United Kingdom/Ireland sources.

The Development Challenge.

Northern Ireland and the bordering Irish counties have seen over 25 years of armed struggle. Long-standing lack of equal opportunity is key to the conflict. All major social and economic indicators continue to show that Catholics in Northern Ireland, while making some gains, continue to be more disadvantaged than Protestants. Northern Ireland has the highest unemployment rate in the United Kingdom. Long-term unemployment remains high. There have been improvements in the rate of re-employment for Catholics, however Catholic males remain unemployed disproportionately compared with Protestant males. Inability to travel freely throughout the security zones compounds the difficulties for both groups in seeking employment. In addition, nationalists are reluctant to seek employment in the security zones.

The Disadvantaged Areas Initiative continues to be a primary focus encompassing some 75 percent of the Fund's program resources, enabling its funding to be targeted at the areas of greatest need. Projects in support of the Initiative focus on community economic regeneration, community improvement, and border towns and villages with special emphasis on employment and business creation. Another area of great importance is the Fund's Communities Initiative, which is concerned with providing people in the most disadvantaged areas with the skills, resources and

self-confidence to undertake the social and economic regeneration of their communities. Special emphasis in the Communities Initiative is on leadership potential, reconciliation and conflict resolution. The Fund views itself as a facility to catalyze and support economic, political, and social initiatives aimed at permanent reconciliation among Catholic and Protestant communities.

Other Donors.

The Fund's activities are financed through international contributions from the United States, the European Union, Canada, New Zealand, and Australia. Each of the donors sends a non-voting observer to all Board meetings. In 1998, the European Union was the largest donor to the Fund, providing over 50% of total donor funding.

FY 2000 Program.

The Fund's principal efforts are directed at reducing the economic hardships of unemployment and community infrastructure decay in order to reduce the economic differences that exacerbate social disruption along religious lines and consolidate the recent successes of the Peace Process.

The Fund is multilateral and non-partisan. It disburses funds in accordance with the economic and social policies and priorities of both the Irish and United Kingdom governments. The Fund is evaluated periodically in terms of internal management and goals, including the priorities identified by the U.S. Government (e.g. equal employment opportunity, job creation, and leveraging additional resources).

It is at the local community level that real change has to take place in order to achieve increased employment, social progress and promote reconciliation between people from different cultural backgrounds. During FY 2000, the Fund will continue to support the active involvement of communities in shaping their own futures. The Fund will emphasize projects which support economic regeneration, with a focus on disadvantaged areas.

IRELAND

FY 2000 PROGRAM SUMMARY
(in thousands of dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Cross-cutting / Special Initiatives	--	--	--	19,600a/	19,600
TOTAL	--	--	--	19,600a/	19,600
a) Economic Support Fund					

Director, Office of European Country Affairs: Paula Feeney

KAZAKHSTAN

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$40,499,000	$44,190,000	$53,500,000

Introduction.

An independent and prospering Kazakhstan is critical for regional stability and peace and is in the strategic interest of the United States. Kazakhstan has close ties with the other Central Asian republics and, more indirectly, with Russia, the Middle East, the Indian Subcontinent and China. In addition, the United States has particular commercial interests in Kazakhstan because of its significant oil, gas, gold and other mineral reserves. Efforts to strengthen Kazakhstan's sovereignty and independence also represent an important counterbalance to any attempt to revive the former Soviet empire. Kazakhstan is the largest recipient of U.S. assistance in Central Asia.

Since becoming independent seven years ago, Kazakhstan has taken a number of important actions as a new member of the world community. The first and most important of these was its decision to become a nuclear-free state and give up its considerable nuclear arsenal. Second, Kazakhstan has firmly committed itself to a free market economy and is noted for its good monetary policy, pension reform, securities markets and fiscal reform. It has actively promoted Western trade, investment and economic support. Per capita foreign investment is already at levels higher than any other former Soviet republic including Russia. Recently, in support of the U.S. government position on global climate change, Kazakhstan announced its intention to take on a commitment to reduce greenhouse gas emissions by setting voluntary limits and acceding to the Framework Convention on Climate Change (the Kyoto Protocol). Kazakhstan is the first USAID-assisted country to make this important commitment to reduce pollutants.

The Development Challenge.

Kazakhstan faces several challenges now as it seeks to become a modern state, following years of Soviet domination and no prior history of independent nationhood.

In the economic area, Kazakhstan must continue along the path to an open, truly free market economy lessening the dependence on Russia, its principal trading partner. Kazakhstan has made considerable progress in privatizing government assets and setting up the basic framework for a market economy. Overall macroeconomic management has been quite good; Kazakhstan, at independence, lacked the experience needed to control its own economic destiny. Recently, however, despite the tough decisions made on fiscal and monetary policy in prior years with USAID, the World Bank (IBRD) and the International Monetary Fund (IMF), Kazakhstan’s economy was profoundly affected by external events. The Russian and Asian crises, the subsequent general retreat by investors from emerging markets and the continued weakness of commodity prices reversed what had been a pattern of steady economic growth. Kazakhstan's gross domestic product (GDP) growth turned negative in the third quarter of 1998 after five positive quarters of growth despite maintaining the tight fiscal and monetary discipline of an IMF Extended Fund Facility program. Yet, inflation in 1998 remained low at 6% (compared to 14% in 1997), significantly below expectations, and continues to decline, and the local currency, the Tenge, is fully convertible and stable, a credit to solid monetary management.

Sound commercial law is a key component of USAID’s economic assistance strategy. This focus helps the Government of Kazakhstan (GOK) to address a range of macroeconomic and structural reform problems that must be resolved before Kazakhstan can join the World Trade Organization (WTO). During the past two years Kazakhstan has made extremely rapid progress in satisfying the requirements for WTO membership. For example, with USAID assistance, pro-business bankruptcy, procurement, and foreign investment laws have all been adopted. Likewise, Kazakhstan now has a growing stock market, a significantly healthier banking sector, and a dramatically reformed

pension system that became mandatory and private in January 1998. A major step in the implementation of pension reform was accomplished with the allocation of personal identification numbers to most current contributors.

Substantial success was achieved with USAID assistance in privatizing small and medium-sized companies. Although the GOK has committed to privatizing a critical mass of the largest "blue chip" companies, many large-scale enterprises remain under state control. In late 1998 the GOK committed itself to privatizing 39 second-tier companies through the stock market. By early 1999, five second tier "baby blues" were privatized through the stock exchange, thereby making the transactions more transparent. These companies provide an attractive option for the newly created private pension funds, which need additional equities in which to invest.

In the electricity sector, the government has privatized a majority of power generation facilities and coal mines; recently announced its intention to privatize the electricity distribution companies; and recently established an independent regulatory entity for the power sector. Two-thirds of all oil pumped in Kazakhstan comes from joint venture operations with international petroleum firms.

At the same time, the government has taken some steps to protect its vulnerable populations through reforms in the areas of health, housing and pension. Kazakhstan is beginning to address the health system through greater efficiency, access to services, and quality of care which had been deteriorating from significant problems since independence in 1991. Building upon USAID’s pioneering work in health reform in Kyrgyzstan, pilot programs in family group practice and new payment systems have demonstrated that cost-effective, quality services are possible and health reform models can also work in Kazakhstan. The President has endorsed a plan to replicate nationwide the USAID health care reform model and a large IBRD loan is being developed based on the USAID approach. The introduction of new treatment protocols for tuberculosis (TB) is a major step toward containing this virulent disease which has reemerged in the post-Soviet period. With success in social marketing, family planning efforts now need to shift and support the greater role the independent health provider can play in reproductive health care.

In democracy, hoped-for changes have not occurred at the national level. The constitution still concentrates power in the presidency. The leadership did not permit a fairly contested election for the presidency in 1999. Instead, two opposition candidates, including a strong potential contender, were disqualified, leaving the outcome certain. In addition, government crackdowns on the media leading up to the election increased the practice of media self-censorship and favored the incumbent. Freedom of assembly was at times restricted, and there were credible reports of numerous irregularities at the polls. As a result, USAID is revising its planned election-related assistance. Unfortunate as this is, it would be a mistake to judge democracy as a lost cause in Kazakhstan. In the area of civil society, where USAID has made by far its greatest investment in democracy, there have been great strides. There are now over 700 non-governmental organizations (NGOs) operating in Kazakhstan. A significant number of them are learning how to advocate their causes to the government. In addition, a working group comprised of NGO leaders and parliamentarians has been working together to draft new NGO legislation. USAID will help these organizations become self-sustaining.

Other Donors.

The IBRD provides technical assistance for economic restructuring and loans in areas of oil development, urban transport, social protection, public administration and finance, and enterprise development. New projects will address land registration, financial sector adjustment, private sector support, irrigation and drainage, water supply, agricultural privatization, fiscal reform and health. The European Union (EU) and major bilateral donors such as Germany, Britain, Japan, France, and Korea provide additional aid for programs pioneered by USAID-funded technical assistance teams.

FY 2000 Program.

While the request for the Kazakhstan program will continue to focus on economic, social, and democratic reforms, USAID will deepen support for critical structural reforms in Kazakhstan, although most of its assistance will be to private or local groups and institutions other than the central government and towards partnerships between American and Kazakhstani institutions. An important example of this focus is the Atyrau Regional Initiative, a public-private partnership designed to increase investment in a region of Kazakhstan that has significant human needs despite its gas and oil reserves.

In the economic reform area, trade and investment issues will continue to receive special attention, especially Kazakhstan's membership in the WTO. Democratization activities include a mix of supporting independent media, strengthening the judiciary and parliament, building the capacity of local government, and encouraging the sustainability of local NGOs. Work in the social sectors will continue to focus on the development of cost-effective systems through the use of market systems to deliver needed social services. Successful local health reform models

which incorporate the important new TB initiative are almost ready for replication. The IBRD loan under discussion will provide the necessary capital to replicate USAID's health reform model. USAID will provide technical assistance in the first phase of expansion.

In addition to support for accession to the WTO, USAID will provide technical assistance to promote a more attractive environment for expanded trade and investment opportunities in Kazakhstan. USAID assistance will accelerate progress in establishing the commercial regulatory framework necessary to build investor confidence by ensuring property ownership and transfer of commercial transaction rights to market agents.

In the fiscal and financial reform areas, USAID will deepen support for the implementation of sound tax administration, intergovernmental finance reform, and budget reform at the national and local levels, as well as continue assistance for financial sector reforms in the areas of capital markets, pension reform, bank supervision, and accounting reform.

USAID's efforts in energy and environment in Kazakhstan are covered in the Central Asia Regional Presentation.

Cross-cutting and special initiatives will be closely integrated with other activities and address broader strategic and programming concerns, including those in health reform and demographic policy. Cost-effective infectious disease control will be expanded and family planning efforts will focus on strengthening independent family group practices that will provide quality reproductive health services. Participant training will be increased to support public administration, health, economic restructuring, democracy, energy and the environment.

KAZAKHSTAN

FY 1999 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	2,800	--	--	--	2,800
Private Enterprise	8,600	--	--	--	8,600
Financial Reform	6,100	--	--	--	6,100
Energy	--	--	--	--	--
Environmental Management	--	--	--	--	--
Citizens' Participation	--	5,000	--	--	5,000
Legal Systems	--	--	--	--	--
Local Government	--	1,200	--	--	1,200
Crises	--	--	--	--	--
Social Benefits	--	--	1,000	--	1,000
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	28,800	28,800
TOTAL	17,500	6,200	1,000	28,800	53,500
*Freedom Support Act (FSA) funds					

USAID Mission Director: Glenn Anders

ACTIVITY DATA SHEET

PROGRAM: KAZAKHSTAN
TITLE AND NUMBER: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $2,800,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2001

Summary: The Government of Kazakhstan seeks to undertake a comprehensive set of specific reform measures. The purpose of this activity is to increase the soundness of fiscal policies and fiscal management practices. Toward that end, USAID is assisting the GOK in each of the following major fiscal areas: tax policy, tax administration and budget/intergovernmental finance reforms. These measures include: 1) restructuring the current system of intergovernmental finance to allow for a more effective distribution of expenditure and revenue-raising authorities between the national government and local governments; 2) rapid development of a state-of-the-art automated system for tax administration; 3) establishment of modern program budgeting for all GOK ministries and agencies; 4) adoption of measures to increase the transparency of the budget and budget process; 5) revision of the tax code to make it more fully in accordance with international standards; and 6) rapid enactment of a comprehensive set of tax and administration policies and procedures. Progress in these areas would lead to steady declines in the general government deficit as a percentage of GDP -- to 2.1 percent by FY 2001.

This effort seeks to benefit tax-paying Kazakhstanis at all income levels by ensuring greater transparency and a more rational revenue collection and budgetary expenditure process. Potential entrepreneurs will benefit as more comprehensible and transparent fiscal systems are adopted. Increased government revenues and a more rational budget allocation system will also lead to more effective governance and greater macroeconomic stability.

Key Results: These include the following: 1) the government deficit will continue to fall, reaching 2.1% of GDP in 2001; 2) local government revenues will climb to 45% of total revenues; 3) the GOK will maintain compliance with the fiscal conditions of international financial institutions; 4) the established legal framework will continue to improve; and 5) the volume of government securities will average $240 million in 2001.

Performance and Prospects: To date, USAID’s role and achievements have been significant. USAID-funded advisors made major contributions to the formulation of a new tax code, described by some outsiders as perhaps the most modern and transparent of any in the former Soviet Union. On the budgetary side, USAID-funded contractors are helping to introduce a new budget classification system, a national and local budget law and a modern system for managing public external debt. Other USAID-funded advisors are working with Kazakhstani counterparts to ensure a more efficient revenue collection system and to shape more rational and transparent budgetary processes. Now that a new tax code is in place, the focus is on training and hands-on instruction in how to manage and implement the new system. Advisors work directly with counterparts to improve systems and to rationalize the expenditure and taxation authority among the various levels of government (national, oblast, local).

Possible Adjustments to Plans: This activity is well on track. Nonetheless, with USAID assistance in FY 2000, stronger efforts are expected to be made in the area of tax administration, in order to help make up for the loss in oil and minerals tax revenues. Also, additional efforts will be made to further rationalize the GOK's system of intergovernmental financial relations, with a view toward ensuring that various levels of government operate with greater efficiency in implementing their taxation and expenditure authority.

Other Donor Programs: Ongoing efforts in the fiscal arena are coordinated with those of other donors, including the World Bank, IMF and the EU. The World Bank is planning a major treasury modernization project that involves technical advisors, training and equipment. USAID technical advisors would play a key role in complementing these reforms.

Principal Contractors, Grantees or Agencies: USAID activities are implemented through the U.S. Department of the Treasury and several USAID-funded contractors, particularly KPMG/Barents.

Selected Performance Measures:

	Baseline	Target
Government deficit as a percentage of GDP	3.0% (1995)	2.1% (2001)
Local government revenue as percentage of total	34% (1995)	45% (2001)
GOK maintains compliance with conditions of international financial institutions	Yes (1995)	Yes (2001)
Legal framework established	No (1995)	Yes (2001)
Volume of government securities (millions)	$89 (1995)	$240 (2001)

ACTIVITY DATA SHEET

PROGRAM: KAZAKHSTAN
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $8,600,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2001

Summary: Privatization represented the first phase of USAID economic restructuring work in Kazakhstan. The purpose of this activity has been to accelerate the development and growth of private enterprise. With USAID assistance, by the end of 1997 some 19,786 enterprises had been sold through cash auctions. A parallel program of mass privatization involving coupons has also made considerable progress, especially since August 1998. By some accounts, nearly two-thirds of the industrial employment in Kazakhstan now is in firms that are majority-owned by the private sector. Currently, the Government of Kazakhstan is in the midst of privatizing its major remaining "blue chip" enterprises in the oil and gas and minerals sectors. USAID is assisting the Government to develop fair and transparent procedures for privatizing these enterprises. Since 1995, USAID has also supported the privatization of major energy sector assets, including more than 80% of the national power generation capacity. It also helped establish an independent regulatory entity for electricity. More recently, USAID has focused greater attention on the policy and legal environment needed to sustain a supportive business climate. In order to promote competition, USAID advisors worked with the Anti-Monopoly Committee to successfully promulgate reforms that drastically reduced the number of companies subject to pricing and profitability controls. USAID advisors also helped force the breakup of many major holding companies and made sure that they were included in the mass privatization program. These advisors also helped achieve an insurance regulatory framework which promotes competition and ensures foreign participation. Progress in this area will cause a greater share of GDP to be generated by the private sector -- 80% by 2001.

Specific beneficiaries include the hundreds of thousands of Kazakhstanis who own shares in privatized government enterprises and who will gain financially if these new laws are successful. Aspiring entrepreneurs benefit from a transparent, stable and consistent legal environment. The entire population will benefit from a more efficient market-based economic system that produces jobs and increases the availability of goods and services.

Key Results: In the hope of accelerating development and growth of private enterprises, the achievement of the following indicators is deemed important: 1) the share of GDP generated by the private sector would climb to 80% by FY 2001; 2) the GOK will continue to adhere to international conditionality requirements; and 3) the number of firms transferred to new accounting standards will increase by 1,500 in FY 2001.

Performance and Prospects: Private sector support represents by far the largest USAID activity in Kazakhstan. In the area of legal and regulatory reform, advisors are working in key areas including trade and investment, bankruptcy and collateral law reform, and general business law reform; a large training effort in all three areas is underway. Pro-business laws covering bankruptcy, foreign investment, and procurement have all been enacted with USAID support. The general business component targets constraints to business operations by helping the passage of legislation in such areas as contract law and property rights. Many of these efforts are needed to maintain the momentum created by the privatization process and to expand opportunities for U.S. trade and investment in Kazakhstan. Among other accomplishments, USAID technical assistance is playing a critical role in moving the GOK to join the World Trade Organization (WTO). Continued advocacy for implementing legal reforms will also promote foreign investment in Kazakhstan's all-important oil and gas industry and help develop the country's power sector. People-to-people efforts and exchange programs such as those supported by the International Executive Service Corps (IESC) and the various farmer-to-farmer programs have proven to be excellent vehicles to identify potential investment opportunities and develop appropriate business plans. The Central Asia-American Enterprise Fund (CAAEF) continues to provide important equity and credit financing to small and medium-sized Kazakhstani enterprises. Significant progress has been made towards conforming Kazakhstan’s trade regime to the WTO’s requirements, including the completion and submission to Parliament of draft trade remedy laws. In the area of commercial law reform, USAID efforts have assisted in the drafting of laws and amendments to laws in such key areas as bankruptcy, collateral law, the Civil Code, corporations and monopolies. In accounting reform, through USAID’s efforts, 1,400 enterprises have been converted to international accounting standards, while 4,000 accountants have been trained in the theory and practical application of international accounting. In November 1998, Kazakhstan became the first country in the NIS to pass an Auditing Law that allows a Self-Regulatory Organization to set national auditing standards to determine qualifications required to become a certified auditor and to certify auditors. Finally, through USAID’s efforts, the Kazakhstan Community Loan Fund (KCLF) was established to provide for the first group-lending program in Kazakhstan. The KCLF is the first and only registered NGO in Kazakhstan and has disbursed 2,240 loans to small enterprises with a delinquency rate of less than two percent.

Further, USAID provided technical assistance through the International Executive Service Corps (IESC) to Kazakhstani small and medium-sized enterprises in linking up with U.S. partners and in providing strategic marketing advice.

Possible Adjustments to Plans: Because it is expected that the Government will continue to pursue accession to the WTO at the same steady pace, no major changes are expected in this area. Support for private enterprise reform will focus mainly on areas such as accounting reform at the enterprise level, with a particular emphasis on curriculum reform, i.e., introducing undergraduate and graduate- level degree programs in business administration with a focus on international accounting theory and practice. These activities help produce a Kazakhstan economy more open and transparent and therefore less susceptible to corrupt practices.

Other Donor Programs: Ongoing efforts to strengthen private business operations are being developed in conjunction with those of other donors, especially the World Bank, European Bank for Reconstruction and Development, and the EU. The EU also has a special interest in the agricultural sector. World Bank funds are being used to provide consultant services. A World Bank-funded project on private enterprise support is now being developed. EBRD programs include a loan program comparable to that of the Central Asian-American Enterprise Fund.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through several private U.S. firms, such as Booz Allen & Hamilton, ARD/Checchi and Carana Corporation, along with U.S. private voluntary organizations such as the International Executive Service Corps (IESC), Agricultural Cooperative Development International (ACDI), Volunteers in Overseas Cooperative Assistance (VOCA), the U.S. Energy Association (USEA), Harvard Institute of International Development (HIID) and the Central Asia-American Enterprise Fund (CAAEF).

Selected Performance Measures:

	Baseline	Target
Share of GDP generated by private sector	24.5% (1995)	80%(2001)
GOK maintains adherence to conditionally of international financial institutions	Yes (1995)	Yes (2001)
Number of firms transferred to new accounting standards	0 (1995)	1,500 (2001)

ACTIVITY DATA SHEET

PROGRAM: KAZAKHSTAN
TITLE AND NUMBER: A Competitive Private Financial Sector that is More Responsive to the Needs of a Market-Oriented Economy, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $6,100,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2001

Summary: When USAID began working on this objective in 1993, the financial sector was very rudimentary and geared along Soviet patterns. Since that time, the USAID role and level of achievement has been significant. The purpose of this activity is to create a competitive private financial sector that is more responsive to the needs of a market-oriented economy. (There is an established Kazakhstan Stock Exchange and an independent National Securities Commission.) Kazakhstan's corporations law, officially known as the law on Joint Stock Companies, was passed in July 1998. International accounting standards were introduced in December 1996, and are being implemented during 1997 and 1998 to help tighten financial regulatory guidelines and to enhance monitoring capacity in the banking sector. Through December 1998, more than 150 insolvent banks had their licenses suspended as a result of detailed bank examinations. These actions, combined with sustained discipline by the Central Bank in managing the nation's currency, and the adoption of international accounting standards, are laying a solid foundation for the development of the financial sector. USAID continues to play a key role in assisting the Government of Kazakhstan to develop the legal and institutional framework for private pension funds; the country has embarked on the most ambitious pension reform program in the NIS region (as of January 1998, all citizens are required to contribute 10% of their yearly wage to a private pension fund of their choice). Success in all of these areas will lead to steady increases in the ratio of bank deposits to GDP -- 15% by 2001.

Immediate beneficiaries include professionals involved in capital market development, such as private bankers, stock brokers and registered private enterprises. More importantly, entrepreneurs, as well as a broad range of Kazakhstan's citizens will benefit by the extension of capital markets that channel scarce resources into more productive directions.

Key Results: Achievement of a competitive private financial sector will depend upon the following indicators: 1) bank deposits as a percentage of GDP rises to 15% by FY 2001, 2) the percentage of banks meeting capital adequacy requirements will climb to 95% by FY 2001; 3) there will be at least 20 types of financial institutions by FY 2001; 4) there will be at least 300 companies listed on the stock exchange by FY 2001; and 5) the number of private pension funds will rise to 18 by FY 2001.

Performance and Prospects: Performance in banking reform has been notable: in 1998 USAID advisors participated in nine on-site bank examinations with National Bank of the Republic of Kazakhstan (NBRK) inspectors, leading to eight liquidations. In the policy area, USAID advisors provided regulatory assistance regarding issues such as credit derivatives, cash settlement and currency controls and consolidation of banking enterprises. Regarding bank accounting, the most significant recent accomplishment was the first full bank conversion. Tsesna Bank and its branches became the first local bank in Kazakhstan to implement accounting practices in accordance with international accounting practices and the requirements of the NBRK. The implementation enables the NBRK to more readily track the bank's performance and allows foreign investors to read financial statements of the bank that are consistent with international accounting standards. It is expected that continued progress will be made in this area, with more bank conversions taking place.

Through USAID's efforts, the capital markets institutional infrastructure is in place, including the Kazakhstan Stock Exchange (KASE), a self-regulatory association, the National Securities Commission, the Central Depository, and custodians and registrars. Not only did USAID play the lead role in establishing and maintaining these institutions, but it also provided the hardware, software and training to put them into operation.

Finally, USAID has been very instrumental in assisting Kazakhstan reform its pension system. After the collapse of the Soviet Union, the old "solidarity system" could not maintain solvency. USAID worked closely with the GOK in drafting a new Pension Fund Law that went into effect in 1998. USAID advisors have assisted the Government in creating a State Center for Benefits Payments and the National Pension Agency. The pension system is quite new and needs further development. The private pension funds as well as the regulatory body lack experience and maturity. USAID will continue working closely with the funds to introduce proper record keeping, to develop better systems of monitoring and protecting pension contributions, and to facilitate a smooth, transparent flow of funds.

In FY 2000, USAID will continue to promote financial sector reform in the major areas of capital markets, pension reform, bank reform/restructuring and corporate accounting reform. USAID's thrust is to provide technical assistance and training to developing intermediary and regulatory institutions in the financial sector. Work often entails drafting and introducing new laws, regulations, procedures, and operating systems. Practical, on-the-job training receives special emphasis. High-level policy advice is accompanied by efforts to ensure that counterparts develop the capacity to undertake needed research and analysis on their own.

Possible Adjustments to Plans: This activity is well on track. By 2000, the Capital Markets Development project will have been phased out and the Pension Reform project will be in its final year.

Other Donor Programs: USAID is the major foreign donor working in the financial sector, and the only one involved in the securities area. Work is coordinated closely with the World Bank. Training activities for private banks, currently undertaken jointly by USAID and EU, will soon be assumed by a single institution, which should set the standard for banker training in Central Asia. In the area of pension reform, USAID coordinates with the Asian Development Bank.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through several U.S. firms, including IMCC, KPMG/Barents, Pragma and IBTCI in cooperation with local counterparts at the National Bank, the Ministry of Finance, the Kazakhstan Stock Exchange and the National Securities Commission.

Selected Performance Measures:

	Baseline	Target
Bank deposits as a percentage of GDP	4.9% (1995)	15.0% (2001)
Percentage of banks meeting capital adequacy requirements	66% (1995)	95% (2001)

Types of financial institutions	4 (1995)	20 (2001)
Number of companies listed on stock exchange	12 (1995)	300 (2001)
Number of private pension funds	0 (1997)	18 (2001)

ACTIVITY DATA SHEET

PROGRAM: KAZAKHSTAN
TITLE AND NUMBER: Increased Citizens' Participation in Political and Economic Decision-making, 110-SOO2.1
STATUS: Continuing
PROPOSED OBLIGATIONS AND FUNDING SOURCES: FY 2000: $5,000,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE**: FY 2006

Summary: USAID-funded activities strengthen democratic processes, especially those aimed at enhancing civic participation and education, increasing the flow and sources of information, ensuring transparency and accountability in government, and expanding dialogue between the government and non-government sectors. Support for independent broadcast media and parliamentary strengthening programs continue. The local NGO sector receives special attention to improve the legal and regulatory environment in which it operates, to enhance its professionalism and management skills, to enable it to effect needed social change, and to provide services. Because of its contribution to democratic, economic and social change, a local bar association operates more effectively.

Key Results: Three key intermediate results are necessary: NGO participation in civil society must be strengthened, information on domestic economic policies and politics must become more widely available, and the Government must become more responsive and accountable to citizens and citizens' organizations.

Performance and Prospects: Performance over the last year has been good with the exception of setbacks in the elections arena associated with recent constitutional amendments and the suppression of opposition groups and independent media related to the presidential elections of January 10, 1999.

Ministry of Justice officials at the Oblast level applauded the Southern Kazakhstan Association of Lawyers' (SKAL) bi-monthly publication "Mir Jurista" and touted it as an example of how legal information should be disseminated. With ABA/CEELI support, the publication began in 1997 as a supplement to southern Kazakhstan's largest general circulation newspaper. USAID-funded Counterpart Consortium’s Central Asia regional conference on NGO-government-business social partnerships helped to forge significant cooperation between NGOs and the GOK including the formation of a NGO-parliamentarian working group on NGO legislation. The USAID-funded Aid to Artisans (ATA) received a substantial grant from Texaco International for the construction of an artisans center. In a collaborative effort, USAID and U.S. Peace Corps are providing technical assistance to the artisans in the form of business training, guidance in democratic governance, and other support. Kazakhstan, with significant USAID assistance, became the first country in Central Asia to broadcast nationally a debate among political candidates for a parliamentary seat. Based on USAID technical assistance, the Government eliminated the 50% voter turnout requirement for President and Majilis (lower house of Parliament) elections and modified the ballot format to allow for positive voting. Recently in Shymkent, several parliamentarians from southern Kazakhstan participated in an open town hall meeting with citizens and citizen groups. With the help of grants and training from the USAID-funded Counterpart Consortium, NGOs in Kazakhstan are developing a strong network, supported through 30 newsletters and seven associations, and are increasingly becoming involved in advocacy. Finally, efforts are being made, with the coordination of other donors, to help NGOs and Parliamentarians work together to draft and present more effective NGO legislation.

Given the recent events surrounding the 1999 presidential elections, USAID democracy programming may face particular challenges for continued openings in the electoral process, the independence of the media, and the participation of opposition groups. It may also have negative implications for the achievement of the performance indicators.

Possible Adjustments to Plans: In FY 2000, USAID is anticipating opportunities to offer support on women’s legal rights issues and women’s participation in political processes. In addition, activities are underway to support the Atyrau Regional Initiative by strengthening the advocacy role of environmental NGOs in Kazakhstan.

Other Donor Programs: USAID’s efforts in developing civil society are part of a multi-donor effort. In 1997, the UNDP founded a center for the promotion of NGOs and has been organizing seminars bringing together donors and

NGOs. One key activity has been supporting USAID's and ICNL's efforts to encourage Parliament to adopt improved NGO legislation. The Soros and Eurasia foundations support NGOs through their grant programs. In the electronic media area, the UNDP supports the media association, ANESMI, and periodically finances media conferences. The Soros Foundation made a grant to Internews to publish textbooks for journalists; it also promotes civic education through its debates program. The UNDP supports Parliament in various ways including work with ABA/CEELI to establish a legislative drafting center. Election assistance is coordinated through a focal point group consisting of the USAID, UNDP, Soros, European Union, Konrad Adenaur Foundation and various embassies.

Principal Contractors, Grantees or Agencies: Several USAID-supported American NGOs such as the American Bar Association/CEELI, Internews, the National Democratic Institute (NDI), and the International Foundation for Electoral Systems (IFES), are playing a role in promoting democracy in Kazakhstan. Counterpart International, Aid to Artisans, and the International Center for Not-for-Profit Law, which together form the Counterpart Consortium, also participate in local NGO development. Initiative for Social Action and Renewal in Eurasia (ISAR) will also participate in the development of local environmental NGOs.

Selected Performance Measures:

	Baseline	Target
# of NGOs involved in advocacy (media/gov.off):	75/35 (1996)	95/85 (2001)
Average daily minutes of local news programming:	15 (1996)	20 (2001)
# of Parliamentary hearings and committee meetings addressing legislative/policy issues	2 (1996)	30 (2001)

ACTIVITY DATA SHEET

PROGRAM: KAZAKHSTAN
TITLE AND NUMBER: More Effective, Responsive, and Accountable Local Government, 110-S002.3
STATUS: Continuing
PROPOSED OBLIGATIONS AND FUNDING SOURCES: FY 2000: $1,200,000 Freedom Support Act
INITIAL OBLIGATIONS: FY 1998; **ESTIMATED COMPLETION** DATE: FY 2004

Summary: The Government of Kazakhstan has greatly increased the responsibilities of local officials in a series of pragmatic moves based more on the central government's diminished desire and capacity to fulfill all the functions previously performed by the soviet state than on a philosophical decision to decentralize authority. As local governments have taken on these responsibilities, they have become more accountable for providing services to their citizens. However, the central government has not addressed local government reform in a systematic way. Thus, it was a particularly opportune time for the USAID to start work on activity to help the Government of Kazakhstan create more effective, responsive and accountable local governments, as there are a number of progressive local officials anxious to undertake reforms. The immediate beneficiaries are the local government officials. The ultimate beneficiaries are the people who will receive improved public services.

Key Results: This activity contributes directly to a more effective, responsive and accountable local government through three key intermediate results: Practices promoting citizen input and involvement adopted; practices improving delivery of services and management of resources adopted; and powers of local governments increased. By the year 2000, at least two of the six conditions defined in the Performance Plan are expected to be achieved. The conditions are: 1) authority to manage local level services; 2) authority to raise and retain revenues locally; 3) power to make local budget decisions; 4) elected officials accountable to local citizens; 5) local property control; and 6) department heads directly accountable to municipal government officials. A Memorandum of Understanding has been signed between the USAID and the Retraining Institute (now merged into the Academy for Civil Service) elaborating the responsibilities of each party with respect to the training program for municipal officials. The Agency of Strategic Planning has identified counterparts in areas of procurement and budgeting. Preliminary assessments have been completed to start "best practices" demonstrations in two Oblasts: Atyrau and Pavlodar.

Performance and Prospects: Performance has been affected due to the late start of the project. However, the USAID is confident that activity will achieve stated targets at the end of year one. Training materials are well into the development stages. Initial assessments of budget and financial management systems have been completed in Pavaldar and Atyrau and recommendations developed. Assistance in formulating local government policy has been requested by the President's Office. Procurement seminars have been held in Pavlodar and Atyrau using a "how-to"

manual developed by the contractor. An open hearing process for public comment on the end-of-year financial documents, as a demonstration of a good practices model promoting citizen input and involvement, is on schedule. In addition, a Competitive Procurement System model to improve local management of resources has been designed. A US study tour by top local government policy makers has been organized and a seminar on decentralization has been held.

Possible Adjustments to Plans: The second year work plan is under development and will complete the work started in the first year. However, the USAID will closely coordinate local government activities with the World Bank's water and environmental activities in Atyrau Oblast which the USAID will adapt, if needed to maximize results.

Other Donor Programs: Other donors also support activities with a local government dimension, including the World Bank and EU. For example, water and environmental activities of the World Bank in Atyrau oblast and training program of EU at the Academy for Civil Service.

Principal Contractors, Grantees, or Agencies: International City/County Management Association, ICMA.

Selected Performance Measures:

	Baseline	Target
Adoption of practices promoting citizen input and involvement.	0 (1998)	2 (2000)
Adoption of practices improving delivery of services and management of resources.	0 (1998)	2 (2000)
Increasing the powers of local government	0 (1998)	2 (2000)

ACTIVITY DATA SHEET

PROGRAM: KAZAKHSTAN
TITLE AND NUMBER: Improve the Sustainability of Social Benefits and Services, 110-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 1,000,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: FY 2002

Summary: As the key player in strengthening health care delivery systems at the local level, USAID will continue to work with the Ministry of Health in the implementation of national health reform plans. USAID will continue to provide assistance in payment reforms and to make new family group practices both operationally and economically viable. USAID will collaborate with the World Bank to introduce health reform to new oblasts. In addition, efforts will be made to strengthen the role of family group practices in providing an integrated package of services, including family planning, prevention and control of infectious diseases, especially hepatitis and tuberculosis. The family group practices are the first point of contact for populations at the local level and will be strengthened to meet the basic health care needs of the population. The immediate beneficiaries are the health care providers while ultimately all citizens of Kazakhstan benefit, especially the segment of the population classified as vulnerable (e.g., elderly pensioners, women, children).

Key Results: This activity contributes to improved sustainability of selected social services through achievement of two intermediate results: 1) Cost-effective health care services demonstrated in selected Oblasts and 2) cost-effective health sector reforms adopted nationally. To date, 151 Family Group Practices (FGP) are operational in the two demonstration sites compared to 65 sites in 1997 and cover 90 percent of the population in the Zhezkazgan pilot areas. Eighty-two percent of the people are enrolled and are exercising their choice to their FGP. Sixty-four percent of the service providers in the pilot sites are being reimbursed by market-oriented payment systems. The USAID model is the basis for the National Health Law under which the model will be replicated nationwide.

Performance and Prospects: USAID has been a key player since 1993 in the reform of Kazakhstan's health care system. In the Zhezkazgan and Semipalatinsk health demonstration areas, USAID has developed and implemented comprehensive models of health reform. By shifting resources and services to more cost-effective primary care, USAID has supported the creation of independent, community-based structures that are financed by market-based payment methods and are staffed by newly-trained family physicians. Family group practices have been established

and are fully operational in the two demonstration sites, covering nearly 90 percent of the population. The strengthening of the primary care sector has been integrated with reforms at all levels of the health care system, including a new case-based hospital payment system and rationalization of the hospital sector. Consumers now can exercise their right to choose the family practitioner of their choice. The Health Decree requiring nationwide replication of health reform causes some concern because of limited technical assistance. A $150 million World Bank health sector loan is being finalized which will provide the capital to establish Family Group Practices and restructure the health care system over a ten-year period. In addition, under the first phase of the loan, intensive training of family practitioners will be provided. Prospects are excellent for USAID to assist with technical assistance during the first phase of the expansion.

Possible Adjustments to Plans: With the negotiations of the World Bank sector loan, USAID technical assistance would need to expand to additional sites while completing reforms in the pilot areas.

Other Donor Programs: Various government ministries and other donors are involved in this crucial area, including the World Bank, WHO, United Nations Development Program (UNDP), UNICEF, United Nations Population Fund (UNFPA), and EU.

Principal Contractors, Grantees or Agencies: Abt Associates is the principle contractor working to implement this activity.

Selected Performance Measures:

		Baseline	Target
Number of independent primary care practices - family group practices (FGP's)		0 (1994)	300 (2000)
Percent of health care providers reimbursed by market-oriented payment systems	Pilot:	0 (1994)	75% (2000)
	Roll-Out:	0 (1994)	40% (2000)
% of the population enrolled in FGP's	Pilot:	0 (1994)	85% (2000)
	Roll-Out:	0 (1994)	60% (2000)

KYRGYZSTAN

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$24,518,000	$28,520,000	$34,500,000

Introduction.

The U.S. seeks to accelerate Kyrgyzstan's progress toward a productive, efficient market economy, which will attract increased U.S. trade and investment. The U.S. has a stake in encouraging Kyrgyzstan to proceed with democratic reform, including respect for the rule of law, separation of powers, and individual rights. From a regional security viewpoint, Kyrgyzstan's location at the headwaters of major river systems in Central Asia means that it can dramatically affect critical and sensitive sectors such as agriculture and electricity generation in the downriver countries, Kazakhstan, Uzbekistan, and Turkmenistan. Any negative action on the part of Kyrgyzstan with this power source would seriously affect its neighbors and regional stability, and pose a threat to American economic and political interests.

The Development Challenge.

Though it inherited one of the least efficient and least competitive industrial sectors in the Former Soviet Union, Kyrgyzstan was the first of the Central Asian Republics (CARs) to undertake reform. It has become a "laboratory" for demonstrating that democracy can work in Central Asia. While enjoying overall macroeconomic stability (growth was nearly 7% in 1997), the country's standard of living has fallen since independence and the social costs have been high. There was a recent collapse in the value of the national currency, the *sum*, and a change in the entire government cabinet at the end of 1998. The challenge for U.S. assistance is to help the country continue the economic and democratic reforms which have served as an example for the other CAR's.

USAID's goal in Kyrgyzstan is to promote a free-market economy with an appropriate social safety net and the necessary legal and infrastructure improvements. The privatization program has been successful, with nearly three-fifths of the economy in private hands. USAID advisors are helping privatize the electricity monopoly--a major and advanced undertaking in the privatization phase. USAID advisors have also successfully expanded the micro-credit and small and medium-size enterprise programs throughout the country.

In commercial law, Kyrgyzstan has moved forward with an alacrity not seen in other countries of the region. Kyrgyzstan became the first of the Central Asian countries to be afforded full World Trade Organization (WTO) status. They are now positioned to avail themselves of the benefits derived from WTO accession. Likewise, the new civil code and commercial legislation under preparation will strengthen their trading capability.

Kyrgyzstan, like its CAR neighbors, had almost no experience in enacting its own fiscal policy or financial markets. A burgeoning stock market facilitates further privatization and secondary trading. International accounting standards have increased transparency and helped rein in and reduce corruption. Work is continuing on laws on securities and investment funds, the establishment of legal information systems and the implementation of commercial law.

Democratic reform and respect for the rule of law, though still fragile, took a number of important steps forward in 1998. This included the passage of new legislation for non-governmental organizations (NGOs) which, with USAID support, was drafted by a working group of NGOs and Parliamentarians. Other examples are the successful USAID-assisted housing program which included property auctions, construction, and development of condominium associations, ultimately promoting private ownership of housing with increased community-level participation. The nascent civil society is being strengthened through human capacity development programs benefiting the community of NGOs and the legal and media professions.

Government-supplied social services, critical to maintaining public support for the overall USAID- assisted social reform agenda are inadequate. USAID's very successful pilot project in health care financing and delivery has leveraged $25 million in World Bank support for its replication elsewhere in the country. USAID will continue to provide some technical assistance until the health reform model has been completed and is ready for replication nationwide, probably by FY 2001. The health partnership program, reproductive health, and infectious disease control programs have all contributed to a stronger and healthier society. These programs have transferred much-needed technology and tools to national decision-makers and helped develop and strengthen primary health care, while also strengthening tertiary care through medical partnerships.

Other Donors.

The International Monetary Fund (IMF) and World Bank have extended significant monetary credits to address balance of payments issues and to encourage sectoral reform. Conditions for extension of these credits have been consonant with and reinforce USAID’s strategy to reform the investment climate in Kyrgyzstan. Kyrgyzstan currently has an IMF three-year Extended Structural Adjustment Facility (ESAF) focussing on fiscal reform. The Asian Development Bank (ADB), the World Bank, and the European Bank for Reconstruction and Development (EBRD) are expanding their loan portfolios.

FY 2000 Program.

The Kyrgyzstan program will continue to focus on the reform process in the economic, democracy, and social sectors and on deepening respect for human rights, particularly women's legal rights. The Partnership for Freedom's new programs to encourage economic growth and develop links between Kyrgyzstan and the United States have begun. USAID will begin to implement a "southern strategy" in the Fergana Valley designed to address priority economic development issues in a poor and neglected part of Kyrgyzstan. Finally, USAID will initiate an agricultural privatization program to build on the recent passage of the land reform law.

USAID will deepen its support for effective fiscal policies and management in part by helping the GOK to create strong regulatory frameworks for the securities market and the banking sector. In addition, USAID's interventions will accelerate progress in establishing the regulatory framework necessary to build investor confidence by ensuring that property ownership and transfer and commercial transaction are rights of market agents. USAID will continue support for the development of tax administration, legal and commercial infrastructure, intergovernmental finance and land registration systems, bankruptcy laws, the conversion of enterprises to international accounting standards and strengthening the professional capabilities of judges and attorneys. Further progress will be made toward the creation of an independent regulatory agency for electricity, and the completion of the privatization of the state energy holding company. Successful activities in micro-credit and small and medium enterprise will now be expanded into the Fergana Valley.

Ensuring that economic reform is accompanied by social and political reform is a continuing priority. Programs will continue to strengthen civil society, promote independent media, solidify the rule of law, furnish election assistance, and deepen respect for human rights. USAID will work toward the development of accountable local government by expanding a legal authority for such governments, improving financial and administrative operations, broadening the local resource base, delivering services efficiently, and strengthening the role of elected local councils as instruments of grassroots democracy. There will be increased attention paid to improving women's legal rights and their participation in the political process.

Under cross-cutting and special initiatives, USAID will continue medical partnerships, cost-effective systems for health care and service delivery, infectious disease prevention, reproductive health care, and targeted services for vulnerable populations, albeit at somewhat reduced levels. The infectious disease program will emphasize cost-effective ways to prevent and treat tuberculosis. Reproductive health services will continue to be provided at primary health care service sites, especially through the family group practices. Medical partnerships will support the transfer of technology in both tertiary and primary care. Participant training programs will continue expanding the human resources capacity of Kyrgyzstan, with increased local and third-country training in FY 2000. At the end of 1998, these programs had already provided training to more than 800 Kyrgyz.

KYRGYZSTAN

FY 1999 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	1,600	--	--	--	1,600
Private Enterprise	7,450	--	--	--	7,450
Financial Reform	2,750	--	--	--	2,750
Energy	--	--	--	--	--
Environmental Management	--	--	--	--	--
Citizens' Participation	--	2,750	--	--	2,750
Legal Systems	--	--	--	--	--
Local Government	--	1,250	--	--	1,250
Crises	--	--	--	--	--
Social Benefits	--	--	1,270	--	1,270
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	17,430	17,430
TOTAL	11,800	4,000	1,270	17,430	34,500
*FREEDOM Support Act (FSA) Funds					

USAID Mission Director: Glenn Anders

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE AND NUMBER: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $1,600,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE**: FY 2001

Summary: In Kyrgyzstan, there have been aggressive moves in the area of macroeconomic policy reform. A new currency was introduced in 1993 and significant efforts have been made to control fiscal deficits. Meanwhile, USAID assistance has continued to result in progress toward the achieving this activity, the objective of which is to increase the soundness of fiscal policies and fiscal management practices. This would lead to a steady decline in the general government deficit as a percentage of GDP -- to 2% in 2001. To date, important advances have been made in the areas of improved tax administration and budget reform. USAID has assisted in increasing the transparency of the tax code by clarifying and streamlining tax policy. This improves the environment for foreign direct investment. Progress in this area will lead to steady declines in the general government deficit as a percentage of GDP -- to 2.0% in 2001.

The effort will benefit tax-paying citizens of Kyrgyzstan at all income levels by ensuring greater transparency and a more rational revenue collection and budgeting and expenditure process. Aspiring entrepreneurs will benefit as more comprehensible and transparent tax systems are adopted. More efficient revenue collection and rational budgeting/expenditure procedures also will help strengthen the credibility of the government and help ensure the sustainability of targeted social programs aimed at the most vulnerable sections of society.

Key Results: Successful fiscal reform depends upon achievement of the following indicators: 1) a reduction in the Government of Kyrgyzstan (GOKy) deficit as a percentage of GDP to around 2% in FY 2001; 2) Continued compliance with IMF conditionality ; 3) an increase in tax revenues as a percentage of GDP to 20% in FY 2001; and 4) continued adoption of modern tax legislation and amendments.

Performance and Prospects: The people of Kyrgyzstan have benefitted from USAID-funded analysis and policy advice, particularly in the fiscal area. Results include dramatically reduced inflation (from 35% in 1996, to about 20% in 1999), relative currency stability and a macroeconomic environment that is among the most stable in the former Soviet Union. USAID-funded advisors had the lead role in formulating the new tax code that meets international standards that is currently under implementation. In tax administration, USAID has received a commitment by the head of the State Tax Inspectorate to implement functional reorganization, a critical element in

the Government's ability to conduct revenue collection, increase efficiency of the administration of taxation, and create fairness in the system. Progress was also made in computerization, thereby enhancing the prospects for efficient tax collection.

As a result of new laws, an automatic withholding system was established and a rationalized system was put in place for the determination of tax obligations. Current technical assistance focuses mainly on implementation and administration of the new tax code and further rationalization of budgets and international finance reform, key elements in the fiscal reform program to which the GOKy recently committed. This has lead to a greater budgeting and fiscal accountability within all GOKy departments.

In FY 2000, USAID technical assistance in the fiscal area will continue to help further rationalization of Kyrgyzstan's system of intergovernmental finance, with a view toward ensuring that various levels of government operate with greater economic efficiency in implementing their taxation and expenditure authority. USAID is encouraging development and utilization of a cost-efficient procurement system through training and advice and is promoting the establishment of a monitoring agency to encourage greater transparency and competition. Likewise, USAID will continue to assist the GOKy to comply with IMF and IBRD conditionalities.

Possible Adjustments to Plans: In the future, USAID anticipates assistance to the GOKy in the area of improved fiscal analysis capabilities. More broadly, USAID will adjust its program in order to assist the government in delivering revenues from a widening tax base. Such actions are key to bringing the economy out of crisis.

Other Donor Programs: Ongoing efforts in the fiscal arena are coordinated with those of other donors, including the IBRD and EU.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through U.S. contractors (Barents Group and IBTCI) as well as through the U.S. Department of the Treasury.

Selected Performance Measures:

	Baseline	Target
Government deficit as a percentage of GDP	12.5% (1995)	2.0% (2001)
GOKy maintains compliance with conditions of international financial institutions	Yes (1995)	Yes (2001)
Tax revenues as a percentage of GDP	13.6% (1995)	20% (2001)
Adoption of modern tax legislation	No (1995)	Yes (2001)

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: $7,450,000 FY 2000: Freedom Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE**: FY 2001

Summary: Kyrgyzstan has made the strongest commitment of any country in Central Asia to the privatization of state-owned assets. The USAID-supported mass privatization program has been successfully completed. Now the focus is on privatizing "blue chip" state enterprises and developing Kyrgyzstan's capital markets. The objective of this activity is to foster accelerated development and growth of private enterprises. This would lead to steady increases in the share of GDP generated by the private sector -- 95% by 2001.

Specific beneficiaries include the hundreds of thousands of citizens of Kyrgyzstan who own shares in newly privatized government enterprises and stand to gain financially when these new firms increase in value or pay dividends. Aspiring entrepreneurs will benefit from a more comprehensive and transparent legal environment. The entire population will gain from a market-based economic system that creates employment, increases incomes, lowers prices and expands individual choice.

Key Results: For accelerated development and growth of private enterprise to occur, it will be necessary for: 1) the share of GDP generated by private enterprises to increase to about 95% in FY 2001; 2) the number of new firms transferred to new international accounting standards would have climbed to 1,000 in FY 2001; and 3) the

Government of Kyrgyzstan will continue to comply with the conditions of international financial institutions.

Performance and Prospects: USAID advisors have assisted Kyrgyzstan to become the first Central Asian country to acquire full World Trade Organization (WTO) accession by developing a legal framework for trade and investment that facilitated Kyrgyzstan's application. USAID assisted in analyzing the investment climate and existing commercial laws, and then drafting of additional laws and regulatory regimes required for WTO accession. Commercial laws passed with USAID assistance include: the Foreign Investment Law, the Procurement Law and the Bankruptcy Law. All of this assistance strengthened favorably the business and investment climate. USAID is also assisting with development of strategic and business plans, as well as strengthening the management skills and provision of both equity and credit to small and medium-sized enterprises.

In the area of legal and regulatory reform, advisors have been working in key fields including trade and investment, bankruptcy, collateral law, and rewriting the civil code. A major training effort in all of these areas is underway. General business law has also been a major focus, targeting constraints to business, including inadequate implementation of laws in such areas as contracts and property rights. Many of these efforts are needed to maintain the momentum created by the privatization process and to expand opportunities for U.S. trade and investment in Kyrgyzstan.

In FY 2000, support for private enterprise reform will continue mainly focusing on further commercial law development and related areas such as support for accounting reform at the enterprise level. Among other objectives, the activities noted will assist Kyrgyzstan in developing a business environment that is more open and transparent and therefore less susceptible to corrupt practices. Through training and advice USAID is encouraging development and utilization of a competitive and cost-efficient procurement system and is promoting the establishment of a monitoring agency to encourage greater transparency and competition. Finally, as part of the emerging "Southern Strategy," USAID will assist small and medium-sized enterprises in the Fergana Valley in such sectors as food processing, construction, banking and credit unions, and textiles.

Possible Adjustments to Plans: In order to build on the success to date, USAID advisors will begin to address the issue of private land ownership. Private ownership of land was provided for in a constitutional referendum adopted on October 17, 1998 and USAID advisors have already began work on implementing legislation introduced in Parliament. Improvements could be made in areas of commercial law such as bankruptcy, fiduciary relationships and insurance law. Given the sensitive nature of these activities, government support will be essential for successful implementation.

Other Donor Programs: Ongoing efforts to strengthen private business operations have been developed in close coordination with other donors, especially the IBRD, IMF, EBRD, the Asian Development Bank and the EU.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through private U.S. firms such as Booz Allen & Hamilton, ARD/Checchi and Carana Corporation, along with U.S. PVOs such as the International Executive Service Corps (IESC), the Foundation for International Community Assistance (FINCA) and Volunteers in Overseas Cooperative Assistance (VOCA). The Central Asian-American Enterprise Fund (CAAEF) will also be making scarce capital available to Kyrgyzstan's emerging private sector with a business loan program.

Selected Performance Measures:

	Baseline	Target
GOK maintains adherence to conditionality of international financial institutions	Yes (1995)	Yes (2001)
Share of GDP generated by private enterprises	73% (1995)	95% (2001)
Number of new firms transferred to new accounting standards	0 (1995)	1,000 (2001)

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE AND NUMBER: A More Competitive and Market-Responsive Private Financial Sector, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $2,750,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2001

Summary: Begun in 1994, the banking reform and capital markets development activities of USAID have been quite successful in Kyrgyzstan. The objective of this activity is the creation of a competitive private financial sector that is more responsive to the needs of a market-oriented economy. The two most important achievements to date have been the formation of a National Securities Commission and the establishment of Kyrgyzstan's first stock exchange in Bishkek in 1995. Currently more than 40 companies are listed on the stock exchange, which became self-sustaining at the end of FY 1998. A Central Depository was created with USAID assistance that will increase investor confidence and promote foreign investment. New corporate accounting standards have been introduced. Success in these areas will cause bank deposits as a percentage of GDP to climb to 20% by 2001.

Immediate beneficiaries include professionals involved in securities market development, such as private bankers, stock brokers and investors. More importantly, new entrepreneurs as well as a broad range of Kyrgyz citizens will benefit by expanding capital markets that allocate scarce financial resources more productively.

Key Results: Achievement of reform in the financial sector will hinge on success in the following: 1) increases in bank deposits as a percentage of GDP to 20% in FY 2001; 2) the number of financial services available rising to 25 by FY 2001; 3) 90% of banks being able to meet capital adequacy requirements; 4) the number and types of financial institutions rising to 18 by FY 2001; and 5) the types of firms operating in the securities market increasing to 18 by FY 2001.

Performance and Prospects: Significant strides have been made as part of USAID's effort to tighten financial regulatory guidelines and enhance monitoring capacity in the banking sector, which resulted in a large number of insolvent banks losing their licenses. Further, a reduction in directed credits and an overall tight monetary policy over the last two years further reflects the success of the Central Bank in asserting its independence. In addition, with USAID technical assistance, nine of Kyrgyzstan’s 18 commercial banks are now operating using international accounting standards. All enterprises in the republic are currently expected to use these standards beginning no later than January 1, 2000.

Bank accounting conversion efforts have been successful to date. With only a few exceptions, all banks have converted their major accounting systems to international accounting standards. The virtually complete adoption of such standards by the banks is a critical component of transparency and represents a significant step forward in reform.

USAID's primary function will be to continue supporting technical assistance and training to the financial sector. This will include further assistance in helping to convert the remainder of the commercial banks to international acceptable accounting standards. The basic framework for an effective securities market needs to be further developed and set on a sustainable footing. The Kyrgyz Stock Exchange requires increased corporate listings and the development of a cost-efficient over-the-counter (OTC) system.

Possible Adjustments to Plans: It is expected that the Capital Markets Activity will be phased out by the end of 1999 as a model economic reform activity. In order to ensure the sustainability of the capital markets reform, however, further activities need to be implemented over the course of 1999 which will strengthen the stock market. USAID will monitor closely such efforts, as the accomplishments achieved to date could be jeopardized.

Other Donor Programs: USAID is the major foreign donor working in the financial sector, and the only one involved in the securities area. Assistance is coordinated closely with the IBRD, as well as with other donors, particularly the EU.

Principal Contractors, Grantees, or Implementing Agencies: USAID financial assistance activities are implemented through two private U.S. firms, Pragma and IBTCI.

Selected Performance Measures:

	Baseline	Target
Bank deposits as a percentage of GDP	4.0% (1995)	20.0% (2001)
Number of financial services available	15 (1995)	25 (2001)
Percentage of banks meeting capital adequacy requirements	42% (1995)	90% (2001)
Types of financial institutions	3 (1995)	18 (2001)
Types of firms operating in securities market	4 (1995)	13 (2001)
Number of companies listed on the stock exchange	10 (1995)	150 (2001)

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE AND NUMBER: Increased Citizens' Participation in Political and Economic Decision-making, 110-SOO2.1
STATUS: Continuing
PROPOSED OBLIGATIONS AND FUNDING SOURCES: FY2000: $2,750,000 Freedom Support Act
INITIAL OBLIGATION: FY93; **ESTIMATED COMPLETION DATE:** FY 2004

Summary: Kyrgyzstan is the most progressive of the five Central Asian Republics in the area of parliamentary independence. The creation of a legal infrastructure to further expand such government accountability, as well as to encourage NGO and media development and citizen participation, is one of USAID's principal efforts in Kyrgyzstan. Assistance to the local NGO community aims especially at increasing its professional and management capabilities, allowing it to advocate policy agendas, influence legal and regulatory processes, effect social change, and provide needed social services. USAID's program includes a strong emphasis on building social partnerships between civil society, government and the business sector. Under a competitive small grants program, a number of local organizations are receiving direct program support. Private television and radio stations are receiving training to improve programming quality and enhance their financial viability.

Key Results: Three key intermediate results were concluded to be necessary to achieve the Strategic Objective. NGO participation in civil society must be strengthened, information on domestic economic policies and politics must become more widely available, and the government must become more responsive and accountable to citizens and citizens organizations.

Performance and Prospects: There has been significant progress in all aspects of USAID's democracy assistance in Kyrgyzstan, and USAID expects this progress to continue. Over the past year, ABA/CEELI-supported legal information centers (LCLI) in Kyrgyzstan have been a tremendous asset to the Ministry of Justice, parliamentarians, lawyers, and citizens; impressive statistics include the following: LCLI has served 15,944 clients, librarians have loaned over 63,776 publications to patrons and have responded to informational inquiries from 420 organizations; and the LCLI reports that its "most active consumer of informational requests is the Ministry of Justice." ABA/CEELI has also been working closely with the former Deputy Director of Parliament's Legal Department on the first draft of the Legislative Drafting Manual. Over 150 representatives from all five Central Asian Republics and all sectors of society participated in a social partnership conference in Kyrgyzstan organized by the USAID-funded Counterpart Consortium. A highlight of the conference was a speech by the State Secretary of the Kyrgyz Republic who spoke of the sincere interest of the government to work with the NGO community to develop social partnerships. Several specific projects including the "Central Asia Mass Media Association for Social Partnerships" and support for "Democratic Elections in Central Asia" were formed as a result of the conference. The recent National Referendum on Amendments to the Constitution of Kyrgyzstan was probably the year's most significant single event affecting the legal, political, and economic spheres in the country. Though there was controversy with respect to the voting, there was also lively debate leading up to the referendum. A concerted effort among three of the USAID partners helped to widely broadcast information on the referendum on radio and TV stations; in addition, thousands of copies of pertinent information were distributed to the public from USAID-supported legal information centers. The most recent draft of the election law addresses the major concerns USAID voiced regarding the previous draft and appears to be one of the most progressive laws in the region. As a result of USAID assistance, several journalist associations are active in Kyrgyzstan and they have participated in reviewing draft legislation and submitting commentary to parliament.

Possible Adjustments to Plans: In FY 2000, USAID is anticipating additional programming in the area of women's legal rights issues and women's participation in political processes.

Other Donor Programs: Civil society development is a multi-donor effort in Kyrgyzstan. UNHCR, OSCE/ODIHR, UNDP and Soros all support local NGOs with small grants. The UNHCR is co-funding NGO resource centers along with USAID. In the area of independent media, the UNDP, OSCE/ODIHR, and Soros support journalist associations and conferences. In the political processes area, UNDP is implementing an "automization" of elections. USAID and the EU coordinate with parliamentary assistance.

Principal Contractors, Grantees or Agencies: Several USAID-funded US PVOs such as the American Bar Association/CEELI, Internews, the National Democratic Institute (NDI), and the International Foundation for Electoral Systems (IFES), are playing a role in promoting democracy in Kyrgyzstan. Counterpart International, Aid to Artisans, and the International Center for Not-for-profit Law, which together form the Counterpart Consortium,

also participate in local NGO development. Initiative for Social Action and Renewal in Eurasia (ISAR) will also participate in the development of local environmental NGOs.

Selected Performance Measures:

	Baseline	Target
Number of NGOs involved in advocacy (media/gov)	70/74 (1996)	75/50 (2001)
Average daily minutes of local news programming	1 (1994)	12 (2001)
Number of Parliamentary hearings and committee meetings addressing legislative/policy issues	2 (1996)	45 (2001)

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE AND NUMBER: More Effective, Responsive, and Accountable Local Government, 110-S02.3
STATUS: Continuing
PROPOSED OBLIGATIONS AND FUNDING SOURCES: FY 2000: $1,250,000 Freedom Support Act
INITIAL OBLIGATIONS: FY 1998; **ESTIMATED COMPLETION DATE:** FY 2004

Summary: The Kyrgyz Republic has taken significant steps in the transition toward more effective, responsible and accountable local governments. While democratic institutions and practices are fragile, a discernable move away from authoritarian rule and towards a sustainable democracy is clear. The central government has created an Office of Local Government with a clear mandate to strengthen local governments. A non-governmental organization (NGO), the National Association of Local Self-Governments comprised of elected village leaders (Councillors) and the elected mayor of Bishkek has been incorporated into a larger Congress of Communities, which includes NGOs as well as subunits such as block and neighborhood committees. Elections have been held in the 455 villages for the local council. All of the villages have enacted charters and the country's 19 towns plus Bishkek are in the process of doing so. As a further move to strengthen local government, the national government has begun a process of transferring state-owned assets to local governments. However, limited authority, resources and skills at the local government level are serious constraints to the Government's efforts in creating strong local governments. In order to support more effective, responsive and accountable local government, USAID has initiated efforts to address these constraints. Immediate beneficiaries are public sector officials and service providers. Ultimate beneficiaries are the local people who will benefit from improved public services.

Key Results: The USAID Local Government objective stated above will be achieved through three intermediate results: Practices promoting citizen input and involvement adopted; practices improving delivery of services and management of resources adopted; and powers of local governments increased. Although there were delays in project start-up, steps towards achieving the results are underway. A Memorandum of Understanding has been signed between the Congress of Local Communities and USAID to provide a range of technical assistance. Work has commenced in Tokmok as one of the pilot cities for developing budgeting and financial management systems. Mechanisms are in place to deliver the training courses in financial management, general management and leadership which are being adapted to the Kyrgyz situation.

Performance and Prospects: Activities under the Local Government Initiative were late in starting due to slow recruitment of staff by the contractor. However, over the past few months the pace of implementation has increased and year one targets are close to being achieved. By June 1999, efforts towards strengthening the Congress of Local Communities (National Association of Local Governments) as a nongovernmental organization (NGO) which can upgrade the skills of local officials and effectively advocate the interests of local government will have commenced. The Office of Local Government under the President has started implementing its agenda to strengthen local government. Assistance to form democratically controlled housing associations to perform functions previously performed by government agencies has started. Leadership Skills Training for Chief Administrators and Local Council members in selected municipalities is continuing. The target city for developing a competitive procurement system as a model of a "good local practice" to improve management of resources has been selected and training has started. A model budget format, an end of year financial report plan, and a public hearing process in which public comment is made on documents are being developed as a model for citizen input and involvement in a city's administration.

Despite the progress made to date, an enormous agenda remains in the area of local government empowerment. Villages, towns and cities are severely constrained by the Ministry of Finance's control over their budgets. The newly enacted tax law provides for the collection of a number of local taxes and fees, but these sources provide only a fraction of the required local revenues. Despite the reforms being implemented by the President's administration to increase local autonomy, the Ministry of Finance remains a strong opponent of fiscal decentralization. USAID will continue to address this issue through policy dialogue at the highest levels.

Possible Adjustments to Plans: Year two work plans will complete on-going programs as well as complete the implementation of model "good practices" in two local governments.

Other Donor Programs: A number of other donors including the World Bank, UNDP, EU, and the Soros Foundation also support activities with a local government dimension that build around the principles of promoting sustainable human development in the country through decentralized management of development.

Principle Contractors, Grantees, or Agencies: International City/County Management Association, ICMA.

Selected Performance Measures:

	Baseline	Target
Adoption of practices promoting citizen input and involvement	0 (1998)	3 (2000)
Adoption of practices improving delivery of services and management of resources	0 (1998)	3 (2000)
Increasing the powers of local government	0 (1998)	2 (2000)

ACTIVITY DATA SHEET

PROGRAM: KYRGYZSTAN
TITLE AND NUMBER: Improved Sustainability of Health and Social Benefits and Services, 110-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: $1,270,000 FY 2000 Freedom Support Act
INITIAL OBLIGATION: 1993 **ESTIMATED COMPLETION DATE:** FY 2001

Summary: As the key donor assisting with social sector reforms in Kyrgyzstan, USAID will continue to help strengthen and implement the social reform agenda. The pilot program in Issyk-kul is operational. This program provides a viable health reform model that is being replicated in four additional oblasts with capitalization funds from the World Bank and the Asia Development Bank and technical assistance from USAID. USAID will also continue to concentrate on a national health reform policy development based on lessons learned in Issyk-kul. The combined USAID and World Bank efforts will ensure that approximately 90 percent of Kyrgyzstan's population is covered by a health care delivery system consistent with a market-oriented economy in a democratic society. Finally, USAID programs directed toward NGOs have an important local social services dimension and will help ensure more effective delivery as well as bring about change in targeted communities. The immediate beneficiaries are the health care providers while ultimately all citizens of Kyrgyzstan benefit, especially the segment of the population classified as vulnerable (e.g., elderly pensioners, women, children).

Key Results: This activity contributes to the improved sustainability of selected social services through achievement of two intermediate results. Cost-effective health care services will be demonstrated in selected oblasts and cost-effective health sector reforms adopted nationally. To date, 425 Family Group Practices (FGPs) are operational nationally, covering 60% of the population compared to 81 in the pilot sites in 1997. Enrollments in the selected FGPs have started, with, to date, the pilot oblasts having an enrollment rate of 83% of the population. The health care system is already more cost- effective, where 70% of the service providers in the pilot oblast and 9% in the initial oblasts are being reimbursed by market-oriented payment systems. The Issyk-kul model has now been adopted in four additional Oblasts, with the remaining two to be covered by year 2000.

Performance and Prospects: This activity has progressed well with a high proportion of the targeted populations (85%) now exercising their right to select the family group practice of their choice in areas where enrollment campaigns have been conducted. All management information systems have been developed and implemented, allowing the providers to respond to new incentive payment systems. A new provider payment system, which encourages primary care physicians to treat more and refer less often to specialty hospitals, is being implemented after being launched in January 1998. USAID has also provided technical assistance to integrate women's reproductive health, childhood health services, and infectious diseases such as tuberculosis into family group

practice. Using earmarked funds, all FGPs will provide family planning services by 2001. USAID policy and legal assistance led to the establishment of a national framework for health care, which incorporates health insurance into a broader social insurance context. Information on health reform has been widely disseminated to the public through 320 television and radio spots and 156 newspaper and magazine articles. The health insurance fund has implemented nationwide the hospital payment system which was developed in the Issyk-kul demonstration. By FY 2002, it is expected that health reforms in Kyrgyzstan will be completely institutionalized at the policy and program levels.

Possible Adjustments to Plans: Currently, no adjustments are anticipated, as reforms are being institutionalized. USAID technical assistance needs have declined over time.

Other Donor Programs: Various other donors are involved in this crucial area, including the World Bank, Asian Development Bank, World Health Organization (WHO), United Nations Development Program (UNDP), UNICEF, United Nations Population Fund (UNFPA), and EU.

Principal Contractors, Grantees, or Agencies: Abt Associates is the principal contractor implementing this activity.

Selected Performance Measures:

		Baseline	Target
Increased number of independent primary care of practices - family group practices (FGPs)		0 (1995)	500 or 75% of pop. covered (2000)
Increased percentage of health care providers reimbursed by market-oriented payment systems	Pilot: Roll Out:	0 (1995) 0 (1995)	80% (2000)
Percentage of the population enrolled in FGP's	Pilot: Roll-Out:	0 (1995) 0 (1995)	85% (2000) 60% (2000)

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Support for East European Democracy	$17,204,000	$16,000,000	$14,000,000

Introduction.

The Former Yugoslav Republic of Macedonia (FYROM), the poorest country of the former Yugoslavia, was the only republic to gain independence peacefully. The maintenance of stability in FYROM is a key element of U.S. Government efforts to reduce instability in former Yugoslavia and the Balkans. The U.S. assistance program to FYROM supports U.S. interests in national security, economic prosperity, and democracy. Since declaring its independence in 1991, the FYR Macedonians have consistently pursued policies aimed at reforming the economy and strengthening democratic institutions. Despite the hardships imposed by external forces, such as the United Nations sanctions against Serbia and the 1992-95 Greek trade embargo, FYROM persisted in implementing the key reforms urged by the World Bank and the International Monetary Fund (IMF) in their proposed economic stabilization program.

The Development Challenge.

FYROM is suffering from many of the same ills as other Central European countries in transition from a command economy and centralized government to a market-oriented, democratic society. However, the country also has had to manage the negative effects of compliance with the UN-mandated sanctions against Serbia, which accounted for 60% of its markets prior to the disintegration of Yugoslavia, and which also served as a conduit to other East, Central and West European markets. Modest recovery from the Greek trade embargo has been followed by threatened spillovers from Kosovo hostilities. Although the situation remains stable in FYR Macedonia, continuation and any escalation of Kosovo fighting could spill over and ignite the tense ethnic situation in FYR Macedonia. The rise in unemployment has roughly paralleled the drop in national income, between 25 and 35 percent. The FYROM government faces the additional challenge of having to create institutions to perform national functions previously performed by the federal government in Belgrade. This is compounded by a lack of public confidence in institutions at every level of government.

The key objectives of the U.S. assistance program are: (a) economic restructuring and sustainable growth, with accompanying employment generation; (b) the development of democratic practices and institutions, and a viable civil society; and (c) Euro-Atlantic integration as the basis for regional stability. U.S. assistance will address these problems through targeted efforts in development of the private sector economy, with a particular focus on agriculture and agribusiness, and through assistance to non-governmental organizations, local governments, independent media and other democratic and representative civic intermediaries.

Other Donors.

FYROM receives assistance from international financial institutions such as the World Bank, European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF) and the World Bank's International Development Association. As a result of the signing of the Greek/FYROM Interim Accord on September 13, 1995, FYR Macedonian participation in the European Union (EU) PHARE program has been formalized. An EU Resident Representative has been assigned to Skopje and has established the Macedonia office. Germany (GTZ) has been the largest provider of assistance to FYR Macedonia (primarily in humanitarian assistance and commodities). The United States ranks second among bilateral donors to FYROM.

FY 2000 Program.

The U.S. assistance program in FYR Macedonia has coalesced into three strategic objectives involving expansion of the private sector, increased civic participation and local government strengthening. The local government objective represents a new opportunity with substantial potential, but for which FYR Macedonian political will has yet to be fully tested.

The three objectives will address a number of important cross-cutting themes, of which unemployment and ethnic tensions are two of the most important. Unemployment may get worse before it gets better as newly privatized enterprises shed redundant labor. It is USAID's position that the best and quickest way to increase employment is through expansion of the private sector including the agribusiness sector. Similarly, all three objectives address ethnic tensions by providing the means for citizens to strengthen the economic well being of their communities through the government, private sector and non-governmental organizations (NGOs).

Under the economic restructuring goal, USAID is requesting funding for accelerated development and growth of private enterprises. Under this objective, assistance is being provided for enterprise development, legal/accounting reform and financial sector reform. Continued assistance to enterprises provides training and education of managers of small to mid-size firms, association building for farmer cooperatives and development of export markets, legal/accounting reform to level the playing field for companies, the establishment of an internationally harmonized trade regime (WTO), and the creation of an enforceable rule of law. Current financial sector activities range from providing funds to micro-enterprises and development of rural credit unions to technical assistance directly to banks and to the National Bank in the area of bank supervision. Positive developments have occurred in all these areas but much work still needs to be done, especially in the areas of increasing foreign and domestic investment, implementation and enforcement of recently-passed legislation and economic development at the community level.

Under the democratic transition goal, USAID is requesting funding to increase citizens' participation in political and economic decision-making. Despite the enactment of a new constitution in 1991 and a subsequent series of laws to implement the Constitution, citizens continue to be distrustful toward the government. Frustration and growing apathy among the people, particularly in rural areas, is widespread as they see no solutions to their problems. Parliamentary assistance will focus on strengthening procedures, legislative drafting and constituent outreach. NGOs will play a key role but are still nascent and need to overcome the people's cynicism towards associations and working together. The USAID assistance program is targeting the development of mechanisms, especially NGOs, to increase citizen participation in democratic systems, and the willingness of government officials, at both local and national levels, to actively involve citizens in the policies of government.

Also under the democracy rubric, a new strategic objective supporting more effective, responsive and accountable local government is being developed in connection with steps taken by the FYR Macedonian Government. The new government has established a new Ministry for Local Government and placed public administration reform on their priority agenda. USAID has financed an assessment that will provide recommendations to empower local governments to better serve and give a greater voice to citizens. The nascent movement to devolve authority to local government may offer an opportunity to restore a degree of public confidence and perhaps bridge ethnic differences by allowing all citizens, including ethnic Albanians, to solve problems locally. This program will work to leverage important resources from EU PHARE and the World Bank and will include an important USAID element addressing FYR Macedonia's municipal pollution problems.

As a complement to these three strategic objectives USAID is requesting funds for a number of cross-cutting activities, including participant training, evaluation and activity support.

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

FY 2000 PROGRAM SUMMARY*
(in thousands of dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	8,750	--	--	--	8,750
Financial Reform	--	--	--	--	--
Energy	--	--	--	--	--
Environmental Management	--	--	--	--	--

Citizens' Participation	--	1,810	--	--	1,810
Legal Systems	--	--	--	--	--
Local Government	--	1,200	--	--	1,200
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	2,240	2,240
TOTAL	8,750	3,010	--	2,240	14,000
* Support for East European Democracy (SEED) Act funds					

USAID Representative: Stephen Haynes

ACTIVITY DATA SHEET

PROGRAM: FYR Macedonia
TITLE AND NUMBER: Accelerated Development and Growth of the Private Sector,180-SO01.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $8,750,000 SEED
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE**: 2004

Summary: Despite a trade embargo, international sanctions on one of its major trading partners and its proximity to economically and politically unstable neighbors, FYR Macedonia has maintained macro-economic stability. The USAID mission is supporting this by providing technical assistance to FYR Macedonia in the areas of enterprise assistance, legal/accounting reform and financial sector reform. Privatization of FYR Macedonian firms after independence was done in a quick share transfer to company managers and employees. Firms often found themselves without the advantages of additional capital or know-how. The enterprise assistance and agricultural marketing projects are helping with this transition. New commercial laws have been drafted, presented to Parliament, passed, and are now in the implementation stages. Judges are being trained and legal associations are forming, all with the help of USAID-funded technical assistance. Banks are unable to provide businesses with loans because of a lack of deposits, primarily due to the public's general lack of faith in the banking system. USAID is working to strengthen the banking system at the National Bank level as well as with several of the commercial banks. USAID is also providing alternative financing resources to businesses through micro-lending, rural credit and equity capital.

Key Results: The key intermediate results that will determine whether the objective is met include: 1) Improved transparency of businesses which will attract domestic and foreign investment; 2) an increase in available sources of financing which will allow businesses to invest and expand; 3) development of the necessary legal reforms which will create a level playing field, increase transparency in the legal system, and establish the rule of law for businesses; and 4) improved management skills so managers can better take advantage of market opportunities.

Performance and Prospects: The two largest projects in the USAID private sector portfolio address the opportunities and threats to FYR Macedonia’s private and privatized companies. The projects include a three-year old Business Resource Center which has directly assisted over two hundred firms in developing management and marketing skills and assisting in business plan development and a recently established agricultural marketing project. Other related activities include farmer-to-farmer assistance and association building and a very successful micro-lending program that has made over 600 loans and recently opened its third office. In early 1998, USAID also established the first equity investment fund in FYR Macedonia.

Passage of several laws, which include a Collateral Law and a Law on Accounting Standards which promulgates the use of international accounting procedures for companies, have all helped FYR Macedonia's investment climate. USAID is funding a World Trade Organization accession assistance activity on harmonizing FYROM's trade regime with the rest of the world, which will lead to facilitation of trade and foreign investment. USAID is addressing banking instability through its Bank Operations project and with an advisor in the National Bank providing assistance in bank supervision. USAID assistance to establish rural credit unions is moving ahead after a decision was made to establish a savings and loan association under existing laws, recognizing that waiting for a credit union law to be passed would unduly delay the project goals of providing loan resources to rural communities. Its first office will open in early 1999.

With the maturing of the FYR Macedonian indigenous consulting market and with the influx of other donor assistance to enterprises, USAID will turn its focus slightly towards development of the financial sector to include capital markets and a more advanced banking sector activity which will both begin in 1999. Emphasis will continue on agribusiness development to assist one of FYR Macedonia's major income and employment sectors.

The newly-elected government has set goals of 8-10% annual increase in production and 8-10% annual increase in exports. Export promotion and import substitution will be key areas of private sector development. USAID will begin to provide technical assistance to the newly-established Ministry of Trade to support FYR Macedonia's accession into the World Trade Organization.

Successes in several of these areas could be leveraged by directing activities and resources to economic stabilization and growth in communities reporting high levels of unemployment.

Possible Adjustment to Plans: With the recent change in government and the subsequent creation of several new ministries, USAID will need to be positioned to assist with the priorities of the new government as they unfold.

Other Donor Programs: USAID programs are intermeshed with donor activities throughout the portfolio. The World Bank is developing a Financial and Enterprise Stabilization Assistance Loan which will work to stabilize balance of payments. The EBRD and the IFC will be contributing to the USAID/SEAF Equity Fund. EU PHARE has activities which complement USAID programs in accounting and banking. The German and Dutch governments are also active in providing funds for small businesses. The British Know How Fund participates in enterprise assistance and has contributed funds to the USAID-financed micro-lending project in order to start a business club. Coordination of strategy is an ongoing task with other donors.

Principal Contractors, Grantees, or Agencies: Current partners include Crimson Capital, Land O'Lakes, the Center for Financial Engineering and Development (CFED), Barents/KPMG, VOCA, ABA/CEELI, IBTCI, WOCCU, Carana, and Opportunity International.

Selected Performance Measures:

	Baseline	Target
Private Sector share of GDP (%)	35% (1994)	50% (2000)
Exports/GDP (%)	41% (1995)	50% (2000)
Increase in foreign investment (annual)	$36M (1995)	$72M (2000)

ACTIVITY DATA SHEET

PROGRAM: FYR Macedonia
TITLE AND NUMBER: Increased, Better-Informed Citizens' Participation in Political and Economic Decision Making, 180-SO0 2.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $1,810,000 SEED
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** 2004

Summary: This strategic objective targets the strengthening of political parties and civil society groups, both of which serve as vital channels for information dissemination, interest aggregation, and representation. They are the key mechanisms through which and by which citizens can identify their interests, negotiate conflicts and have an impact on government policy. The nascent democratic institutions (independent media, Non-Governmental Organizations (NGOs), and political parties) have demonstrated progress since independence in 1991, but more work is needed before the people will believe that these entities can be accountable and responsive to their issues. Given the authoritarian history of the country, fear still exists within the NGO sector about local and national government reaction to its activities, although no instance of direct harassment has taken place in several years. Strengthening a critical mass of Macedonia's NGOs and political parties will help reduce ethnic tensions and lead to a stronger, more transparent and responsive democracy by increasing citizens' participation and awareness. An active citizenry can help relieve the destructive effects of inter-ethnic intolerance. Assisting political parties and NGOs to become more organized and community focused will help to resolve issues and decrease counterproductive "ethnic" politics and self-serving nationalistic interests.

Key Results: Six key intermediate results were concluded to be necessary to achieve this objective: (1) improved

financial viability of NGOs; (2) improved and more democratic NGO management; (3) more effective advocacy by NGOs; (4) improved party and government systems for conducting elections; (5) strengthened party operations in Parliament; and (6) enhanced communications between citizens and legislators.

Performance and Prospects: USAID has played an important role in enhancing citizen participation in FYR Macedonia. Both grants and technical assistance have been provided to more than 80 NGOs consisting of all ethnic and gender groups. USAID has assisted three communities in the development of Local Environmental Action Plans (LEAPs) to serve as models of participatory democracy and NGO-business-local government partnerships. NGO-NGO coalition activities, supported by USAID, contributed to the national government involving NGO participation in the development of a National Environmental Action Plan (NEAP). Community groups which unite in grassroots organizations will be more effective in influencing public policy decisions when they later form advocacy coalitions at a national level. USAID will build on the successes of the LEAPS by strengthening partnerships and networking among NGOs, particularly at the community level by encouraging community efforts which mobilize local economic resources for development and job creation.

Through USAID assistance to the FYR Macedonian Government and local NGOs, a new law was passed last year which reflects a number of international best practices, including provision of a legal framework for foundations, expansion of the rights of foreigners to establish NGOs, establishment of appropriate rules for internal governance of NGOs, and limitations on the ability of the government to dissolve an NGO. The new law is being recognized as one of the most progressive in the region and was recognized by government officials as one of the few examples of participatory law-making in Macedonia. Work on additional laws, such as enabling the NGO sector to engage in income-generating activities using their special tax status, will be essential for strengthening the sustainability of these organizations. In order for the public to turn to NGOs as conduits for change, USAID will assist NGOs in establishing successful models of being responsive to their members and community needs as well as make their financial and decision-making processes more transparent.

FYR Macedonia recently completed its third national election which was deemed to have been generally fair and open by both domestic and international election monitors. A permanent Central Election Commission (CEC) has been established, but is poorly staffed and trained. USAID assisted the formation of a consortium of local NGOs which carried out an extensive voter education campaign using significant in-kind contributions from media and local businesses. Voter turnout for both the first and run-off national elections exceeded 70 percent, and other donors are interested in supporting the same model for presidential elections this year.

The national elections brought about surprise outcomes with the opposition coalition gaining control of the Parliament. Political parties clearly benefitted from USAID-funded training through adopting outreach techniques to poll voter issues, developing clear and focused platforms, organizing their branches to spread their messages through door-to-door campaigns, and bringing in spokespeople to handle media queries.

Several dozen journalists have obtained training in investigative reporting, basic writing skills, and management of media operations. American journalists have provided in-country assistance in reporting techniques, use of new technologies, and curriculum development. The media played an active role in presenting different points of view for the recent parliamentary elections, and this demonstrates an independent and open media.

USAID is the largest donor in the NGO sector. Macedonia will likely require several more years of U.S. assistance before an adequate transition can be said to have taken place. It is also assumed that other donor contributions to the sector will increase.

Possible Adjustments to Plans: With the recent change of government, USAID will need to be positioned to assist the new priorities of the government as they unfold. The new government has already announced its plans on changing the FYR Macedonian Constitution by augmenting the power of the President. The original idea of building democracy in FYR Macedonia was through a parliamentary system. USAID would need to be prepared to assist the new government in ensuring that these institutions retain their foundation in democracy.

Other Donor Programs: Donor assistance in this area has been rather limited. Except for well coordinated assistance from the Dutch and minor amounts from the British Know-How Fund, the U.S. largely has the field to itself. In 1999, the World Bank will start an NGO small grant assistance program. Dutch Interchurch Aid assisted in the creation of an indigenous civic organization (the FYR Macedonian Center for International Cooperation).

Principal Contractors, Grantees or Agencies: Current grantees and contractors include International Center for Not-for-profit Law (ICNL), Institute for Sustainable Communities (ISC), National Democratic Institute (NDI), and Search for Common Ground (SCG).

Selected Performance Measures:

	Baseline	Target
NGO Sustainability Index*	4.4 (1998)	3 (2000)
Number of political parties in Parliament with a functioning caucus	0 (1998)	4 (2000)

*The USAID Sustainability Index uses a seven point scale, to facilitate comparisons to the Freedom House indices, with 7 indicating a low or poor level of development and 1 indicating a very advanced NGO sector. Five different aspects of the NGO sector are analyzed in the Index: legal environment, organizational capacity, financial viability, advocacy and the public image of NGOs.

ACTIVITY DATA SHEET

PROGRAM: FYR Macedonia
TITLE AND NUMBER: More Effective, Responsive and Accountable Local Government,180-S002.3
STATUS: New Activity in FY 1999
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $1,200,000 SEED
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE:** 2004

Summary: In response to the newly-elected (November 1998) government and previous assessments completed by USAID, a new local government initiative is being implemented under Strategic Objective 2.3. Currently, there are two activities, both in the planning stages, that will be funded.

The primary activity is the Local Government Reform (LGR) project. This activity is in the initial planning stages which are expected to be completed in March 1999. The first phase of the LGR project focuses on the identification of problems and issues as provided in an open dialogue with central and local government entities and officials. The findings and conclusions of the assessment stage (Phase I) of this project will make specific policy recommendations, detail plans regarding central/local government relations, and provide for implementing actions at both levels of government. The analysis presented in Phase I will define the specific activities to be carried out in Phase II to improve municipal management in meeting citizens' needs. Phase II activities are expected to begin by June 1999 in cooperation with the new Ministry of Local Government.

Linked to the development of the LGR project is a second activity supporting the government's establishment of the Fund for Environmental Protection and Promotion (Environmental Fund). USAID is funding technical assistance to assist the FYROM in establishing a transparent institution that will identify and package bankable environmental projects. USAID's support will be provided to the newly-established Ministry of Environment (MOE) which has assumed responsibility for the previously-established environmental fund financed solely from revenues of automobile registration taxes. Cooperating municipalities have requested financing for landfills, wastewater treatment plants and other infrastructure needs.

Key Results: Intermediate results are currently being developed to measure success in achieving this objective. However, one key result is expected to be improved transparency in the funding of local- level infrastructure projects. Other anticipated results include the rational budgeting of municipal funding based on competitive and technical criteria, and improved management skills of government employees to administer and budget public funds.

Performance and Prospects: The two activities under this objective are still in the planning stages. However, the Environmental Fund, which has been assumed by the MOE, has generally received good public and local government support for financing locally-requested projects which address and mitigate problems related to solid waste and wastewater management. USAID-financed technical assistance to this activity will also provide an improved set of criteria, streamline the packaging of proposals and shorten the time frame for reviewing and providing a financing decision.

The Local Government Reform project requires a review by the FYROM of Phase I findings and recommendations before activities can move forward into Phase II implementation. The review process is expected to be completed by March 1999. The project will provide a clear set of policy recommendations that can be acted upon and which are known and vetted through an open dialogue between citizens and central and local government entities.

Possible Adjustments to Plans: The newly elected government has created several new ministries including the Ministries of Local Government and Environment. USAID is coordinating with the new Ministries, and as strategy and policy statements emerge from the government on local government and environmental issues, the USAID will

consider options to assist with FYROM priorities.

Other Donor Programs: USAID maintains close coordination with other donors. The World Bank is planning a local government project and has just begun the initial assessment and planning.

Principal Contractors, Grantees, or Agencies: The assessment and recommendations on local government are being carried out by the Urban Institute. Chemonics International will be the primary implementor for the Environmental Action Program and Environmental Fund activity. The activities to be implemented under Phase II of the Local Government Reform project will be competed.

Major Results Indicators: To be determined from the Phase I assessment.

MOLDOVA

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$33,070,000	$35,860,000	$73,500,000

Introduction.

The goal of the U.S. assistance program in Moldova is to help build a market-oriented, democratically governed republic. The U.S. has interest in establishing a mutually beneficial political, economic and security relationship with Moldova to ensure stability in the region and to illustrate the benefits of reform to Moldova's neighbors. Because Moldova has come so far in its transition and is a top New Independent State (NIS) performer in democratic and economic development, it is important that Moldova not falter in its commitment to economic and political reform. The escalating difficulties with the energy situation and the problems in resolving the conflict in the Transdniester region could possibly reverse the impressive progress already made in economic and democratic reforms.

The Development Challenge.

Moldova's economic and democratic transition continues to be among the most notable in the NIS. Moldova has completed its mass privatization program, implemented policies that led to comprehensive land reform, adopted and begun to implement new fiscal policies and accounting reform based on international accounting standards, and infrastructure for capital markets development. Progress has been made in structural reform, particularly in the liberalization of prices, finance and trade, and the privatization of state assets. In addition, the new currency is stable, and inflation is relatively low.

Energy is the most critical problem facing the country. Moldova suffers from dependence on energy imports from Russia and Ukraine, utilizes energy very inefficiently, and is not collecting fees from power consumers. This situation is increasing the national debt and jeopardizing the country's financial stability. The financial condition of the energy sector has reached crisis proportions, endangering the sustainability of the country's economic restructuring efforts. USAID and the World Bank are addressing the growing energy problem by supporting sectoral reform and privatization necessary to restore commercial operations and reduce losses and rising debt to Russia. In addition, the United States provided a special humanitarian grant for heating assistance during the 1999 winter for vulnerable institutions, such as hospitals, orphanages, schools, and where possible, to needy households.

Progress has been made in the structural reform of the economy, particularly in the liberalization of prices, finance and trade, and the privatization of State Assets. In addition, the new currency is stable, and inflation is relatively low. However, only limited success has been achieved so far in enforcing hard budget constraints and in restructuring the industrial and energy sectors. Because of the high fiscal deficit and slowness with some policy reforms, the International Monetary Fund (IMF) and the World Bank (WB) suspended loan disbursements in 1997. However, the IMF resumed loan disbursements in January 1999, and the WB is expected to begin loan disbursements in early 1999.

Other key challenges facing Moldova include: restoring the production sector, stimulating economic activity and foreign investment, progressing towards democratic reform and decentralization, accelerating enterprise restructuring, and strengthening the legal and financial framework for private sector development. To address these needs, USAID's strategy is to devote its resources to strengthening institutions and systems by focusing on restructuring and privatizing the energy sector, and assisting with post privatization activities, particularly in land reform, and decentralization efforts. Since 1992, the U.S., largely through USAID has supported a program that addresses multiple constraints to Moldova's economic and democratic transition. Most of USAID's assistance has been devoted to economic restructuring in an effort to promote an integrated approach to economic change and

growth in Moldova. A prominent feature of USAID's technical assistance program has been the use of pilots to test new concepts and approaches at the grassroots level. This approach allows USAID to maintain flexibility and shift resources, if necessary, and to train a cadre of host country nationals. Moldova's reputation as a reformer, as well as its compact territory, make it an ideal laboratory for testing innovative approaches to delivering assistance.

Other Donors.

The chief donors in Moldova are World Bank, IMF, USAID, EU-TACIS and UNDP. A variety of bilateral donors are involved in Moldova on a smaller scale and several have entered into co-financing arrangements with the World Bank as a way to concentrate resources and improve the impact of their assistance. Donors coordinate on a regular basis. USAID, IMF, IBRD, EBRD, EU-TACIS, UNDP, UNICEF and the American Ambassador meet monthly to discuss the overall reform environment, points of program coordination, policy problems and pending GOM legislation.

Since 1991, the World Bank has committed approximately $357 million in investment and technical assistance support. Initial work focused on emergency drought recovery, rehabilitation, and the first structural adjustment loan (SAL I) for $60 million. On-going efforts are in post-privatization reform (e.g., credit, automation of tax and banking systems, etc.), agriculture research and extension, health care reform, energy restructuring, and financing for a pre-export guarantee facility. Current programs cover basic education, private sector development, institutional framework for land titling and registration, water resources and transport, and the second structural adjustment loan (SAL II). Due to increasing poverty levels, it is expected that Moldova will become eligible in 1999 for assistance from the International Development Association (IDA), reducing the cost of World Bank loans to Moldova.

The European Commission committed $76 million over the 1991-1999 period, with priorities in: food production, processing and distribution; enterprise restructuring and development; energy; human resources development. UNDP projects in 1998 total $3.3 million and concentrate on strengthening judicial and legislative systems, some preliminary work in local government, and financing in conjunction with the World Bank for the Center for Strategic Studies and Reforms. The UNDP also supports management reform of public enterprises, promotion of foreign investment and trade, crime and drug prevention, and strengthening the role of women in Moldova's transition.

Bilateral donor's include, in addition to the U.S., Germany, Japan and the Netherlands. German Technical Cooperation in Moldova provides technical assistance in export promotion and integrated business service development. The Government of Japan has provided a variety of grants to assist preparation of World Bank loan projects, and the Government of Netherlands has entered into co-financing arrangements with the World Bank.

FY 2000 Program.

<u>USAID-Implemented Programs</u>: Under the economic restructuring goal, USAID priorities encompass business development, land and energy privatization, accounting reform, agribusiness partnerships as well as financial/monetary system restructuring. FY 2000 funding is requested for the following objectives: increased transfer of state-owned assets to the private sector; increased soundness of fiscal policies and fiscal management practices; accelerated development and growth of private enterprises; a more competitive and market responsive private financial sector as well as continued development of a modern capital market infrastructure; and, a more economically sustainable and environmentally sound energy sector.

Under the democracy and governance goals, USAID is focusing on increasing citizen involvement in economic and political life at the local level, and improving the management capacity of local governments. Activities include assistance in legal reform and election assistance, voter/civic education, non-governmental organization development, local public administration and independent media. FY 2000 funding is requested for increased better informed citizens' participation in political and economic decision-making.

Under crosscutting and special initiatives, USAID provides training and seed grants to local NGOs that provide social protection services to vulnerable groups. The Eurasia Foundation has promoted a market economy and civil society through programs focused on accelerating the growth of the private small business sector; improving business education and management training; reinforcing rule of law and citizens rights; increasing citizens' access to objective alternate sources of information, media and communications development; supporting governmental reform and non-profit sector development. Through the Counterpart Humanitarian Assistance Program (CHAP), USAID provides humanitarian assistance to social service NGOs and institutions, and responds to disasters such as the Hynchest floods in 1998, by providing emergency relief.

USAID will also continue to provide health-related assistance through medical partnerships, and the women's reproductive health program. Through the medical partnerships program, USAID is addressing mortality and

morbidity issues, and introducing market-oriented solutions to hospital and health care delivery and finance problems. Coordinated through the American International Health Alliance (AIHA), the partners are Hennepin County Medical Center in Minneapolis with the Chisinau City Ambulance Center, the Republican Clinical Hospital and the Medical University of Moldova. The women's wellness centers provide primary care treatment for the entire family with an emphasis on prevention. Training medical personnel in the handling of acute emergency care patients is implemented through the Moldovan Emergency Medical Training partnership. Through the women's reproductive health program, USAID is reducing infant and child illness, and death through an immunization program; improving the effectiveness of child survival programs through strengthening the local health systems; and, developing new approaches to service delivery, training and supervision, logistic and supply systems and management information dissemination.

Other U.S. Agency Programs: Included also with this request are programs implemented by other USG agencies. The request for cross-cutting and special initiatives, in particular, reflects expanded emphasis on the need to reduce the risks of proliferation of weapons of mass destruction through programs which enhance our mutual security. In addition, other USG agencies participating in technical cooperation programs with Moldova through inter-agency transfers from USAID include the U.S. Information Agency and the Departments of State and Treasury.

MOLDOVA

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	5,550	--	--	--	5,500
Fiscal Reform	2,300	--	--	--	2,300
Private Enterprise	9,700	--	--	--	9,700
Financial Reform	700	--	--	--	700
Energy	3,000	--	--	--	3,000
Environmental Management	--	--	--	--	--
Citizens' Participation	--	4,800	--	--	4,800
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	47,500	47,500
TOTAL	21,200	4,800	--	47,500	73,500
*FREEDOM Support Act (FSA) funds					

USAID Mission Director: Gregory Huger

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE AND NUMBER: Increased Transfer of State-Owned Assets to the Private Sector, 110-S001.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $5,500,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 2000

Summary: While the privatization program concluded in late 1995, privatization of residual state shares, unfinished constructions, and small-scale objects are critical for full ownership and management transfer of these assets to the private sector. Equally daunting is the challenge USAID is facing in supporting the GOM in its privatization efforts of agricultural and urban land. At the GOM's request, USAID is providing technical assistance to support the

break-up, land arrangement and title issuance work involving 550 farms plus 100,000 independent land owners who exited collective farms during 1992-96. The end result of this process will be the issuance of more than 1.6 million individual land titles to new private farmers. Concurrently, efforts will continue in the development of the legal and regulatory environment to support a fledgling land and real estate market, especially in the area of titling and registration. Land under privatized enterprises must also be privatized to ensure clear and unencumbered land titles. The direct beneficiaries of the achievement of the objective will include the Moldovan population at large, as Moldova is primarily an agricultural economy, and therefore, private ownership and possession of land titles are key to achieving market reform and attracting domestic and foreign investment. Also, privatization of the residual state shares will accelerate the restructuring of enterprises and strengthen the corporate governance process under way since 98% of the population directly participated in the mass privatization program. During this program, employees and managers of small to large-scale firms exercised preferential rights to ownership in their own enterprises.

Key Results: Four key intermediate results were concluded to be necessary to achieve this objective: (1) enterprises: 730 medium and large enterprises originally sold for national patrimony bonds are at least 90 percent private, in addition to 250 other enterprises not originally offered during the Mass Privatization Program; (2) farms: 550 state or collective farms broken up; (3) land titles: 1.6 million rural land titles issued to individual members of state or collective farms; (4) land acquisition: 300 enterprises acquire associated land and titles.

Performance and Prospects: Performance over the past year has been as expected or better, however problems have occurred.

USAID technical assistance has produced significant results in land privatization and in streamlining the legal and regulatory environment. The GOM adopted a decision to streamline the rural land titling and registration procedures, resulting in lower actual and transaction costs. It has also succeeded in streamlining land titling and registration procedures, which have been simplified so that an exact survey of the privatized land is no longer required. More important, these processes are now done at the local level rather than the central level. Private survey firms have been allowed to flourish and have begun operating as private sector entities. This represents an extraordinary event and unique to the former Soviet Union, as this is the first instance in which this many individual titles have been issued utilizing private survey firms and at a dramatically reduced cost from $40 to $8 per land share.

Of the 1,142 medium and large enterprises originally sold for National Patrimony Bonds (NPB) during the Mass Privatization Program only 62 were 100% privatized. A new mechanism for the cash sale of residual state-owned shares was implemented. The Residual Share Regulation determined that residual shares would be sold through the Moldova Stock Exchange. Of the 595 enterprises whose residual shares were offered in this manner, shares of 200 enterprises were sold. Despite this progress, results were somewhat below expectations. The remaining unsold shares remain unattractive at the GOM-set prices and represent repeat offerings of enterprises. Low demand reflects both the poor state of the enterprises offered for sale, and the lack of financial resources of the general population. The population at-large showed little interest due to lack of financial resources, possibly insufficient advance notice and too little information on the enterprises offered for sale.

Possible Adjustment to Plans: There are no major program adjustments contemplated during the coming year.

Other Donor Programs: USAID works closely with the World Bank and International Monetary Fund in setting common privatization targets and garnering support in Parliament for privatization laws and other issues.

Principal Contractors, Grantees, or Agencies: East-West Management Institute is the implementor of the rural land privatization program, while Booz Allen & Hamilton is implementing the urban land privatization component and all aspects of land titling and registration. International Business & Technical Consultants, Inc. is the contractor providing technical assistance and support for the sale or disposition of residual state owned shares.

Selected Performance Measures:

	Baseline	Target
Number of land titles issued (cumulative)	0 (1995)	1,850,000 (2000)
Market-based land pricing system implemented	No (1995)	Yes (2000)

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: Increased Soundness of Fiscal Policies and Fiscal Management Practices. 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY2000: $2,300,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Summary: Fiscal reform is key to the success of Moldova's transition. Its success or failure will impact the long-term viability of other objectives. USAID has, therefore, provided tools and training to Ministry of Finance (MOF) staff in the areas of tax policy, tax analysis and revenue forecasting, tax administration, computerization of tax collection. More recently, in response to concerns voiced by the IMF and World Bank, and the withdrawal of a U.S. Treasury Budget Advisor, USAID has also been providing technical assistance to the MOF on budget process and intergovernmental finance. In addition, USAID has also assisted the Parliament to develop its legislative drafting and analysis capacity, particularly in the tax and budget areas. Under its auspices, a Center for Budgetary and Financial Analysis has been established to advise the Parliament. U.S. Treasury advisors were instrumental in helping the MOF in budget law, budget classification, organization of a Treasury, and implementation of a computerized budget execution, accounting and cash and debt management system proposed and assisted by the IMF. However, as indicated, the U.S. Treasury is phasing out its involvement in Moldova. Fiscal reform is proving to be a long, arduous task involving many steps, but Moldova has been making steady, albeit slow, progress.

Key Results: Three key intermediate results are necessary to achieve this objective: (1) budgeting and financial management practices are reformed; (2) a market-oriented tax system that encourages compliance is created; and (3) Parliament acts effectively on fiscal reform.

Performance and Prospects: Moldova has achieved steady progress in its fiscal reform program. Most of the targets have been met. The single tax code has advanced considerably, with the passage of the corporate and individual income tax law and the value-added tax law. Implementation of these laws has proceeded on schedule, and tax administration is being aided by the implementation of a computerized system with USAID technical assistance under a World Bank loan. In addition, the MOF has established a training center with USAID assistance. This will help with implementation of new tax laws and tax administration techniques, as well as with development of other MOF functions. Training activities have been undertaken in related areas, notably international accounting standards.

Improvements in the MOF’s budget preparation process moved ahead, with the adoption of detailed budget instructions for the 1998 budget, including ministry expenditure ceilings, and continuation of these practices for the 1999 budget. The treasury system has also advanced, with the opening of the Chisinau regional office and the installation of computerized systems that now handle virtually all government financial transactions. Moldova is also proceeding with decentralization in the form of establishment of regional entities. However, not all of the details as to how these entities will operate have been spelled out, nor it is clear whether there will be any expenditure savings as a result of this development. USAID advisors are now providing technical assistance in the areas of budget process and intergovernmental finance, with the objective of helping to improve financial management and strengthen the financial condition of local governments. Toward the latter end, efforts are in progress to develop a real property tax system in Moldova, as a component of the tax code.

In addition, the USAID-assisted Center for Budgetary and Financial Analysis has enhanced Parliament’s capacity to deliberate on budgets and other economic policy legislation. However, political divisions within the Parliament have complicated this task.

Despite real progress on fiscal reform, concerns about Moldova’s economy and budget persist. The GOM continues to fall short of IMF budget deficit targets, owning largely to expenditures in excess of plan targets. The economy continues to be problematic, and energy shortages have become acute as supplies are interrupted due to payment arrears. While further progress is expected on tax reform and other fiscal measures, along with gains from the implementation of new tax laws, Moldova needs to make a more concerted effort to comply with its IMF program and spur the growth of its private economy if it is to pursue realistic fiscal policies.

Possible Adjustments to Plan: Work is proceeding according to Plan.

Other Donors Programs: The World Bank has provided a $1.9 million loan for computerization of the State Tax Service, with USAID providing the technical assistance necessary for the procurement of the computer equipment and, more recently, the development of systems for implementing the computerization, which is expected to take

additional time. The IMF is providing assistance to the MOF in macroeconomic analysis and development of the treasury system. GTZ and various other donors are assisting with reform of customs law and procedures, which complements USAID's efforts on VAT and excise taxes..

Principal Contractors, Grantees, or Agencies: The contractor for USAID's tax reform, budget process, intergovernmental finance and parliamentary development activities is KPMG/Barents Group. The USAID-funded U.S. Department of Treasury has an advisor assisting with government securities issuance, but this activity may be discontinued when the current contract expires.

Selected Performance Measures:

	Baseline	Target
Government meets IMF deficit targets	No (1996)	Yes (2000)
Comprehensive budget law adopted and implemented	No (1995)	Yes (1998)
State budget revenues equal or exceed forecast level	No (1995)	Yes (1998)
Treasury system operational, centrally and locally	No (1995)	Yes (1999)
Ratio of cost of tax administration to tax collection decreases	No (1995)	Yes (2003)

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: Accelerated development and growth of private enterprises, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $9,700,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: The success of Moldova's transition hinges on the ability of the private sector to attract private investment, expand production and increase exports. To help in this process, USAID focuses on removing the impediments to sustained enterprise growth, and trade and investment. Advisors continue to work on developing a sound legal and regulatory framework conducive to sustained growth through business advocacy and stronger Parliament analysis of proposed legislation. Cooperative U.S.-Moldovan efforts are promoted to increase firm-level investment, competition and productivity. Privatized and start-up businesses will benefit directly from these activities, but specific focus will be on restructuring the agro-industrial complex, including food processing, marketing, equipment and services suppliers, as well as light manufacturing, construction and the service industry.

Key Results: Three key intermediate results contribute to accelerated development and growth of private enterprises: (1) firms: private sector firms operating and generating employment, business management consulting industry developed, USAID business networks expanded, and business training widely available; (2) investment: increase in total foreign direct investment, and commercial laws and international accounting standards adopted and implemented; (3) joint ventures: 15 joint ventures created and Moldovan firms created and strengthened to include seven farm service centers and eight agriculture processing enterprises, increase in amount of U.S. private investment leveraged by the joint ventures, and venture equity or debt supplied to Moldovan businesses. Three other strategic objectives complement the efforts under this objective; they are increased transfer of state-owned assets to the private sector, increased soundness of fiscal policies and fiscal management, and a more competitive and market-responsive private financial sector.

Performance and Prospects: Performance over the past year has been as expected or better, although Russia economic crisis has put financial pressure on enterprises due to payment arrears and decreasing orders. USAID assistance is helping Moldovan firms look to other, more stable markets.

Progress is growing in the availability and flow of business-related information and services. The *Economic Review/Logo Press* is one of three profitable periodicals in Moldova, and unlike others, contains about 60 percent paid advertising. Paid subscriptions account for about half the circulation, with 40 percent of it is outside of Chisinau. The periodical added a section on legal and regulatory information, which increased its size from 32 to 40

pages. The same publisher started a business-related newspaper whose circulation has grown to 2,000 despite a 30 percent increase in price over the start-up price. There is a growing market of people willing to pay for business information and services.

The NewBizNet Center is approaching self-sufficiency faster than expected. It became employee-owned in 1997 and had 314 participants/clients and 145 paying customers. As of January 1998, monthly revenue was $9,805. The Center estimates $10,000 as the break-even point.

Possible Adjustments to Plans: USAID will strengthen the policy reform component, pursuing more direct input on deregulation, and building linkages between Moldovan and Ukrainian policy reform efforts.

Other Donor Programs: USAID coordinates with the United Nations Development Programme and EU-TACIS to provide technical assistance and funding for business service centers that help small and medium-sized business managers improve business plans and management skills. USAID also coordinates with the German assistance agency regarding World Trade Organization (WTO) accession.

Principal Contractors, Grantees or Agencies: Development Alternatives Inc. provides business support services. Peace Corps provides business volunteers to advise the Moldovan managers of the business service centers. Citizens Network for Foreign Affairs (CNFA) provides funding for technical and other assistance to develop business partnerships through American investment in the country's agriculture sector. IRIS builds Moldovan capacity for drafting good commercial legislation. The Alliance provides volunteer executives to work in Moldovan enterprises, business associations, and business service providers. The West NIS Enterprise Fund makes debt and equity investments in Moldovan firms.

Selected Performance Measures:

	Baseline	Target
Number of MBA graduates from Moldovan state institutions (cumulative)	50 (1995)	1,500 (2000)
Number of companies listed on stock exchange with financial statements conforming to international accounting standards (cumulative)	0 (1995)	70 (2000)
Compliance with trade standards of World Trade Organization (WTO)	No (1995)	Yes (2000)
Number of Farm Service Centers established	0 (1995)	7 (2000)
Number of agriculture processing centers established	0 (1995)	8 (2000)

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: A More Competitive and Market-Responsive Private Financial Sector. 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $700,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2000

Summary: Moldova is still a largely cash economy and the financial sector is underdeveloped. The development of a strong and dynamic market-based economy requires an effective, transparent and safe financial sector. USAID strategy emphasizes the creation of a private banking sector together with the creation of a transparent and open securities system. The revitalized banking sector will provide a vehicle to transfer ownership and funds between individuals and enterprises, and a sound capital markets environment to facilitate restructuring of enterprises and provide them with a flexible source of funds for investment. The beneficiaries are the National Bank of Moldova and virtually all the larger banks in the country that have both sent employees to a USAID-funded training center and received direct training in the conversion to international accounting standards. By extension, depositors and borrowers will benefit, as will firms and their employees that access securities markets and the financial intermediaries - banks, brokerage firms, etc. - that participate in the financial market. Last year was obviously a difficult one for the banking systems in the former Soviet Union countries particularly after the Russian default in August. Moldova was not an exception, although the crises was not nearly as severe as in Russia. Importantly, there was no debt moratorium. Loans were rescheduled in an orderly fashion weak creditor agreement.

Key Results: Three intermediate results are necessary and sufficient to achieve this objective: (1) private banking: market-oriented private banking sector developed through development of a modern, standardized accounting system, increase in depository savings, and an increase in banking sector competition; (2) policies: government macro and structural adjustment policies support market reform; (3) securities system: transparent and open securities system will perform the function of direct intermediation of capital from savings to the private sector.

Performance and Prospects: Performance was largely in line with projections.

During the year the NBM Supervision Department has make significant strikes in developing a computerized system of analyzing financial data in order to give signals in developing of potential problems of both individual banks and the banking system while the banks have deepened the level of IAS reporting during the year, as well as made some progress upgrading their financial reporting, what is by and large still lacking is conceptual understanding of how IAS can assist in risk analysis and more efficient bank management. This is a progress which will take some period to transmit.

A significant part of USAID's work concerns the development of the financial infrastructure. There is a large USAID project to convert the banking system to international accounting standards (IAS) and upgrade the back office functions of commercial banks. In January 1998, the conversion to IAS took place. USAID also assisted in establishing Moldova's Securities Commission, the Stock Exchange, and Securities Depository.

Possible Adjustments to plans: There are no major program adjustments contemplated during the coming year.

Other Donor Programs: In the division of labor among the donors, the International Monetary Fund has been assisting the National Bank with its on-site inspection program and legal work while USAID has been developing the Bank's loan capacity, off-site inspection program, and conversion to International Accounting Standards.

Principal Contractors, Grantees, or Agencies: Barents-KPMG, Financial Services Volunteer Corps are implementing USAID's banking support activities. The capital markets assistance implementors were The Intrados Group and Price Waterhouse.

Selected Performance Measures:

	Baseline	Target
Commercial bank credit to private enterprises and households (as % of total bank credit)	35% (1995)	55% (2000)
Equity capital of private banks (as % of assets of total banking system)	15% (1995)	30% (2000)
International accounting standards adopted by commercial banks	No (1997)	Yes (2000)
Number of corporations filing quarterly reports with State Commission on Securities Markets (cumulative)	0 (1996)	100 (2000)
Number of listings on Moldovan Stock Exchange	0 (1998)	800 (2000)
Volume of shares traded on MSE	0 (1998)	$3 mil. (2000)

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: A More Economically Sustainable and Environmentally Sound Energy Sector 110-S001.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $3,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2000

Summary: There appears to be consensus among experts that failure to restructure the energy sector will jeopardize Moldova's gains in economic reform. Large debts have built up to Russia Gazprom due to commercial and technical losses in the power and gas sectors. Energy sector restructuring is expected to move towards demonopolization and privatization and include transfer to the private sector of the role of importation and supply of oil products, gas and electricity. The GOM is moving ahead with privatization of the power sector designed to attract strategic

international electric utilities. USAID and the World Bank are supporting the privatization effort as well as the energy sector framework. The GOM, with USAID's assistance, has established an independent energy regulatory body, moved forward on tariff reform and passed electricity and gas laws. The State Department of Energy, Moldtranselectro, Moldovagas, Fossil-fuel power plants (Chisinau CHP#1, CHP#2) will directly benefit, and the environment and consumers of energy resource will indirectly benefit from subsequent improvements.

Key Results: There are three intermediate results required to achieve this strategic objective: (1) subsidies, efficiency, tariffs: reduce budgetary subsidies, increase efficiency and keep costs down, introduce market-based wholesale/retail tariffs; (2) profits: increase profits at two major power plants; (3) policy: GOM meets World Bank energy sector restructuring conditions and requirements.

Performance and Prospects: Performance over the last year has been as expected.

The National Electricity Regulatory Commission (ANRE) is functioning, so licenses and tariffs are set by them in order to assure that companies are operating to market-based rules. The power generation and distribution system was restructured into three generating companies and five distribution companies. The licenses for electricity production, transmission and distribution were issued by ANRE in 1998, and all power assets are expected to be privatized in 1999.

Technical and financial assessment of the power utilities have been completed (for privatization purposes). An old, soviet-type tariff methodology was replaced with a cost-based methodology, critical for power sector financial solvency. A new tariff for electricity based on the new cost-recovery methodology has been introduced. Market development is in a process, and requires further assistance to Moldtranselectro enterprise. Both Strategic-based Privatization Concept and Individual Companies' Privatization Plans have been ratified by the Parliament of Moldova in spring-fall of 1998. At the moment, all pre-qualification documents are ready for the next Phase II (tender and transaction) process. It is planned that a qualified Foreign Investment Bank will deal with tendering of companies, recommend winners, and does assets transaction to the new, private owners.

Possible Adjustments to plans: In 1999 a new contractor (Deloitte Touche - DTT) will initiate the phase II privatization task.

Other Donor Programs: USAID coordinates with the World Bank, EU-TACIS and EBRD.

Principal Contractors, Grantees, or Agencies: USAID's energy sector activities are implemented by Hagler-Bailly Consulting, Inc., the US Energy Association, and Deloitte Touche.

Selected Performance Measures:

	Baseline	Target
Restructured energy utilities	0 (1996)	8 (2000)
Elimination of budgetary subsidies for power and gas	No (1996)	Yes (2000)
Number of privately-owned utilities operating	0 (1996)	8 (2000)
Independent regulatory agency established	No (1996)	Yes (2000)

ACTIVITY DATA SHEET

PROGRAM: MOLDOVA
TITLE: Increased, Better-informed Citizen's Participation in Political and Economic Decision-Making at the Local Level. 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: $4,800,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1999; **ESTIMATED COMPLETION DATE:** FY 2005

Summary: Improving the capacity of local governments to manage resources and provide services is crucial to the success and sustainability of Moldova's overall reform effort. Assistance at the local level not only has visible impact on people's lives, but also improves public perceptions of and experience with democracy and economic reform. In cities, towns and villages, the interaction between citizens and government is most vigorous. There is evidence that local governments with the capacity to exercise well-informed choices in partnership with citizens and

civil society can solve problems, identify and maximize opportunities, narrow the gap between resources and responsibilities, and engage the central government on policies that encourage local initiative.

The strength of USAID's community-based approach lies in the fact that U.S. assistance results in tangible evidence that priority community concerns can be addressed more effectively through local government initiative and citizen participation. USAID/Chisinau will promote: (1) democratic governance -- transparency, accountability, responsiveness, citizen participation and effectiveness; (2) improved fiscal and financial management, including the development of operating and capital budgets, financial planning, business and investment plans, and economic development plans; (3) improved management capacity and administrative practices; (4) improved services delivery; and (5) strengthening of the Association of Mayors and other major non-governmental organizations that are involved in local government training, education and advocacy.

These programs are mutually supportive of programs under other strategic objectives that increase citizen participation, build citizen confidence in political processes, and strengthen the rule of law. In addition, fiscal reform efforts under S.O. 1.2, particularly the restructuring of the intergovernmental finance system and the adoption of a new Law on Local Public Financing, will make an essential contribution to the achievement of this objective. Finally, as development at the local level is truly a cross-cutting issue, objectives in the areas of economic growth, business development and health that promote development or address citizen needs and concerns at the local level reinforce the efforts of activities under this objective.

The principal beneficiaries of these programs are mayors, local government elected officials, city/town/village administrators and policy makers through increased local authority and improved management. The citizens of these communities benefit through improved services and greater transparency of government operations.

Key Results: USAID will consider progress towards the achievement of this strategic objective on track as targeted local governments and citizens begin to work together to solve priority community problems and to identify opportunities for future development. These efforts will bring about tangible improvements in service delivery. Sharing positive experience and lessons learned with other local governments in Moldova and in the region will facilitate the duplication of effective approaches in other localities, enabling a broader impact of USAID programming.

Performance and Prospects: Program activities will begin in Moldova the spring of FY 1999. Based on a recent Local Government Needs Assessment, done by Development Associates, Inc., it is clear that progress toward democratic reform and decentralization can be made in Moldova, and that this is a pivotal time for USAID technical assistance and training, particularly given the recent passage of several key laws in local public administration and administrative and territorial reform. In addition, few organizations and donors have been providing training and education of local government officials, but the need is great, in terms of public administration in general as well as targeted to specific needs. There is also a role for public information and education, focussing on citizen awareness of democratic governance and their role and responsibilities, and of the new legislation and its impact.

Possible Adjustments to Plans: Given that this program has not started yet, there may very well be future adjustments.

Other Donor Programs: Only a few donors and international organizations are working to strengthen local government, including UNDP, EU-TACIS, World Bank and Soros Foundation.

Principal Contractors, Grantees, or Agencies: Unknown.

Selected Performance Measures: This objective is still in the design phase and performance measures have not yet been determined.

ROMANIA

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Support for East European Democracy	$37,119,000	$36,000,000	$30,000,000

Introduction.

A democratic and free market Romania is of paramount importance to the United States. Continued progress in Romania serves to fortify the deepening democratic and free market traditions in the whole of Southeast Europe. Success will bring stability and prosperity to a country with great potential and with a pivotal position near strife-riddled areas and countries still trying to make the transition. Success will facilitate expanded trade not only between the United States and Romania, but the rest of Europe as well, thereby accelerating Romania's integration into the west. Failure could plunge Romania into worsening poverty and humanitarian conditions, produce gains for extremist political parties, exacerbate environmental problems, and undermine the delicate progress being achieved throughout the region. Therefore, assistance supports U.S. economic, democracy, global, and national security interests.

The Development Challenge.

Romania's performance in 1998 was marked by hesitation and the inability to build upon the momentum gained in 1997. The Government of Romania (GOR) moved slowly on needed economic policy changes and implementing reforms. However, the GOR did take steps to deepen democracy by strengthening the role of and the resources available to local government and by making progress on social and environmental issues. At year's end, the GOR began privatizing major state-owned industries and closed large loss-making entities. If the GOR follows through, the atmosphere for economic growth will improve substantially in 1999. The United States continues to adapt its assistance to areas which will help Romania achieve greater success over the next two years.

Opinion polls show broad consensus in favor of reform, but also demonstrate frustration over its pace and current results. The GDP is expected to fall about 5% in 1998. Inflation dropped from 140% in 1997 to 42%, and the exchange rate devalued by 23%. Exports declined by about 2%, while imports rose over 3%. Close to 60% of the economy now is in private sector hands, although this level falls below expectations. The GOR kept a tight rein on money supply, which contributed to lower inflation, but also constricted growth. Foreign direct investment increased but slowly, reaching $620 million through the 3rd quarter. Lack of decisive action slowed reform and caused the suspension of the IMF Stand-By and World Bank Structural Adjustment Loan (SAL) agreements.

In U.S. assistance areas, significant policy advances were made to stimulate agricultural growth, and stronger private sector institutions helped improve farmer and processor incomes. The Romanian American Enterprise Fund (RAEF) loaned about $35.0 million to firms of all sizes, generating growth and creating jobs while maintaining a 99% repayment rate. While privatization advanced by more than 1,000 primarily small and medium enterprises, it fell 50% short of the target. In November, the GOR privatized the telephone company with U.S. private sector participation. It began to move on liquidating loss making firms. The Local Public Finance Law passed, giving greater powers to local governments to address citizen needs. The Ministry of Finance is modernizing tax administration, which will contribute to stabilizing revenue generations. Fiscal reforms took hold as government securities are now successfully utilized to raise revenues which finance nearly 50% of the budget deficit. The stock market functions, although trading fell well below expectations, due to uncertainty in emerging markets. Bank supervision assistance to the National Bank of Romania has begun to set the framework for effective market-based regulation of the banking sector. This will lead to stability and greater access to credit. Bank privatization has logged, partly due to the impact of the Russian financial collapse, but mainly due to the failure of the GOR to move ahead with privatization. Energy sector restructuring inched ahead, increasing the chances for more private

investment.

USAID's support to Romania's democratic transition helps improve the effectiveness of the executive and legislative branches of government and increases citizen participation in decision-making, primarily through non-governmental organizations (NGOs) and local governments. Parliament improved constituency outreach services. The Prime Minister's office improved internal management functions. Key legal and regulatory reforms streamlined judicial proceedings. Dozens of NGOs improved service delivery. NGOs banded together to push legislation to promote charitable giving. Local governments received greater authority and improved their management capacities. Opinion polls show a higher level of confidence in local officials than any other civilian leaders.

Social sector programs target reforms in women's health and child welfare. USAID's community-based methodology promotes decentralization and provides alternatives to institutionalization. This approach has been endorsed by the GOR and is now being adopted by other donors. USAID's emphasis on primary health care has had strong results, i.e., over a 50% reduction of maternal mortality, increased use of safe family planning methods, and the spread of small, private clinics. The Department of Labor continues to help displaced workers develop skills and open small enterprises.

Despite gains, Romania still confronts serious problems. Reforms are required across the economic spectrum: farmers and small businesses need technical assistance, new opportunities for U.S. private sector trade should be exploited, the financial sector does not yet support the market system, the fiscal system provides huge investment disincentives, environmental problems still persist, the central government is plagued by administrative inefficiencies, corruption must be addressed, local government needs assistance to implement new responsibilities, NGOs can play a greater service delivery role, health sector reforms must be deepened, safe family planning methods need greater exposure and further support to deinstitutionalize the child welfare system is necessary.

Other Donors.

USAID assistance ranks fourth behind the World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Union (EU). SEED resources are coordinated with other donors and leverage substantial financial contributions from multilateral banks. In some cases, USAID provides the technical assistance component to the loan, as in the energy sector and employment services. The World Bank's portfolio of around $ 3.8 billion, focuses on energy, agriculture, privatization and financial reform, employment services, industrial pollution, health rehabilitation and social development. The EBRD investment is about $250 million annually, with projects in energy, municipal utilities and financial sector. The EU has about $130 million for 1998-2000 in areas such as banking, small and micro-lending, democracy, social sector, health and environment.

FY 2000 Program.

USAID will adapt its program to invest in areas having the greatest chances for impact in advancing economic growth, democracy building and social sector restructuring. FY 2000 funding is requested for the following strategic objectives in privatization, private enterprise growth, financial sector reform, energy sector restructuring, environmental management, citizens' participation, local government, and improved welfare of women and children. USAID will expand assistance to build agribusiness and small/medium business associations to better service clients and advocate policy changes, spur privatization and increase U.S. trade opportunities, continue fiscal reforms and expand the private banking sector. Democracy-building priorities include solidifying authority and fiscal control at the local level, strengthening the role of NGOs, training young political leaders and judicial reforms, including anti-corruption. USAID will pursue health system improvements, continue child welfare reform and emphasize private sector solutions and local control. Under special initiatives, FY 2000 funds will focus on training in support of the other objectives.

ROMANIA

FY 2000 PROGRAM SUMMARY*
(in thousands of dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	2,825	---	---	---	2,825
Fiscal Reform	---	---	---	---	---
Private Enterprise	8,475	---	---	---	8,475

Financial Reform	1,200	---	---	---	1,200
Energy	3,000	---	---	---	3,000
Environmental Management	1,000	---	---	---	1,000
Citizen's Participation	---	3,500	---	---	3,500
Legal Systems	---	---	---	---	---
Local Government	---	3,400	---	---	3,400
Crises	---	---	---	---	---
Social Benefits	---	---	4,500	---	4,500
Environmental Health	---	---	---	---	---
Cross-cutting/ Special Initiatives	---	---	---	2,100	2,100
TOTAL	16,500	6,900	4,500	2,100	30,000
* Support for East European Democracy (SEED) Act funds					

Mission Director: Peter Lapera

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: Increased Transfer of State Assets to the Private Sector, 180-SO01.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $2,825,000 SEED Act
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** FY 2000

Summary: In 1993 when USAID began assistance in privatization, almost 100 per cent of Romania's economic assets were state-controlled. Steady but unspectacular progress has been made in transferring state assets. Most activity has centered on small and medium firms. The purpose of this SO is to increase the proportion of economic assets owned by the private sector and thus to form the basis of a Western-oriented, market driven economy. USAID assistance has established a share registry and an over-the-counter market (RASDAQ) for the sales and trading of shares of privatized companies. The effectiveness and transparency of the RASDAQ to sell off state shares has been demonstrated. USAID continues to provide advisory assistance in privatization, banking supervision and fiscal policy. The beneficiaries are the people of Romania who can participate in privatization and share in the benefits of increased prosperity that will come from a market-based economy.

The U.S. Treasury Department provides three advisors to the Ministry of Finance. A Government Debt Advisor provides assistance in establishing a system of government securities. A Budget Advisor helps make improvements in the budget process and fiscal management. The Tax Administration Advisor provides technical assistance and some training in tax returns processing and collections, tax payer services and case unit operations to improve government revenues.

Key Results: Two intermediate results contribute to the achievement of this objective: (1) decreased percentage of state assets retained; and (2) increased number of companies privatized.

Performance and Prospects: Performance during FY 1998 has shown gradual progress with 58% of GDP attributed to the private sector. After providing assistance in drafting improved privatization legislation in early FY 1998 and helping to develop the government's institutional capacity to complete mass privatization, USAID has held assistance waiting for the government to demonstrate its political will to complete privatization. Late in the year, the GoR privatized the phone company, an oil refinery and a bank; another major bank is positioned for privatization in January, 1999.

While short term prospects in achieving results is promising, progress will be difficult to assess insofar as the number of companies, both private and state-owned, continue to increase due to new business start-ups, and restructuring and dismantling of state-owned enterprises and utilities. Having fallen short of previous targets, the government has set ambitious privatization targets for the coming year and these are reinforced by World Bank conditionalities.

The U.S. Treasury Advisor on Government Securities had success in the treasury bill program which, in conjunction

with dollar-denominated securities, serves as an effective revenue raiser financing nearly 50% of the budget deficit in 1998. The Budget Advisor is helping to institute program budgeting and contributed to the Local Public Finance Law which passed this year. The Tax Administration Advisor has initiated a broad training effort to develop the GoR's capacity to administer the new tax law which goes into effect in 1999. Political uncertainty impacting policy decisions and restructuring at the Ministry of Finance throughout 1998 have hindered the efforts of the U.S. Treasury advisors.

Possible Adjustments to plans: Over the next year, USAID will revise its approach to respond to the government's renewed interest in completing privatization. This will involve assistance beyond FY 1999, the original target date for completion of this objective. The U.S. Treasury advisory program will continue through 1999 with an expanded effort in tax administration.

Other Donor Programs: USAID is chiefly responsible to assist its counterpart, the State Ownership Fund in the sale of its portfolio of small and medium enterprises. The World Bank provides investment advisors to prepare the sale of large companies to strategic investors. The EU provides technical assistance for direct negotiations with potential investors for larger companies. French-sponsored consultants assist in bank privatization. Technical assistance from the Canadian aid agency (CIDA) has been targeted at the Bucharest Stock Exchange (BSE).

Principal Contractors, Grantees or Agencies: Carana's privatization assistance consists of a providing a privatization advisor to the State Ownership Fund.

Selected Performance Measures:

	Baseline	Target
Percent State Assets Retained	~100% (1993)	15% (2000)
Number of Companies Privatized	1304 (1997)	based upon GoR target to be presented to Parliament in early 1999

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 180-SOO 1.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $8,475,000 SEED Act
INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE:** 2002

Summary: The private sector continues to grow and now contributes almost 60% of GDP. However, significant impediments remain, including a continuing, pervasive state presence, stalled privatization of state-owned enterprises, lack of access to capital and management know-how, and a difficult legal and regulatory environment. USAID's legal and regulatory assistance in competition, bankruptcy, securities and judicial reform, which will contribute to commercial dispute resolution, is reported elsewhere. Agriculture sector assistance to trade associations and citizen coalitions has helped to improve policy and regulations impacting farmers and processors. Through the Romanian-American Enterprise Fund, $35 million in loans and venture capital was provided to 15 medium-sized private companies, $1.5 million for 23 small loans, and $1.5 million for micro-loans to 227 micro-enterprises. The repayment rate is 99%. USAID assistance has facilitated technology transfer and enterprise restructuring and offers marketing and management support services on a firm-by-firm basis. The direct beneficiaries of the achievement of this objective are the private entrepreneurs of small and medium-sized enterprises.

Key Results: Three key intermediate results will contribute to the achievement of this objective: (1) improved policy/legal and regulatory framework supporting private enterprise development; (2) increased capital investment in private enterprises; and (3) improved management practices adopted by enterprises.

Performance and Prospects: Performance over the past year has been mixed. The long process required to draft legislation and gain consensus for passage impedes progress in legal and regulatory reform. This year the Parliament passed only two laws required by IMF conditionality.

While foreign direct investment has increased (about $620 million through three quarters in 1998), it is far lower than comparative Central European economies and it does not come close to meeting the capital needs of the

approximately 700,000 small and medium private enterprises nor the several thousand large and newly privatized companies.

Progress is being made on a firm-by-firm basis in improving marketing, production and management, restructuring former state-owned enterprises and building the capacity of business support organizations and professional associations. In the longer term, however, the overall investment climate must improve, and associations must play a greater role in facilitating growth.

Possible Adjustments to plans: Future USAID assistance will help address the key constraints to enterprise development and will target agricultural and small/medium enterprises working through associations to have a wider impact. In addition, USAID will coordinate much closer with other donor programs, which are providing significant financial resources. This approach offers the comparative advantage of reaching more than 42% of Romania's workforce. The further development of small and medium enterprises and agribusiness can become a significant engine of growth to drive other sectors forward and inspire support for further legal and regulatory reforms.

Other Donor Programs: Support from the Romanian government, totalling about $12 million, includes subsidized credit to small enterprises, credits for job creation, support for business start-ups, co-funding for export-oriented enterprises, and the establishment of a state co-guarantee fund for small and medium enterprises. The World Bank's Redeployment Program (with assistance from the U.S. Department of Labor) provides $8.5 million for micro lending and business support; and, its Industrial Development Project provides $63 million in support to export companies through Romanian banks. The EBRD offers $58 million in credit through the Romanian Development Bank to support restructuring and privatization; $50 million credit for both state-owned and private companies in agriculture, food, forestry and aquaculture; and, together with the EU, co-finances investments in private or privatized companies. Significant European resources are also available through EU-PHARE (more than $50 million) and the German and Swiss governments. Smaller credit programs are offered by UNDP, the Canadian government and the Soros Foundation.

Principal Contractors, Grantees or Agencies: Current contractors and grantees include, the Romanian-American Enterprise Fund, Citizens Democracy Corps, ACDI/VOCA, Land O'Lakes, Aid to Artisans and the U.S. Peace Corps.

Selected Performance Measures:

	Baseline	Target
Percent of annual GDP from the Private Sector	45% (1995)	65-70% (2000)
Annual level of foreign direct investment (USD million)	$300 (1995)	$800 (2000)
Average increase in sales for USAID-assisted firms	5% (1995)	25% (2000)

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: Development of a Competitive, Market-Oriented Financial Sector, 180-SOO1.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $ 1,200,000 SEED Act
INITIAL OBLIGATION: FY 1993 **ESTIMATED COMPLETION DATE:** 2002

Summary: The purpose of this objective is to improve the efficiency and soundness of financial intermediation and ultimately to increase the availability of private capital. Financial sector assistance also supports investment promotion. Capital markets assistance was intended to complement the mass privatization program and empower citizens to participate in a market economy. Initial progress was remarkable in terms of the rapid growth in secondary market activity and the volume of trading on the RASDAQ. However with stalled privatization, shrinkage of the Romanian economy, and contamination from Russian and the Asia crises, USAID is reassessing the form of its intervention. In response to improvements in the legal framework for the banking industry, a partnership with the National Bank's (NBR) Banking Supervision Department was initiated in 1997 to train qualified examiners to conduct on-site and off-site supervision of State and private banks. The expanded banking supervision program is intended to help Romanian banks decrease the risks as well as increase public confidence in the banking sector.

USAID continues to provide training and technical assistance in competition and bankruptcy law to enhance the legal framework and strengthen proper regulatory enforcement of the financial sector. A small cadre of retired executives from the Financial Services Volunteer Corps (FSVC) provides advisory assistance to contribute to the development of financial institutions.

Key Results: Two intermediate results will contribute to the achievement of this objective: (1) decrease in percentage of banking assets in state hands; and, (2) increased availability of private capital through private financial intermediaries.

Performance and Prospects: The framework for capital markets has been largely established. USAID is reassessing its participation to determine what future efforts will best increase the effectiveness of private financial intermediaries. When USAID assistance to the Privatization Operations Center (POC) ended in September 1998, the POC 's staff, equipment and expertise were absorbed by the State Ownership Fund (SOF).

The NBR has only recently begun to permit bank supervisors to make off-site inspections. However, the NBR Chairman has demonstrated increased understanding of the importance of the training program and has now begun to institute program recommendations. This latter development will increase the effectiveness of USAID's banking supervision program and an expansion is planned in 1999. This effort will help strengthen the private banking sector.

Training has been provided in bankruptcy and competition law to more than 150 judges, inspectors and their professional staffs, but because judicial understanding of new laws is weak and enforcement is still less effective than desired, additional training will be necessary. FSVC support to private financial sector institutions will continue through FY 2000.

Possible Adjustments to plans: The expansion of the banking supervision program will progress with the National Bank's responsiveness. New demands may arise when bank privatization gets underway.

Other Donor Programs: USAID's financial sector assistance helps to leverage the programs of international financial institutions by directly complementing World Bank objectives and helping the Romanian government to meet conditionality established by the IMF. EU-PHARE support was provided to develop another share registry, but has not been successful. Canadian assistance has gone to the Bucharest Stock Exchange. USAID banking supervision program coordinates closely with EU-PHARE and French advisors to insure consistency with EU accession requirements.

Principal Contractors, Grantees or Agencies: The Barents Group conducts USAID's Banking Supervision Program, Carana provides training in bankruptcy and the Federal Trade Commission along with the Department of Justice provide training in competition. Volunteers from the FSVC also contribute to financial sector development.

Selected Performance Measures:

	Baseline	Target
Decrease in percentage of banking assets in state hands	70% (1997)	50% (2000)
Increased availability of private capital *	TBD (1997)	TBD (2000)

* USAID dropped reliance on only RASDAQ data and is, through private financial intermediaries, identifying meaningful new measures to track increased availability of private capital

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ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: A More Economically Sustainable and Environmentally Sound Energy Sector, 180-SOO1.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $ 3,000,000 SEED
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** 2002

Summary: USAID has shaped its energy reform program to promote competition, private sector participation and compliance with EU requirements, and to leverage significant multilateral lending to the sector. Assistance continues to emphasize restructuring and commercialization of the power sector, beginning with electricity distribution, and the creation of an independent regulatory authority. Technical assistance and training has also supported the

establishment of energy service companies and private consulting firms to carry out energy efficiency projects in targeted private industries. The beneficiaries are commercial and household customers who will ultimately receive more efficient and less costly energy service.

Key Results: Three intermediate results will contribute to the achievement of this objective: (1) oil and gas market liberalized; (2) competitive electric power system established; and (3) improved energy efficiency.

Performance and Prospects: In July 1998, the government approved the USAID-supported restructuring plan for the electric power sector. Separation of distribution, generation and transmission has begun and efforts are underway to commercialize and ultimately privatize much of the sector. Assistance will identify and support economically-viable groupings of distribution sector assets and efforts to build upon USAID's pilot commercialization work will be extended to other distribution companies. Support through the regional Utility Partnership program, which included a partnership agreement between Mississippi Power Company and the state electric power company in 1998, will be continued through the Utility Management Institute program. An interim regulatory authority has been created and considerable training, technical assistance and economic support will be necessary.

Energy efficiency assistance emphasizing the development of private capacity and sustainability will be consolidated and completed in 1999.

Possible Adjustments to plans: While USAID assistance helps to leverage considerable investment by multilateral banks, delays in loan negotiations have also proven to negatively impact timing and implementation. USAID will continue to closely monitor progress and evidence of the government's commitment to reform - particularly in relation to the petroleum sector where limited assistance remains a possibility. Limited assistance may be provided to the newly established regulatory authority to promote its independence from the Ministry of Industry.

Other Donor Programs: USAID assistance leverages approximately $600 million in World Bank and EBRD loans to restructure the petroleum and power sectors and to promote modernization and investment in the Romanian energy sector. EU-PHARE has become a recent contributor in support of USAID-proposed energy sector reforms.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include: Electrotek Concepts, the U.S. Energy Association and another yet-to-be-determined implementor.

Selected Performance Measures:

	Baseline	Target
Private foreign investment in oil and gas (in US $ millions)	336 (1997)	400 (1999)
Market share of independent electric power production (% increase in annual MW production)	0 (1996)	30% (2000)
Dollars saved as a result of energy efficiency (net savings in US $ M from energy efficiency projects)	0 (1998)	4 (2000)

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: Increased Management Capacity to Promote Sustainable Economic Growth, 180-SOO1.6
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $ 1,000,000 SEED Act
INITIAL OBLIGATION: FY 1991 **ESTIMATED COMPLETION DATE:** 1999

Summary: USAID assistance helps increase both public and private management capacity to address critical environmental constraints to sustainable development. Assistance in drafting and implementing environmental laws and regulations is helping to introduce the self-financing concept (the polluter pays), increase transparency in environmental policy and foster consistent regulations. Assistance goes to select local environmental protection agencies (EPAs) providing them access to least-cost technologies and low tech practices to monitor and enforce compliance with new regulations. In partnership with the private sector, USAID-financed demonstration projects for

cleaner technologies have introduced conservation and protection technologies. These projects have had success generating economic benefits for targeted industries and communities and are being replicated elsewhere. The private sector projects complement USAID's effort to help develop a cadre of private environmental service firms (ESFs). USAID also supports a graduate program in environmental management at the University of Cluj, the only such program in Romania.

The direct beneficiaries are the Ministry of Waters, Forests and Environmental Protection and targeted industries. Local communities benefit from pollution reduction.

Key Results: Three intermediate results will contribute to the achievement of this objective: (1) improved environmental resource management; (2) enhanced environmental legal authority; and (3) increased environmental sector financial sustainability.

Performance and Prospects: Assistance to help enact the Waters and Environment Laws has facilitated the integrated management and self-sustainability of the sector. Complementary regulations for privatization and promoting investment and growth have also been designed. USAID assistance produced the scope and norms for environmental audits; training in conducting audits has been provided to inspectors of 41 local EPAs. All legal and regulatory assistance is in harmony with EU directives and will help Romania meet conditions for EU accession.

Assistance to help privatize the national water systems utility has introduced full-cost pricing of water services. The financial sustainability of local EPAs is enhanced by a new ordinance which will permit the retention of a portion of self-generated revenues. Model projects to address production and pollution problems, developed in cooperation with local enterprises and the Pollution Prevention Center, have generated significant savings and reduced risks to workers' health. The success of the Environmental Management Program in training managers and local officials from the EPAs and the water authority has spurred some enterprises to require their managers to attend the program. This program will be self-financing after FY 1999.

Possible Adjustments to plans: Limited legal and regulatory assistance is still required to insure that Romania has a comprehensive environmental regulatory framework. Assistance will continue to increase the capacity of the water authority and local EPAs to execute new laws and regulations. Assistance to enterprises, on a co-finance basis, will continue to provide replicable models. USAID will undertake an examination of "green" issues.

Other Donor Programs: The World Bank and EBRD provide investment loans to improve local water management systems and pollution prevention investment at select enterprises. The GoR provides targeted cash contributions, staff salaries and in-kind contributions.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include Chemonics, International, Harvard Institute for International Development, the University of Minnesota, and the World Environment Center.

Selected Performance Measures:

	Baseline	Target
Number of demonstration models established and replicated	0 (1996)	15 (2000)
Response to regulatory enforcement (% increase in regulatory revenues over the previous year, beginning in 1997)	0 (1997)	+18% (2000)
Increased issuance of regulatory permits by EPAs (% increase annually beginning in 1997)	0 (1997)	+80% (2000)
Institutional cost retention (% of tariff revenue retained by the sector)	0 (1997)	40% (2000)

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making, 180-SOO2.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $ 3,500,000 SEED Act

INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE:** 2002

Summary: The thrust of this objective is to help consolidate democracy in Romania. USAID supports activities that improve the effectiveness and accountability of Romanian leadership. Parliamentary assistance promotes a more transparent policy-making process and opportunities for civil society to impact decision-making. Assistance to the executive branch supports improvements in communication and management systems which facilitate responses to citizen concerns. Judicial assistance provides legislative drafting support and training to help judges understand and better administer new legislation.

USAID assistance to civil society, through the Democracy Network Program, aims to increase the capacity of nongovernment organizations (NGOs) to: influence the formulation and implementation of public policy; serve as a forum for public policy debate and advocacy; mobilize private resources for local needs; form partnerships and alliances with public and private organizations; and improve NGO service delivery, and secure their financial and organizational sustainability. At the request of local communities and the GoR, assistance was expanded to help civil society institutions to better organize themselves, to form coalitions and to forge partnerships with local governments to address community needs. Public relations training is provided to government officials to enhance their public information role and facilitate relations with the media. In addition, training for the media not only helps to improve journalists' coverage of economic reforms but it also helps develop managerial skills to improve sustainability.

The direct beneficiaries, Parliament, the Executive, the judiciary, NGOs and media all play a critical role in guaranteeing Romanian democracy. The indirect beneficiaries are Romanian people who, directly and indirectly participate in and derive the benefits of a more transparent and participatory democratic system.

Key Results: Two intermediate results will contribute to achieve this objective: (1) increased effectiveness and accountability of the Romanian leadership; and (2) strengthened ability of civil society to address policy concerns.

Performance and Prospects: Assistance to the foregoing democratic institutions has strengthened institutional capacity and led to reforms and improved systems to become responsive to and encourage citizen participation. The two Chambers of Parliament have established and strengthened Press and Public Relations Offices and expanded constituency outreach services. Debates in the Senate are now open to the public, the media and special interest groups. This year, the National Magistrates Institute became operational and regional magistrate associations have formed to support professional development and training.

USAID support has strengthened the capacity of a number of NGOs, enabling them to better represent citizens' concerns, to improve services and to move closer to sustainability. NGOs, political parties and professional associations now identify and advocate citizens' interests and work to influence decision-makers and public opinion. In 1998, a coalition formed to champion legislation pertaining to taxes on agricultural workers pensions; and NGOs led efforts to promote secondary school reform and community-based AIDS services. Managerial assistance to targeted media outlets has strengthened their capacity to increase advertising revenue and streamline operations. USAID assistance also helped to establish a Romanian branch of the International Audit Bureau of Circulation, to bring Romania in compliance with accepted standards for the operation and certification of print media outlets. Additional concerns arose about administration of justice in civil and criminal matters, as well as corruption, as destabilizing influences.

Possible Adjustments to plans: Parliamentary leaders have acknowledged the need to improve operations and facilitate citizen access. Additional training to enhance the leadership skills of young Parliamentarians and local leaders is planned as well as potential election-related assistance. Some key legislation and reforms have been enacted to improve the administration of justice, but implementation will take more time. And the political will to move forward on the internal reorganization of the judiciary is not yet evident. New activities will be developed to spur anti-corruption efforts.

NGOs continue to experience difficulties becoming financially self-sustaining and additional enabling legislation is needed. Fundraising efforts and other support are challenged by the lack of tradition of citizen contributions. NGOs need to actively promote a positive public image and improve service delivery. USAID's Democracy Network will continue to focus on these issues and, at the same time, support local development initiatives. Assistance to the media will be phased out at the end of 1999.

Other Donor Programs: USAID's support to community-based NGOs helps to leverage the World Bank's $20 million Social Development Fund loan. Soros, UNDP and EU-PHARE also provide assistance to NGOs and media; no matching funds or other support are provided by the Romanian government.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include Development Alternatives,

Freedom House, the American Bar Association's Central and East European Law Initiative, and World Learning.

Selected Performance Measures:

	Baseline	Target
Number of priority community concerns formally targeted through collaboration between public authorities, civil society and citizens	0 (1997)	14 (1999)
Number of MP's field offices with formal systems to receive and act on citizen inquiries	5 (1997)	350 (2000)
Average capacity rating for USAID-assisted local NGOs (4 point scale)	1.3 (1997)	3.2 (2000)

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: More Effective, Responsive and Accountable Local Governments, 180-SOO2.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $3,400,000 SEED Act
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE:** 2002

Summary: With USAID assistance, Romania has recently adopted significant fiscal decentralization legislation which will devolve upon local governments the power to manage their own financial affairs, to prepare and adopt budgets on their own authority, to set rates for local taxes and fees, to collect their own revenues for planned capital improvements and to finance construction of those improvements. Local governments are responding to these new responsibilities and actively participating in USAID-sponsored training opportunities. Training is offered to city and county council members and local government officials in public budgeting and operations, personnel and organizational management, revenue generation, council training, customer service and citizen information. USAID-initiated citizen information centers are being replicated without additional funding and local government processes are increasingly open to public participation. In addition to legislative drafting assistance, USAID provides training to local governments to familiarize them with the new laws. USAID is cooperating closely with international financial institutions in the creation of a system of municipal credit. An additional NGO project provides small loans to community associations to impact local economic development and services.

Direct beneficiaries are local officials who receive training and develop their skills in management and finance. Citizens of the targeted communities will benefit from improved services and having an increased role in local decision-making. Ultimately, the central government will benefit by turning over authority and responsibility for local services to local governments.

Key Results: Three intermediate results will contribute to achieving this objective: (1) advanced capacity of local governments to manage resources; (2) enabling regulations and policy framework for decentralization established; and (3) increased revenues available for local governments.

Performance and Prospects: The legislative process for fiscal decentralization has been substantially completed and implementation has begun. Local government is now legally and practically able to incur debt and to finance capital improvements on its own initiative, and to service that debt. The effort to introduce program performance budgeting and reformed financial management which began initially in three cities has expanded to make training more widely available. Program performance budgeting is now the national standard. Computer systems and local capacity necessary to support the management reforms underway are in place in more than thirty participating cities and counties. Customer service and citizen information centers have been so successful that they are replicating naturally and are self-sustaining.

Possible Adjustments to plans: City and county organizations will develop into full service membership organizations capable of providing information, education, training and advocacy. The need for financial management assistance will increase as local governments begin to use their new financing authority and as a municipal credit facility is created. Assistance to citizen information centers will be reduced to a maintenance level and replication will occur naturally.

Other Donor Programs: Both the EBRD and World Bank are key partners in establishing municipal credit systems.

Soros, EU-PHARE and the U.K. Know-How Fund also contribute to local government development.

Principal Contractors, Grantees or Agencies: Current grantees and contractors include Chemonics, International, the Urban Institute, Cooperative Housing Foundation and Citizens Democracy Corps. USAID works closely with professional associations of local government officials and condominium residents.

Selected Performance Measures:

	Baseline	Target
Increased citizen satisfaction in municipalities surveyed (Survey indicates >50% satisfaction)	unknown (1996)	>50% (2000)
Laws establishing regulatory and policy framework for decentralization	0 (1995)	5 (2000)
Creation, development and use of performance based budgets	2 (1995)	24 (2000)
Number of municipalities borrowing for capital investment	5 (1996)	25 (2000)

ACTIVITY DATA SHEET

PROGRAM: ROMANIA
TITLE AND NUMBER: Improved Welfare of Women and Children, 180-SOO3.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $4,500,000 SEED Act
INITIAL OBLIGATION: FY 1990 **ESTIMATED COMPLETION DATE:** 2002

Summary: The GoR is committed to reducing the number of children at risk of abandonment through the decentralization of child welfare services. USAID's assistance has targeted three counties where "best practice" models of community-based services in abandonment prevention, family reintegration, domestic adoption and foster care, pregnancy counseling and maternal-child shelters are being demonstrated. The county-level approach involves a partnership between local government, NGOs and child welfare professionals. With USAID support, children's rights groups are advocating improvements in child welfare legislation and administrative policies.

Likewise, USAID assistance is targeted at the local level to reduce unwanted pregnancy and abortion by increasing demand for, expanding access to and improving the quality of women's health services. Women's reproductive health services, such as modern contraception, cancer screening, STD/HIV/AIDs prevention and treatment did not exist until 1990. USAID has led in promoting the expansion of primary health care for women - including modern contraceptive services and the enhanced role of general practitioners and pharmacists - in the context of Romanian health reform. Training goes to health managers and providers to improve the quality of care, methods for determining cost, and performance to insure fiscal viability and sustainability. Because funding for primary care, especially modern contraception, is contingent on the effective use of health care funds, USAID is embarking on two demonstration projects to focus on cost-effective delivery of health care in extremely poor regions.

Direct beneficiaries include women of reproductive age and children, who together account for 40% of the population in Romania. USAID's programs reach about one-half or 4.5 million of these beneficiaries. All Romanians will eventually benefit from health care reform.

Key Results: Four intermediate results will contribute to decreased dependency on the use of institutions for children: (1) improved child welfare policies and administrative procedures; (2) improved quality of community child welfare services; (3) increased utilization of community child welfare services; and (4) increased parental and citizen involvement with children. Three intermediate results will contribute to increased use of women's health services: (1) improved quality of women's reproductive health services; (2) improved access to women's reproductive health services; and (3) increased demand for women's reproductive health services.

Performance and Prospects: USAID has dramatically strengthened child welfare policies and procedures by introducing a community-based, family-focused model of child welfare. Training in new models has inspired local leaders to develop innovative local services for children. Local commissions are seeking alternatives to institutionalization and the use of foster care has increased.

Maternal mortality rates, primarily attributable to unsafe abortions, have declined from 84 per 100,000 live births in 1990 to 41 in 1997. USAID-supported model clinics are the only sites offering comprehensive, high quality women's health services; additional service delivery sites are being developed. Awareness and advocacy activities through the media and local NGOs promote improved quality and accessibility of contraception and health care for women.

Possible Adjustments to plans: Assistance will continue to focus on the local capacity building in child welfare services and women's health. Building on successes in the three target counties, activities will expand into seven additional ones. Increased reliance upon local agents - NGOs, local government, professional medical associations and service providers - will help spur sustainability.

Other Donor Programs: USAID has a successful working partnership with GoR agencies including the Prime Minister's Office, the Ministry of Health, the Institute of Health Services Management, the Ministry of Education, the College of Physicians and local government authorities. The World Bank is the major donor in the health sector providing loans for primary health care, family planning clinics and a health management training institute. USAID is the second largest donor in women's health and the most influential donor in child welfare where it has successfully convinced other donors to support community services. Other contributions for women's health and child welfare come from the EU Child Protection Program, Soros, the Council of Europe, the United Nations Children's Fund (UNICEF), the United Nations Fund for Population Activities (UNFPA) and the United Nations Development Program (UNDP).

Principal Contractors, Grantees or Agencies: Current grantees and contractors include: World Vision/ Bethany Services, Holt International, Feed the Children, Johns Hopkins University Christian Population Communications Studies, the Centers for Disease Control, Management Sciences for Health, Population Services International, the Department of Health and Human Services, American International Health Alliance (University of Chicago, Humana, University of Louisville, and Hennepin County Hospital) and Howard University. Local NGOs supported by USAID include: the Foundation for Our Children, the Romanian Association Against AIDS, Youth for Youth Foundation and the Society for Education in Contraception and Sexuality and several professional medical associations.

Selected Performance Measures:

	Baseline	Target
Number of children living in all institutions (in three target counties)	7,343 (1997)	5,400 (2002)
Number of children serviced by community-based child welfare services (in three target counties)	0 (1998)	3,000 (2002)
Maternal mortality rate (Deaths per 100,000 births)	84 (1990)	40 (2000)
Number of women in target utilizing women's*	TBD (1998)	TBD (2000)

*Baseline data is now being collected for health services women's health initiative begun in fall, 1998.

RUSSIA

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$133,181,000	$172,360,000	$295,000,000

Introduction.

Russia's evolution toward free-market democracy remains crucial to U.S. national security and its political and commercial interests. In supporting and hastening that evolution, the U.S. seeks to build and consolidate new relationships with Russia, first as a full partner on a wide array of global issues --ranging from the maintenance of regional and international peace to the reduction of environmental threats-- and second, as an active partner in trade and investment. USAID assistance has contributed significantly to the broad U.S. reform agenda by working with Russians in many sectors. While the economic crisis of August, 1998 caused USAID to reexamine its strategy, the Agency is convinced that continued engagement is critical to U.S. national interests despite the many uncertainties.

The Development Challenge.

Russia is experiencing a severe macroeconomic and financial crisis reflecting in large part the Government's failure to implement the comprehensive economic reform measures needed to foster economic growth, generate revenues and maintain fiscal discipline. Russia’s inability to provide the environment for private sector-led growth and increasing levels of foreign direct investment has seriously delayed the modernization of Russian industry while keeping revenues woefully inadequate to cover minimal government spending and foreign debt obligations. Instead, the Government of Russia (GOR) resorted to heavy borrowing to fund current Government expenses. This unsustainable position combined with the spreading financial crisis in emerging markets came to a head in August, 1998. The ruble plummeted sharply from six to over fifteen to the dollar depleting Russia’s foreign exchange reserves in the process. The GOR failed to meet its domestic and foreign debt obligations. Russia’s vulnerable banking system collapsed, disrupting the payments system. GDP is now estimated to decline by 4 percent in 1998 and estimates for 1999 are unclear given the uncertain economic environment. Inflation projections for 1999 are currently over 80%, which is optimistic given the continued sharp decline of the ruble and the growing budget deficit. Direct foreign investment levels are down about 50% from a year ago, well below levels required to revitalize and expand Russia’s productive capacity.

The change of government brought about by the economic turmoil has exacerbated economic and political uncertainties. The most significant obstacle to Russia's transition to a market economy is the lack of political consensus to move ahead with comprehensive economic reforms. This suggests there is no near-term solution to resolving the fiscal and financial crisis, as evidenced by the inability of the government since August to adopt a realistic economic program which the IMF can support. Corruption and organized crime are a major impediment to fundamental change, reflecting a lack of effective and comprehensive systems to maintain the rule of law under transparent and democratic principles. Foreign and domestic investors continue to be cautious in the light of a still unclear tax and legal regime. Independent media outlets are struggling as a result of falling revenues from private sector advertisers. While the non-governmental sector is growing, it is still in its early stages of development and not firmly rooted. NGOs still need to strengthen their management practices and diversify their funding base. Production of greenhouse gases and other environmentally harmful industrial practices persist and an enforceable environmental legal structure has not yet been developed. Health risks from infectious diseases and environmental factors are undermining the human resources necessary to tackle future problems.

In an atmosphere as described above, the assistance challenge is to support those areas of the economy and society that can keep economic and democratic reform alive during these difficult times. These remain the private sector and civil society where USAID has already had a significant impact. For example, electoral commissions assisted by

USAID are working to ensure that elections scheduled for 1999 and 2000 are free and fair, and partnerships between U.S. and Russian entities continue without direct USAID assistance. As a result of USAID small business programs, thousands of small businesses are changing their product mix and marketing approaches to respond to problems generated by the financial crisis. The development of infrastructure for the Russian capital markets system proceeds in Moscow and 15 regions. Tens of thousands of non-governmental organizations (NGOs) still operate, while independent local TV stations and newspapers seek ways to ensure their financial independence. Russian hospitals, in partnership with U.S. hospitals, continue to provide more cost effective health care and new techniques for combating infectious diseases, particularly tuberculosis (TB) and HIV/AIDS. New and environmentally friendly industrial processes are being implemented throughout the country; and, international accounting standards are being adopted by a growing number of businesses. All of these efforts provide the grassroots support and know how for implementation of reform in their respective areas. When the macro-level situation stabilizes, USAID stands ready to use its policy reform expertise to work on that level in concert with other donors.

Other Donors.

A key objective of U.S. assistance to Russia is to serve as a catalyst for other assistance providers, both bilateral donors and international financial institutions. Russia's ability to attract significant multilateral assistance is presently stymied by its failure to meet IMF conditions and the consequent suspension of the IMF program. In the past, USAID has leveraged World Bank funding for housing, community services, legal reform, urban development and local infrastructure development. In FY's 1999 and 2000, USAID funding will complement the World Bank and other international donors if a comprehensive plan to restructure the Russian banking system can be developed. In sectors less directly affected by the macroeconomic crisis there remain areas for fruitful collaboration. USAID continues to coordinate with the EU-TACIS in business development and environmental policy reform. U.S. foundations, including Mott, MacArthur, Ford and the Open Society Institute, meet regularly with USAID and forge complementary strategies in areas such as health care and rule of law. Other donors with which USAID works include UNICEF, UNAIDS, the Red Cross and Medecins Sans Frontieres in health care, the Council of Europe and the Organization for Economic Cooperation and Development in legal and tax reform, and bilateral donors and other USG agencies in media, violence against women, crime and corruption, political party development, and electoral reform.

FY 2000 Program.

USAID-Implemented Programs: USAID's program is part of the Partnership for Freedom (PFF) and the companion Regional Investment Initiative which target funds to the regions away from Moscow, and emphasizes the creation and strengthening of sustainable partnerships between U.S. and Russian organizations in all sectors. In FY 2000 USAID will continue to target funds away from the Government and from Moscow towards reform-minded regions, including the Russian Far East. Economic reform, democratic reform, and health and social sector reform will continue to provide the broad framework for all USAID activities. Under economic reform, activities will include small and medium enterprises development, establishment of alternative credit sources and loan guarantees for small and micro enterprise, assistance to local and regional governments interested in developing investor friendly regulations, and implementation of environmentally sound business practices. USAID will continue to work with other donors in banking and tax reform. In the democratic reform area, USAID will support the further strengthening of civil society and human rights, highlighted by funding for free and fair elections and political party development, particularly in preparation for the upcoming parliamentary elections in late 1999 and the Presidential elections in June, 2000. Increased strengthening of NGOs, support to the independent media, establishing U.S.-Russia partnerships and more work on the rule of law will also be key components. In the health and social sector area, assistance will work to stem the spread of infectious diseases, primarily HIV/AIDS and TB, increase access to and quality of health care, including maternal and child health, and support reform for Russian orphanages. Under cross-cutting and special initiatives, FY 2000 funding will support a number of programs. Training and exchanges will offer a variety of Russians an opportunity to travel to the United States to see systems functioning in a free market democracy. The broad program of the Eurasia Foundation and activities combating violence against women will continue.

Other U.S. Agency Programs: Included also with this request are programs implemented by other U.S. Government agencies. The request for cross-cutting and special initiatives, in particular, reflects expanded emphasis on the need to reduce the risks of proliferation of weapons of mass destruction through programs which enhance our mutual security, such as export controls, science centers and efforts designed to employ Russian scientists in non-military areas. In addition, other USG agencies participating in technical cooperation programs with Russia through inter-agency transfers from USAID include the Environmental Protection Agency, Health and Human Services, U.S. Forest Service, Departments of Justice, Treasury, Energy, Agriculture and Commerce, and U.S. Peace Corps. In addition, exchange programs run by the U.S. Information Agency are critical in fostering support in the next

generation of Russians for democratic and free market reforms.

RUSSIA

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	59,925	--	--	--	59,925
Financial Reform	8,675	--	--	--	8,675
Energy	--	--	--	--	--
Environmental Management	3,700	--	--	--	3,700
Citizens' Participation	--	13,000	--	--	13,000
Legal Systems	--	3,450	--	--	3,450
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	7,750	--	7,750
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	198,500	198,500
TOTAL	72,300	16,450	7,750	198,500	295,000
*Freedom Support Act (FSA) funds					

USAID Mission Director: Janet Ballantyne

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Accelerated Development and Growth of Private Enterprise, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $59,925,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: Russian GDP and productivity continue to decline and official unemployment continues to grow. More successful businesses will provide new jobs and new incomes, leading to further growth and stability of the Russian economy. Under this strategic objective, U.S. assistance providers work with a wide variety of Russian organizations throughout the country to accelerate the development and growth of private enterprise based on individual initiative and the operation of market forces. Activities under this objective respond to the tremendous unmet needs of small and medium enterprises in Russia to stimulate economic development and to guarantee income and employment. Activities include business training for individual entrepreneurs in marketing and western management practices; on-site client focused business consulting services; the formation of sustainable business associations, trade organizations and business support centers; improving access to credit for micro and small businesses from non-commercial bank sources; and work on land and real estate privatization to increase availability of real collateral. Beneficiaries include Russians from all regions of the country.

Key Results: Four intermediate results are necessary for achievement of this objective: (1) policies, legislation and regulations conducive to broad-based competition and private sector growth are adopted; (2) land and real estate market mechanisms are operating, accessible and used by businesses; (3) successful models of private business ownership and modern management are widely replicated; and (4) a sustainable network of business support institutions are rendering services to entrepreneurs and enterprises.

Performance and Prospects: Since inception, over 200,000 Russian entrepreneurs (of which 104,000 are women)

have received business training and consulting assistance, over 50,000 jobs have been created directly as a result of USAID funding, and over 5,000 continuing new businesses have been created. 71% of USAID business clients report increases in production, 81% report increases in sales, 89% increased customer base, and 82% increased net profit. Five of ten institutions established with USAID support to provide financing for small and micro entrepreneurs continue to operate without USAID assistance; over 3,200 loans have been provided to micro and small entrepreneurs; membership in the Russian Guild of Realtors has increased from five to over 800; and local boards have been established in 25 regions. These efforts help build grassroots support for implementation of land reform and private property laws. Over the next few years USAID will continue to fund small and medium business training and consulting and increase coverage of indigenous business support institutions, supplying them with the tools to weather the economic crisis and grow. With matching funds from the Global Bureau, USAID plans to expand micro credit programs, strengthen the real estate profession and land privatization efforts. USAID will also launch a Development Credit Authority Project to provide large infrastructure credit guarantees to encourage banks to make loans in support of telecommunications and port and energy infrastructure projects.

Demand for business services continues throughout the country. Last year thousands of entrepreneurs were trained, business support centers were able to provide services without USAID funding, micro entrepreneurs paid back loans at a 99% rate, Regional Investment Initiative business support including work on legal and regulatory systems in regions continued, and environmentally friendly methods of doing business were adopted. Normal project implementation problems were encountered, but, even in the face of the economic crisis, demand for USAID business services continued.

Possible Adjustment to Plans: USAID continues to focus its programs. This will result in fewer separate activities under this strategic objective. Also, given the inevitable turmoil in Russia's road to reform, USAID will continue to be flexible and make appropriate adjustments to ensure that funds are utilized to achieve the highest impact.

Host Country and Other Donors: USAID works with private Russian institutions, the managers and owners of private enterprises and associations of private businesses, and with various Ministries and agencies of the government at both national and local levels. USAID collaborates with other donors seeking to support private sector growth, especially the British Know-How Fund, the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation, and the World Bank. EU-TACIS funds complementary support projects as do both private and public representatives of European governments.

Principal Contractors, Grantees, or Agencies: USAID works with dozens of U.S. nongovernmental organizations as well as for-profit contractors in implementing a broad program of support to private sector growth.

Selected Performance Measures:

	Baseline	Target
Private sector production as % of GDP	20% (1995)	45% (2000)
New businesses created	5,000 (1998)	25,000 (2000)
New jobs created	50,000 (1998)	150,000 (2000)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Improved Economic Infrastructure to Support Economic Growth, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $8,675,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: The development of a middle class in Russia requires sustainable economic growth, which in turn requires an improved economic infrastructure. However, USAID is limited in its ability to fund activities which directly fund the Government of Russia. It is in this strategic objective where the bulk of government-related funds are disbursed. Representative activities include assistance to the Government, the Duma, the State Tax Service, and selected regional and local governments to analyze the potential impacts of different tax regimes on the government budget, draft legislation, and implement new taxes. In the banking sector, USAID has trained examiners in bank supervision, providing advisory services, and has developed loan guarantee protocols. Under the Regional Investment Initiative, USAID has helped improve open markets by assisting regional governments to design investment policies that promote more liberal trade and investment regimes. USAID funds also help strengthen the

capability of key think tanks to conduct quality economic analysis to support sound policy formulation, and promoting the adoption and use of international accounting standards. Beneficiaries include Russian businesses, foreign and domestic investors, the Russian public, government agencies, and think tank institutions.

Key Results: To help develop an improved economic infrastructure, USAID supports activities in tax reform, banking reform, adoption of international accounting standards, and institutional strengthening of policy think tanks. Previously, funds were used to establish the Russian Securities and Exchange commission in Moscow and the regions.

Performance and Prospects: The transition from a centrally planned economy with a strong central government to a market economy continues to face difficult obstacles, although progress has been made in many areas. Economic and legal guidance has been provided to the Russian Government and Duma to evaluate strengths and weaknesses of the proposed tax code, including amendments. Economic analysis has been provided to the Ministry of Finance, showing impacts of changes in taxes, particularly personal income tax, on the hypothetical taxpayer. The State Tax Service's unit for collecting from large enterprises has been strengthened. A property tax system is being implemented in the cities of Tver and Novgorod. The Securities Commission, National Association of Broker Dealers, Depository Clearing Company and other regulatory bodies have been established and institutionalized to strengthen investor protection. USAID has helped establish commercial bank training institutes outside of Moscow in order to increase Russian financial services to small and medium sized businesses. Over 30 banks have begun housing and commercial mortgage lending, and, International Accounting Standards have been published in Russian, accepted by the Russian Ministry of Finance, and are being adopted by business. The establishment of the Russian Securities and Exchange Commission provides a solid infrastructure for securities trading in the country. Once the economic situation stabilizes and investor confidence returns, this exchange will play a major part in mobilizing finance. While the Government has consistently indicated a strong demand for USAID assistance in the tax reform area, these efforts have met with significant obstacles in the implementation stage, including differing views by groups in the Duma of how the tax system should be reformed. USAID will work with the World Bank to develop a bank restructuring plan and also to strengthen think tanks which can offer high quality economic analysis to decision-makers.

Possible Adjustments to Plans: For FY 1999, USAID decreased the numbers of components it was working on in tax reform. Depending on the progress in tax reform and changes from the 1999 Duma elections, further refinement may be necessary. As in other strategic objectives, USAID will need to be flexible and ensure that its activities support reform in ways that can be replicated and continued after bilateral assistance ceases.

Other Donor Programs: USAID plays a critical role in the financial sector. Activities are used as practical laboratories for future funding by the World Bank, the EU, and other donors. Of particular import will be the collaboration between USAID and the World Bank in banking restructuring. USAID works closely with bilateral donors and the International Committee for Accounting reform in its international accounting standards project. USAID hopes to strengthen Russian think tanks abilities to provide high quality economic analyses.

Principal Contractors, Grantees, or Agencies: USAID implementers include: Georgia State University, Financial Services Volunteer Corps (FSVC), the Gaidar Institute, the International Committee for Accounting Reform, and executive ministries of the Russian Government working on tax reform.

Selected Performance Measures:

	Baseline	Target
Legislative authority for bank restructuring agency (ARCO) passed	No (1998)	Yes (2000)
Fixed capital formation (% increase from previous year)	87 (1995)	100 (2000)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Increased Environmental Capacity to Support Sustainable Economic Growth, 110-S001.6
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $3,700,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: The acuteness of environmental problems in Russia, deepened by the difficult socio-economic conditions, have led to significant losses in economic productivity. To help address this situation, USAID activities in the environmental sector respond to Russia's need to achieve sustainable economic growth. This growth is dependent on improved capacity in environmental and natural resources management. USAID activities also respond to the needs of local environmental non-governmental organizations who require technical assistance to achieve financial and technical sustainability. Current activities include strengthening partnerships among institutions throughout Russia to promote exchange of practical lessons gathered from ground-breaking work in pollution prevention, risk assessment, and land-use planning, reforestation and other successful activities. Activities also include reducing the negative impact of global climate change through programs targeted at fire prevention, pest control, reforestation, forest policy, and the phase-out of ozone depleting substances production. The entire population of Russia will benefit if USAID-supported and other donor programs in this area have their intended impact. The Russian Far East in particular will benefit from improved forestry practices and new ecology-based businesses.

Key Results: Three intermediate results are necessary for achievement of this objective: (1) increased capacity to deal with environmental pollution as a threat to public health; (2) improved management of natural resources and biodiversity protection; and (3) improved economic mechanisms for natural resources management, environmental protection and emissions trading.

Performance and Prospects: Significant progress has been achieved, with results of pilot projects in six regions now replicated and disseminated in more than 50 regions in the Russian Federation. In pollution prevention, private industry and municipal utilities in four industrial regions have reduced air and water pollution and demonstrated significant cost savings. A new health risk assessment methodology has been tested in seven cities and a Federal Working Group was established to utilize this methodology nationally. Non-governmental organizations have reduced local pollution by conducting city clean-up days, developing solid waste collection programs, and constructing new drinking water wells for small villages. In natural resource management and biodiversity protection, the first ever comprehensive reforestation program was introduced in the Russian Far East, resulting in a 60 fold increase in the production of seedlings. The Regional Forestry Service and governments in the Russian Far East drafted the first Regional Forestry Code to ensure regional management of forest resources, and the endangered Siberian Tiger population stabilized at approximately 400 animals.

USAID assistance has also helped generate funding for the environment. Private enterprises and municipalities have financed environmental projects through domestic and international financial institutions, and regional eco-funds in three municipalities leveraged environmental loans for drinking water improvements. The municipal government in Nizhnii Tagil, an industrial city in the Urals, secured World Bank funding to improve its drinking water system. Gagarin and Smolensk are candidates for similar financing for municipal water improvements. Zapovedniks (nature reserves) in the Russian Far East are generating new revenue to fund protective programs through eco-tourism.

The Replication of Lessons Learned Project is USAID's flagship environmental project and applications for small grants in the environment continue to overwhelm the selection committees. Regional forestry departments are appreciative of USAID assistance in forestry matters and USAID is looking forward to seeing the results of new projects in non-forest timber product development and marketing. The key to the success of activities in this strategic objective is the focus on grassroots level work.

Possible Adjustments: As with all of its strategic objectives, USAID will continue to monitor work in this area to ensure that appropriate activities are designed and implemented. Demand continues to be very high for the services offered, especially at the local level.

Host Country and Other Donors: USAID closely coordinates with host country government, non-government, and private sector counterparts at the national, regional, and local levels. USAID programs work with other donors and international financial institutions, particularly the World Bank and EBRD, to coordinate activities and to leverage additional resources. To date, environmental assistance projects in Russia have leveraged at least $370 million in environmental investments, with the potential for a total of $400-500 million before the assistance program comes to an end.

Principal Contractors, Grantees, or Agencies: USAID is working with the following partners: U.S. Environmental Protection Agency, U.S. Forest Service, U.S. Department of Interior, ISAR, Institute for Sustainable Communities, Ecologically Sustainable Development, World Wildlife Fund/U.S., Center for International Environmental Law, and the Department of Energy.

Selected Performance Measures:

	Baseline	Target
Environment-related business plans developed and implemented	0 (1993)	8 (2000)
Number of self-sustaining environmental NGOs	5 (1993)	25 (2000)
Environmental grants provided to local entities throughout Russia	0 (1993)	50(2000)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Increased Better Informed Citizens' Participation in Political and Economic Decision-Making, 110-S002.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $13,000,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; ESTIMATED COMPLETION DATE: FY 2002

Summary: This strategic objective will ensure that citizens have the opportunity to express their opinions and influence decision-makers. USAID targets citizens, communities, NGOs, public officials, independent media, and various political party officials in order to expand public outreach efforts and to increase participation.

The National Democratic Institute (NDI) and the International Republican Institute (IRI) work in political party building at the national, regional, and local levels and in strengthening political institutions essential to democracy. NGO support networks covering two-thirds of the Russian Federation support thousands of active local NGOs. Major grant programs, administered through umbrella grants to U.S. and Russian NGOs, such as the Sustaining Partnerships into the Next Century (SPAN) program, provide funding to sustain dozens of partnership activities between Russian and American organizations in the areas of civil society, rule of law, tax reform, financial sector, business development, environment, and health. The Eurasia Foundation is a major grass-roots grant making institution assisting economic and social reform. Sixteen media partnerships and most newspaper partnerships have achieved progress toward self-sustainability. Media partnerships promote business development of selected media, upgrade professional standards and expand access to independent sources of information. Under the Regional Investment Initiative (RII), NGO, local government, and private sector elements are brought together in selected communities to simultaneously address two principal elements of the Partnership for Freedom: reducing impediments to trade and investment and increasing citizens' participation in civil society.

The entire citizenry stands to gain as a direct result of USAID programs under this strategic objective. The political process activities are of greatest importance to voters and public officials at the national and regional level. Both independent media and NGOs reach a large portion of the Russian population. Independent media provides more objective news coverage essential for informed debate while NGOs offer an avenue for citizen participation in economic, social and political decision making.

Key Results: Three intermediate results are pursued in support of this objective: (1) free and fair elections are administered nationally and locally; (2) increased public access to information informs political and economic choices; and (3) NGO sector provides opportunities for citizen participation in economic and political speres of society.

Performance and Prospects: Given that democratic development can take decades, even generations, USAID must be realistic about program expectations. However, there have been impressive results to date. Some 65,000 local NGOs now contribute to the building of civil society in Russia. USAID training programs have reached over 13,500 activists from non-governmental organizations. Over 300 new independent television stations exist. A Russian non-governmental organization provides long-term services for Russian regional newspapers. Most recent elections were considered free and fair. Approximately 6,500 political party activists have been trained in party development. Twenty-four partnerships are receiving assistance to sustain and increase Russian - U.S. cooperation.

The increasing involvement of Russians in all activities has helped strengthen work in this strategic objective. Most impressive is the continuing work to strengthen NGOs around the country with the establishment of regional NGO Support Centers. Observers consider the SPAN Partnership Project an excellent model for the creation and strengthening of enduring partnerships between U.S. and Russian entities. All media assistance goes through Russian organizations. Civil society strengthening will continue to be a crucial element of U.S. assistance to Russia.

Possible Adjustments to Plans: USAID will continue to monitor this strategic objective to ensure that activities continue to have results and that they respond appropriately to NGO, media, partnerships, and political party needs.

Other Donor Programs: Russia has dozens of political parties. USAID has emphasized responding to requests for technical advice and training services from those parties viewed as "reform-oriented." Work with citizens' groups has generally been carried out through NGOs and in concert with local institutions, including municipal governments. Other donors have been active in electoral process issues; USAID has coordinated regularly with them in all election run-up periods and will continue to do so. USAID also works cooperatively with other bilateral donors providing assistance to the media and, increasingly, to Russian civil society.

Principal Contractors, Grantees, or Agencies: USAID is working with the following: International Republican Institute (IRI), National Democratic Institute (NDI), International Foundation for Electoral Systems (IFES), ISAR, World Learning, Inc., American Center for International Labor Solidarity (ACILS), Internews, National Press Institute (formerly RAPIC), the Helsinki Group, IREX, the Eurasia Foundation, and the Moscow School of Political Studies.

Selected Performance Measures:

	Baseline	Target
Percentage of viewers with access to independent TV	12% (1995)	21% (2000)
Increased and strengthened party identification among voters	22% (1994)	25% (2000)
Number of media partnerships that are fully self-sustaining	0 (1995)	3 (2000)
Share of assisted NGOs showing increased domestic funding	15% (1995)	40% (2000)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Strengthened Rule of Law and Respect for Human Rights, 110-S002.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $3,450,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Summary: This strategic objective will strengthen the legal systems that better support democratic processes and market reforms. USAID’s Rule of Law program now focuses on two principal aspects of legal reform in Russia: judicial reform (including enforcement of judgments and alternative dispute resolution), and legal education and training. Partnerships between U.S. and Russian legal entities are encouraged. USAID has worked with the Rule of Law Consortium to ensure that all Russian Commercial Court judges are familiar with new legislation, including the Civil Code. In 1996, Russia moved to strengthen the independence of its judiciary, creating a Judicial Department to put administration of the courts of general jurisdiction into the hands of judges. USAID funds the National Judicial College in Reno, Nevada to work in partnership to ensure that this department fulfills its role. USAID has started to work on improving enforcement of judgments, and is providing assistance as Russia sets up a Russian equivalent of the U.S. Marshall's Service, which in addition to handling court security will enforce civil judgments. The American Bar Association (ABA/CEELI) supports commercial law training for lawyers, legal advocacy for women involved with domestic violence, continuing legal education, and law clinics. USAID also addresses corruption with activities promoting judicial ethics and discipline and improved government auditing. Another important USAID-supported effort is the work with many local NGOs to improve advocacy and outreach, helping Russians become more aware of their rights in such areas as housing, property, civil rights, and environmental protection. The American Center for International Labor Solidarity (ACILS) works with local legal groups to provide citizens with the resources to seek enforcement of their labor rights and to organize into effective, independent labor unions. USAID continues to support the Sakharov Center and the Moscow Helsinki Group to increase human rights awareness. Beneficiaries include investors, both foreign and Russian, Russian citizens desiring an open, transparent civil and commercial legal system, and the judicial and legal professions. They all stand to benefit from activities that increase transparency and the soundness of new laws, and that ensure their even-handed application and enforcement.

Key Results: Two intermediate results are pursued in support of this objective: (1) better administration, application and enforcement of law; and (2) higher standards and competence in the legal profession.

Performance and Prospects: Recent USAID support has assured that all 1600 commercial court judges in the country received Part 1 and 2 of the new civil code and other laws recently enacted; over 40% of these judges received training on substantive, Russian commercial law topics. USAID training and technical assistance produced several reforms. The legal framework for property rights was improved to promote more private property transactions. Over 2000 Russian judges and lawyers received training on Russian laws to ensure that court process and judgments are transparent and consistent with written law. Twenty exchanges of top Russian judges led to the formation of the new Judicial Department, which is modeled on the Administrative Office of the U.S. Courts. Continuing legal education is available in eight more cities. Numerous law schools instituted trial advocacy and other practice-based curricula. Partnerships have been established between U.S. institutions and Russian judicial training institutions at all levels, and 18 training programs were conducted to improve judges' decision-making skills. Thirty human rights groups in the regions now monitor abuses throughout the Russian Federation. Over 3,300 legal consultations were provided to trade unions in FY 1998 alone.

USAID will continue its dual focus on creating the requisite legal and regulatory environment to promote trade and investment and the rule of law while combating crime and corruption and supporting human rights. Activities will include continuing support for judicial partnerships, the new judicial department, enforcement of judgments, legal education, and legal rights advocacy by NGOs, especially related to domestic violence.

Possible Adjustments to Plans: Projects will be monitored to ensure results and modified if necessary.

Other Donor Programs: The World Bank, the EU, and several bilateral donors are involved in Rule of Law activities for Russia. An active donor coordination group meets quarterly. USAID also works closely with the Russian government, local governments, legal associations, and NGOs such as the Sakharov Center and the Moscow Helsinki Group.

Principle Contractors, Grantees, or Agencies: In addition to DOJ technical assistance and training, USAID works with ABA/CEELI, Chemonics and the National Judicial College, the Sakharov Center and Museum, Moscow Helsinki Group, and the Organization for Economic Cooperation and Development.

Selected Performance Measures:

	Baseline	Target
Judges have electronic access to laws and judicial decisions	No (1997)	Yes (2000)
Judicial decisions are viewed as uniform and predictable by commercial lawyers (annual survey of commercial lawyers taking CLE seminar)	10 (1998)	20 (2000)
Increased number of regions with human rights monitors	0 (1998)	32 (2000)

ACTIVITY DATA SHEET

PROGRAM: RUSSIA
TITLE: Improved Effectiveness of Selected Social Services and Benefits, 110-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $7,750,000 FREEDOM Support Act
INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: This strategic objective will improve the delivery of selected social services and benefits, primarily health care services at the community level. Funds have been disbursed to assure the sustainability of basic social services and benefits target users of the health care system, low-income populations, and members of recently privatized state farms. Projects have included technical assistance, training, and advice in several areas, successfully demonstrating the benefits of a restructured, more market-oriented health system. Sustainable models for cost efficient health care have been implemented in several oblasts and cities in Siberia. Increased health care efficiency also means rational pharmaceutical use. As the health care model evolves, USAID will put the majority of its funds into medical partnerships, women and infant care, and into the fight against HIV/AIDS and tuberculosis. Achievement of this objective will result in more efficient and sustainable delivery of quality basic health, and of

communal services, such as heating, to those who cannot afford it.

Key Results: Three intermediate results have been pursued in support of this objective: (1) new approached to service delivery adopted; (2) new approaches to resource allocation and alternative financing of service delivery adopted; and (3) relevant policies, laws and regulations are drafted and submitted to the Duma.

Performance and Prospects: In view of the enormity and complexity of the social services delivery system, the precipitous decline in local resources available for social services over the past decade, and the current economic crisis, USAID's ability to significantly improve the overall health and well being of Russia's citizens is limited. Nonetheless, there have been some significant results to date.

Fourteen model family planning centers have been established in six regions and serve over three million women of reproductive age; overall abortion rates in these areas decreased by 11 percent between 1996 and 1997, almost twice the national average. Twelve partnerships between U.S. medical institutions and Russian hospitals have been established.

The Russian Medical Association is now responsible for accrediting physicians and distributed a Code of Ethics for Nurses. In three pilot regions, hospitals have developed clinical guidelines for five major illnesses, generating significant financial savings. In another pilot district the number of hospital beds has been reduced by almost half and, together with other cost saving measures, the district has saved $700,000 per year, one fourth of the entire budget for health care services.

Other discrete activities in support of the Gore-Chernomyrdin Commission Health Committee included: blood-lead screening for over 1200 children; national conferences on micronutrient malnutrition; and seminars on the early detection, prevention and control of major infectious and non-communicable diseases.

"Means tested" housing allowance programs coupled with gradual increases in rents and utilities charges have been adopted by over 90 percent of Russian communities. Housing was constructed for 4,569 returned Russian officers; this program served as the prototype for the Russian Government's efforts to house Russian officers as the military was downsized.

USAID is scaling back it's efforts for comprehensive health reform with the central government due to limited progress at that level. Russian counterparts have expressed consistent high demand for work in infectious diseases and hospital partnerships are producing good results. With high infant mortality rates, the mother and infant health care project is timely.

Possible Adjustments to Plans: USAID's priorities will be in fighting infectious diseases (AIDS and TB), women and infant health care, and medical partnerships in support of these priorities. Health finance, pharmaceutical policy, and work on discrete topics such as cardiovascular and mental health are of lower priority. USAID will continue to play an important role in supporting the U.S. - Russia bi-lateral commission in health care.

Other Donor Programs: Activities are closely coordinated with the World Bank, UNAIDS, the Soros Foundation, the British Know-How Fund and other donors. USAID normally pilot tests activities which are later embraced and expanded by other donors. The World Bank has made a $64 million loan for the health sector and is considering an additional $500 million over three years. The Soros Foundation is considering a $100 million contribution over three years. The Ministry of Health considers USAID activities to be most important and are working closely with USAID in formulating policy.

Principal Contractors, Grantees, or Agencies: American International Health Alliance, Boston University, Lutheran Hospital, LaCrosse, American Medical Association, U.S. Department of Health and Human Services, AVSC, and others.

Selected Performance Measures:

	Baseline	Target
Abortion rates in USAID-supported areas decrease more than the national average	7% (nationally)	10% (assisted areas)
Number of facilities using modern cost accounting and financial systems in pilot oblasts	0 (1994)	40 (2000)
Infectious disease protocols initiated	0 (1999)	4 (2000)

TAJIKISTAN

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$12,150,000	$11,870,000	$12,000,000
P.L. 480 Title II	4,049	--	--

Introduction.

Tajikistan is a small, but unstable, new state in the center of Asia that is emerging from five years of civil war between regional and ideological factions. The United States is the largest bilateral donor, and a key supporter of the 1997 Peace Accord and an independent and stable Tajikistan. The fragile peace and potential disintegration of Tajikistan threatens regional stability and deflects attention within the region from critical economic and political reforms. The humanitarian situation is dire.

The Development Challenge.

Tajikistan is the poorest of the new Central Asian states and the only one in which underlying ethnic, regional, economic and ideological strains led to open warfare and major population displacements. The June 27, 1997 Peace Accord opened a new phase in Tajikistan's short history, formally ending a civil war begun in 1992 which left at least 50,000 dead and 700,000 displaced and a legacy of hatred and suspicion which makes reconstruction tenuous and difficult.

The most important task for Tajikistan is to carry out the Peace Accord. USAID's role is to provide support for the reconciliation process and to rebuild institutional capacity. However, in the fall of 1998, relocation of the U.S. Ambassador and all U.S. employees from Dushanbe to Almaty, Kazakhstan limited USAID’s capacity to support the Peace Accord and development change. The security situation had deteriorated to the point where it was unsafe to continue a U.S. physical presence. Official travel was severely curtailed. Neither USAID officers nor contractors have easy access to development partners or clients. USAID must now find ways to provide effective assistance from its regional office in Almaty, Kazakhstan.

By the end of FY 1998, progress had slowed and little if any prospects were on the horizon for improvement. While most of the Tajik refugees who fled to Afghanistan had returned by early 1998, the government and opposition groups continued to face internal obstacles to a sustained peace settlement. On the more positive side, however, proposals for amendments to the constitution are under review and parliamentary elections tentatively planned for mid-1999. These may well be the most important elections within the region.

Likewise, progress on economic reform faltered in 1998. Macroeconomic stability suffered, and the Tajik ruble continued its decline, albeit at a slower pace. By October 1998, the Government of Tajikistan (GOT) was implementing International Monetary Fund (IMF) fiscal austerity policies, and the macroeconomic situation had made up some lost ground. Whereas progress in privatization remained slow, there have been some hopeful signs, such as changes proposed to the antiquated Russian tax laws.

The focus for U.S. assistance remains humanitarian in nature. Private voluntary organizations (PVOs), such as the World Food Program, Mercy Corps, CARE, Save the Children, and the Aga Khan Foundation (AKF), have been innovative in using U.S. assistance and the transition from strictly humanitarian relief to humanitarian-focused economic development which lays a foundation for sustainable development. USAID assistance to other international organizations (e.g., United Nations Mission of Observers in Tajikistan (UNMOT), UNDP, and IBRD is anticipated in order to secure a favorable environment for USAID intervention and to maximize impact. Assistance to the Tajikistan Social Investment Fund's poverty alleviation program provides an opportunity for USAID to

support community mobilization around water use issues, institute measures to prevent water-borne diseases, and address policy issues related to water charges and consumer use.

USAID increased its support for the peace process through reconstruction, assistance to civil society development, and constitutional and electoral reform. USAID also continued to provide advice and training on privatization and bank supervision with plans to expand this modest effort, the security situation permitting. Some short-term technical assistance and training is underway in economic restructuring, democratization, and health and family planning. USAID participant training programs both expose Tajik citizens to alternative approaches and systems for managing their country and develop the human resources needed for development once there is greater political stability.

Other Donors.

While the U.S. had taken the lead in responding to the humanitarian crises following the civil war, the IMF and the World Bank (IBRD) provided substantial resources to support macroeconomic stability and reform. Thus far, $22 million has been received from the IMF and $60 million from the IBRD. Their assistance has dropped in recent years, with IBRD currently financing only a $12 million Poverty Alleviation Project. However, at the end of FY 1998, each organization came forward with $10 million to support the peace process. United Nations High Commission of Refugees (UNHCR) has provided significant assistance during the refugee repatriation period, with the United Nations Development Program (UNDP) moving into the field with increasingly significant resources beginning in FY 1995. The European Union (EU), individual EU countries, Turkey, Russia and Iran have also assisted Tajikistan, as has the International Red Cross, supported in part by U.S. Government contributions. Large numbers of Private Voluntary Organizations, including several from the United States, are active and effectively managing their programs in Tajikistan.

FY 2000 Program.

USAID's involvement in Tajikistan assumes continued progress in the inter-Tajik peace process, which is essential for achieving national reconciliation and holding elections that meet international standards. Under economic restructuring, USAID will focus on two objectives: growth and development of private enterprise and evolution of a commercial legal and regulatory structure. There may also be some assistance to build the private banking sector. Tajikistan is one of the lowest rated countries in the region in terms of macroeconomic policy, and economic growth will be limited until they move forward on reforms. The size and nature of USAID's programs will be determined by the political and security situation of Tajikistan. USAID will continue to support the development of non-governmental organizations (NGOs), with a focus on those that contribute to the peace process through reconciliation and local community development. USAID is combining humanitarian and economic development efforts by moving forward with a competitive grant process to identify and support the most cost-effective local government activities in communities where there are also opportunities to build reconciliation in the post war period. These grants will be implemented by private voluntary and international organizations.

USAID will continue to support independent electronic media, focussing on how media stations can contribute to public understanding of the peace initiatives, upcoming elections, and proposed constitutional changes. After the election of the new parliament, USAID expects to direct assistance toward building the institutional capacity of the parliament. These elections, scheduled for mid-1999, are considered to be among the most significant and competitive in the region. USAID intends to increase support for this important undertaking. In the social sector, USAID will continue to work closely with other donors, PVOs and NGOs. Special initiatives in reproductive health, infectious disease, and health partnerships will be programmed in a manner which promotes citizen and community involvement as well as achieves needed improvements in health.

TAJIKISTAN

FY 1999 PROGRAM SUMMARY*
(in Thousand of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	1,650	--	--	--	1,650
Financial Reform	1,150	--	--	--	1,150

Energy	--	--	--	--	--
Environmental Management	--	--	--	--	--
Citizens' Participation	--	1,800	--	--	1,800
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	1,400	--	1,400
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	6,000	6,000
TOTAL	2,800	1,800	1,400	6,000	12,000
*Freedom Support Act (FSA) funds					

USAID Mission Director: Glenn Anders

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $1,650,000 Freedom Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2002

Summary: Prior to 1996, the policy environment was not conducive to concentrated technical assistance in the area of economic restructuring. In the wake of the ongoing civil war, training and exchange were the best mechanisms for Tajiks to observe developments elsewhere and to gain international experience. To encourage reform, USAID engaged Tajik counterparts in necessary private sector reforms through training courses and modest, targeted technical assistance. The objective of this activity is to achieve accelerated development and growth of private enterprises. USAID has sent hundreds of Tajiks to U.S. and other Central Asian countries for short-term training in a variety of economic reform areas. Specialized in-country training has also been effective. Tajiks trained under these programs now form a professional cadre of reform-minded officials who are taking the lead in crafting long-term economic stabilization and structural adjustment programs.

An area of USAID training support that has been well received in Tajikistan is commercial law reform. As in the other countries of Central Asia, the Government of Tajikistan (GOT) has indicated its support for the development of a core set of commercial legislation that will serve as the legal backbone for the nation’s emerging private sector. USAID has already demonstrated its capacity to provide expertise in this area through its comprehensive commercial law assistance activities in Kazakhstan and Kyrgyzstan. Although continued political instability led to the suspension of USAID activity at the end of the year, the security situation permitting, new technical assistance is planned that will constitute a critical element of the peace process. Success in this area will be achieved with an increase in the share of GDP being generated by private enterprises to 75% in 2001.

Entrepreneurs and those involved in private sector development stand to benefit from this initiative. More broadly, the citizens of Tajikistan would benefit from economic reform that leads to sustainable economic growth.

Key Results: Accelerated development and growth of private enterprise hinge on progress toward the following: 1) continued GOT adherence to conditionality of international financial institutions; 2) the dollar volume of joint venture funds invested increasing to $11 million in FY 2001; 3) the share of GDP generated by private enterprise growing to 50% by FY 2001; and 4) the percentage of total capital investment in the private sector also growing to 75% by FY 2001.

Performance & Prospects: During FY 1998, the Central Asian-American Enterprise Fund (CAAEF) made eight loans totaling $730,468 to private businesses in Tajikistan. Winrock Farmer-to-Farmer and USAID-funded International Executive Service Corps advisors have assisted Tajik enterprises in preparing business plans and loan/equity proposals for CAAEF and have acted as consultants on post-investment management.

Subject to continued commitment by the Government of Tajikistan to economic reforms, as well as increased

security and political stability in the country, USAID plans to undertake a modest commercial law assistance initiative in FY 1999 and FY 2000 to help the GOT develop a market-oriented commercial infrastructure, including key reforms in the law. The program will initially focus on drafting the following laws: bankruptcy; collateral law; banking; and foreign investment; areas designed to promote the transfer of productive assets to the private sector and strengthen the rights of private investors. Practical constraints to business formation and operation (*e.g.*, licensing and registration procedures) will also be addressed. In addition to commercial law reform, the activity will provide in-country training to key officials involved with the implementation of a market-friendly regulatory regime, *i.e.*, judges, lawyers, and prosecutors. Work under this strategic objective will promote the rule of law and thereby the solidification of the peace process.

Possible Adjustments to Plans: The most immediate concern is the direction that the country takes with regard to the civil war and violence. USAID closely monitors this issue and will adjust the program accordingly. USAID is interested in restarting efforts in commercial law.

One of the key foci in the coming years will be the Fergana Valley, for it is one of the most dynamic regions for private enterprise growth in Central Asia. Plus, parts of the Valley have been untouched by the civil war. If the opportunity presents itself, USAID will strengthen the IESC activities in this region.

Other Donors Programs: USAID will continue to work closely with the various governmental entities involved in private sector development and economic restructuring issues. The World Bank and IMF are also directly engaged in this effort. USAID coordinates closely with these two institutions on their activities and in some instances, such as in the recent placement of a privatization advisor in Dushanbe, directly supports their programs. Activities are also coordinated with those of other donors such as the European Union and UNDP, as they are interested in economic reform issues.

Principal Contractors/Grantees/Implementing Agencies: USAID assistance activities are implemented through private U.S. firms, such as ARD/Checchi, and U.S. PVOs, IESC and CAAEF.

Selected Performance Measures:

	Baseline	Target
GOT adherence to conditions of international financial institutions	Yes (1997)	Yes (1997)
Dollar value of joint venture funds invested (millions)	$3 (1997)	$11 (2001)
Share of GDP generated by private enterprise	20% (1996)	50% (2001)
Percentage of total capital investment in the private sector	20% (1997)	75% (2001)

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE AND NUMBER: A More Competitive and Market Responsive Private Financial Sector, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $1,150,000 Freedom Support Act
INITIAL OBLIGATION: FY 1998; **ESTIMATED COMPLETION DATE:** FY 2000

Summary: Before 1996, the policy environment was not conducive to concentrated technical assistance in the area of economic restructuring. In the wake of the civil war, training and exchanges were the best mechanisms for Tajiks to observe developments elsewhere and to gain international experience. To encourage reform, USAID engaged Tajik counterparts in necessary private sector reforms through training courses and modest, targeted technical assistance. The objective of this activity is to create a more competitive and market responsive private financial sector. USAID has sent hundreds of Tajiks to the U.S. and other Central Asian countries for short-term training in a variety of economic reform areas. Specialized in-country training has also been effective. Tajiks trained under these programs now form a cadre of reform-minded officials who are taking the lead in crafting long-term economic stabilization and structural adjustment programs.

USAID's targeted training and technical support has sought to maximize its impact on key economic reforms. For example, in early FY 1997, a USAID privatization advisor played a crucial role in initiating privatization reforms that are now being undertaken as part of a comprehensive World Bank program. In early 1998, a USAID bank supervision consultant began an assignment with the Tajik Central Bank. The activity was designed to help the Central Bank establish the capability to effectively supervise the commercial banking sector in Tajikistan through

design and training of a modern bank supervision unit. The project appeared to get off to a very rapid start, with the resident advisor quickly establishing credibility with his counterparts. After only a few weeks, the advisor had already undertaken an on-site commercial bank examination. In addition, the Chairman of the Central Bank requested weekly meetings with the USAID advisor to review progress in implementing the advisor's ambitious work plan. Although continued political instability led to the suspension of USAID activity at the end of FY 1998, further technical assistance is planned for 1999 and beyond and will constitute a critical element of the peace process. Despite problems related to ongoing political instability in Tajikistan, during the 1996-1998 period, the Government of Tajikistan showed increased commitment to economic reforms. Success in this activity will be achieved if there are increases in the ratio of private sector deposits in Tajikistan's banking system to GDP. To date, however, baseline data have not been gathered.

The direct beneficiary of this activity would be the Central Bank of Tajikistan. More importantly, the citizens of Tajikistan would benefit from economic reform that leads to sustainable economic growth, a critical element of the peace process.

Key Results: This was a new activity in FY 1998. Baseline data and targets will have to be completed. Achievement of financial sector reform will depend upon progress as measured by the following indicators: 1) increases in private sector deposits in Tajikistan's banking system as a percentage of GDP; 2) a positive USAID assessment of regulatory readiness of the Central Bank of Tajikistan; 3) increases in the number of banks converted to international accounting standards by FY 2001; and 4) consideration/adoption of appropriate official laws and regulations.

Performance and Prospects: The political and security situation permitting, USAID's efforts in FY 2000 will continue to be targeted at achieving key results in the legal/regulatory structure of the commercial banking sector, increasing the number and quality of financial services available, and improving Central Bank access to information about the banking system and its capability to enforce prudent norms in the banking sector. These core efforts will likely be complemented by a progressive emphasis on use and strengthening of international accounting standards in the banking sector. USAID will coordinate its Central Bank assistance closely with the IMF and with the advisory assistance from the World Bank. USAID's successful work in banking system development in Kazakhstan and Kyrgyzstan provides a significant advantage in continuation of the program in Tajikistan.

Possible Adjustments to Plans: The most immediate concern is the direction that the country takes with regard to the civil war and violence. USAID closely monitors this issue and will adjust the program accordingly. Based upon an expressed need, USAID may begin to work in the area of accounting conversion for private enterprise, with limited training and technical assistance. This would complement an existing privatization program of the World Bank.

Other Donor Programs: USAID will continue to work closely with the various governmental entities involved in private sector development and economic restructuring issues. The World Bank and IMF are also directly engaged in this effort. USAID has coordinated closely with these two institutions on their activities. Activities are also coordinated with those of other donors such as EU and UNDP, which are interested in economic reform issues.

Principal Contractors, Grantees, or Implementing Agencies: The private U.S. firm of Arthur Andersen has been the primary implementing agency.

Selected Performance Measures: This was a new activity in FY 1998. Baseline data and targets will have to be completed. The indicators to be tracked are listed below:

	Baseline	Target
Private sector deposits in banking system as a percentage of GDP	NA (1997)	NA
USAID assessment of regulatory readiness of Central Bank	NA (1997)	NA
Number of banks converted to international accounting standards	NA (1997)	NA
Consideration/adoption of appropriate official laws and regulations	NA (1997)	NA

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE AND NUMBER: Increased Citizen's Participation in Political and Economic Decision-making, 110-SOO2.1
STATUS: Continuing
PROPOSED OBLIGATIONS AND FUNDING SOURCES: FY 2000: $1,800,000 Freedom Support Act
INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE**: FY 2002

Summary: Efforts to bring about political consensus in Tajikistan have proven to be long, arduous and fragile. Nonetheless, provided that the security situation permits international organizations to operate in Tajikistan, opportunities do exist to promote reconciliation through assistance to the election process, enhancement of information flows about the peace process and the upcoming elections, and assistance in increasing the participation of Tajik citizens in the rehabilitation process. The aftermath of civil war and the economic decline have, in a number of instances, left vacuums that can be filled in part by local community groups working together to help in rehabilitating the country. In FY 1999, USAID initiated substantial assistance for the upcoming parliamentary elections. In addition, modest NGO, judicial and media support activities will continue, but with more emphasis on the peace process.

Key Results: Three key intermediate results were concluded to be necessary to achieve the Strategic Objective. NGO participation in civil society must be strengthened, information on domestic economic policies and politics must become more widely available and the Government must become more responsive and accountable to citizens and citizens' organizations.

Performance and Prospects: To date, over 1072 NGOs and local community group representatives have participated in USAID training courses, and USAID has made some 90 small NGO seed grants totaling approximately $239,370 (through Counterpart Consortium and ISAR). USAID assistance through the International Center for Not-for-profit Law (ICNL) helped to facilitate the drafting of revisions to the Public Association Law which was passed by the parliament over this past year. The judicial association of Tajikistan, with the assistance of ABA/CEELI, has played an active role in promoting an independent judiciary as the Council for National Reconciliation considers constitutional amendments. The association adopted an ethics code to which all judges must adhere -- an important step toward transparency and accountability. ABA/CEELI recently convened a successful workshop with Tajik officials on corruption law and intends to follow-up in the near future. Assistance to independent media continues to be required given the government's use of the media law against media outlets and given future demands of the peace process. USAID is supporting the Internews production of Pairachi Zindagi ("The Path of Life"), a first step in supporting more independent media outlets, critical to fostering greater citizen participation.

USAID is looking to continue these successes with the eventual return of American staff to our partner offices (i.e., Internews and ABA). In addition, the upcoming elections in the summer of 1999 in Tajikistan challenge the GOT and our partners to support electoral reforms necessary to convene fraud-free elections. USAID and its partners are working closely with GOT (through legislation reform, election administration training, and voter registration system development) to develop conditions conducive for elections that meet international standards.

Possible Adjustments to Plans: In addition to an increase in election-related assistance this year, USAID anticipates a more intensive strategic focus on conflict/crisis management and the peace process in the upcoming years. In particular, USAID intends to work more closely with other donor partners on cross-sectoral integration and synergies in our programming.

Other Donor Programs: USAID is working closely with UNMOT and the OSCE on coordinating election-related assistance, as well as on specific joint projects. The international community, including USAID, is paying particular attention the country's all-important first post-conflict elections. Joint activities include co-sponsoring a constitutional reform workshop and an upcoming election law seminar. The OSCE and UNMOT have indicated an interest in providing additional commodities to support USAID's voter registration system development activity. Other donors, including the EU and various UN agencies, are also involved in a variety of activities that promote democracy and the peace efforts. Donors meet regularly to discuss areas of common concern, and this coordination will continue.

Principal Contractors, Grantees or Agencies: Several USAID-funded American NGOs, such as the American Bar Association/CEELI, Internews, and the International Foundation for Electoral Systems (IFES), are playing a role in promoting democracy and the peace effort in Tajikistan. The Counterpart International, Aid to Artisans, and the

International Center for Not-for-profit Law, which together form the Counterpart Consortium, also participate in local NGO development. Initiative for Social Action and Renewal in Eurasia (ISAR) will also participate in the development of local environmental NGOs.

Selected Performance Measures:

	Baseline	Target
Number of NGOs involved in advocacy	9/9 (1997)	60/40 (2001)
Average daily minutes of local news programming	5 (1996)	14 (2001)
Number of Parliamentary hearings and committee meetings addressing legislative/policy issues	0 (1994)	5 (2001)

ACTIVITY DATA SHEET

PROGRAM: TAJIKISTAN
TITLE AND NUMBER: Improved Response to and Management of Humanitarian Crises, 110-S003.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $1,400,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Summary: The U.S. has been a lead donor in providing humanitarian assistance following the 1992 civil war. In FY 1996 and FY 1997, there was a marked shift away from strictly humanitarian assistance toward a program emphasizing economic growth. However, events in 1998, including the worsening of the already fragile political situation, a number of serious security incidents, and set-backs in implementation of the 1997 peace accords, have now required that programming needs to take into account the relative instability of the domestic situation. The closing of the U.S. Embassy in Dushanbe and the withdrawal of USG employees has reinforced this view. Therefore, support for the peace process has assumed a greater priority for USAID in Tajikistan. Seventy-five percent of the available development resources in 1998 were directed towards this end. USAID expects that the program emphasis on reinforcing the peace process will continue through FY 2000. USAID has therefore chosen to target social development activities that involve members of the local community, contribute to the development of indigenous organizations, encourage sustainability, and provide a strong link to longer-term development within an environment of peace and social harmony.

Key Results: In 1998, USAID's Tajikistan Social Investment Fund (TASIF) started to implement micro projects. The major participants involved in implementing micro projects are: a) the community or group that benefits directly from the micro project in terms of increased job opportunities and income and improved access to services; b) the sponsoring agency, that is, the local government, NGO or community group; and c) the implementing agency. The implementing agency is an NGO, local government or other community group. More than 40 micro-projects have been implemented already. USAID is also supporting activities that have proven successful in increasing employment and income in the agricultural and agro-processing sector through community participation. USAID supports activities to increase community access to primary health care. USAID actively supported citizen-sponsored government action to meet the challenges facing Tajikistan and coordinated with the Ministries of Health, Education, Agriculture, Finance and the State Committee for Emergencies; helped pass a decree to prohibit the reconstruction of houses in flood plains working closely with flood-affected populations and local and international NGOs; and integrated a peace component into a rehabilitation project for war-affected schools.

Performance & Prospects: Development-oriented humanitarian programs introduced since 1996 have achieved increasingly noteworthy results. A USAID-supported small loan program for farmers permits loan repayment in kind directly to local institutions such as hospitals and orphanages, thereby benefitting not only farmers but vulnerable groups. Other programs have improved access to basic health services for 260,000 people, and established 62 village health committees covering approximately 85,000 beneficiaries. A revolving pharmaceutical fund established with USAID support has enabled 17,000 patients to purchase or receive needed medications. USAID has provided critically needed funding to the United Nations Mission of Observers in Tajikistan (UNMOT) as a key contribution to maintaining personnel and peacekeeping activities at a critical time in the implementation of the peace process. USAID also provided support for UNDP/UNOPS activities, particularly a UNDP rural reconstruction project for war affected areas. In 1998, USAID initiated assistance to a project of the Aga Khan Foundation (AKF) to support establishment of private farmers in a war-affected area, to promote community-based peace and confidence-building measures in the Gharm region, and supported World Bank assistance to their Poverty Alleviation Project to improve

access to social and economic services.

Possible Adjustments: It is expected that assistance through the year 2000 will continue to focus on economic and social development activities which support the peace process.

Other Donor Programs: Donor coordination in Tajikistan is excellent and is regarded as among the most effective in the former Soviet Union. Various donor groups meet weekly to discuss programs and exchange information on important developmental and security issues affecting Tajikistan. Lead organizations include the United Nations (UNDP/UNOPS, UNICEF, WHO, etc.), bilateral donors including various European organizations, and a variety of American and international PVOs. Both the World Bank and the UNDP support initiatives that rely largely on local and foreign non-governmental organizations to deliver badly needed goods and services to many areas of Tajikistan.

Principal Contractors, Grantees, or Implementing Agencies: Groups that have received USAID funds include Save the Children, Relief International, CARE, World Food Program, Mercy Corps International, and AKF.

Selected Performance Measures:

	Baseline	Target
Humanitarian/crises activities	50% (1997)	10% (2000)
Reconciliation/development programs	50% (1997)	90% (2000)

TURKMENISTAN

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$5,451,000	$13,420,000	$12,000,000

Introduction.

The United States has a strategic and economic interest in Turkmenistan becoming economically viable, politically independent and well integrated into international political and economic institutions. Turkmenistan has long borders with Iran and Afghanistan as well as close proximity to the Caucasus, the Middle East and South Asia. As an energy importing nation, the United States is interested in ensuring that Turkmenistan's energy potential be realized. Turkmenistan possesses the world's fourth largest natural gas resource as well as significant oil reserves. It has the potential to become a major player in world energy markets once export route questions are resolved.

The Development Challenge.

Limited progress has been achieved in Turkmenistan's economic sphere since the breakup of the Soviet Union. The government has not had the know-how or political will to carry out the reforms required for a transition to a free market economy. Turkmenistan remains a resolute one-party state with power vested in a communist-turned-nationalist leadership. While Turkmenistan has the potential to be a wealthy country, the government has adopted a gradualist approach to market reform. It avoids actions that might entail significant loosening of state control over the economy or rapid political liberalization. As a consequence, Turkmenistan has the lowest ranking of any NIS country in economic policy reform according to EBRD country progress ratings.

The general economic situation continues to deteriorate. The national currency has been progressively devalued. The Government of Turkmenistan (GOTK) has tightened fiscal and monetary policies and loosened foreign exchange and trade controls to try and correct some of the monetary imbalance. However, inflation remains high at approximately 21% despite a risky draw-down of international reserves to bring it down to this level. Until 1998, it was difficult to exercise fiscal control with over half of government expenditures effectively off-budget. Real gross domestic product (GDP) has declined more than 65% over the past four years. Central Bank foreign reserves are dangerously low and the GOTK continued in 1998 to build up short-term commercial debt to finance imports. This brought international attention to the country’s flawed economic strategy. The GOTK appears close to recognizing the need to adopt quickly some systematic economic reform policies. The International Monetary Fund (IMF) failed to reach an agreement with the GOTK on the terms for an IMF stand-by arrangement in late 1998. With USAID and World Bank (IBRD) support, the government has begun to design a mass privatization program which includes privatization of some agricultural land. An important step toward greater fiscal transparency was taken in late 1998, when the Parliament passed a 1999 budget which accounted for over 95% of all GOTK budgetary revenues and expenses. The state continues to dominate economic production. Key policy and regulatory constraints severely inhibit private investment.

Recent steps by the government to promote economic restructuring have provided an opportunity for USAID to offer more substantial assistance in market-oriented reforms. The core of USAID's assistance program is to strengthen the government's budget planning and management and advance legal and regulatory actions necessary for the growth of private enterprise and international investment (particularly in the petroleum sector). These programs will be reinforced by training public officials to increase their understanding of, and commitment to, legal and regulatory changes that foster market-based economies and democratic governance. Other donors have stated that similar USAID-financed training over the past few years has made Turkmen public officials more receptive to reforms.

The national leadership exercises firm authoritarian control over a highly centralized government structure with no

freedom of the press and no tolerance for opposition political activities. However, some advances have been made. The President opened the Institute for Democracy and Human Rights (IDHR) which has a mandate to foster democratization of the state and monitor the protection of human rights. USAID has been assisting IDHR in identifying various needs for institution building. In addition, USAID has been working with a nascent GOTK working group to design broad democratic reforms for the country. Though Turkmenistan is not yet ready for a large democratization program due to its constrictive political climate, USAID will continue to stress the role of civil society organizations as partners with the state in the alleviation of social problems and as lead actors in community development.

More than five years after independence, the average Turkman faces hardships caused by inflation, poorly-funded government services, and the tremendous costs of maintaining a state-run economy. The majority of Turkmenistan's population, particularly outside the capital, suffers from hunger and disease. Special initiative earmark funds are being used to meet health needs especially for family planning and infectious disease control/prevention. A new partnership program is helping create a primary health care training center modeled on an existing emergency medical center. This center will train family medicine practitioners and nurses in primary health care. Targeted opportunity exists in Turkmenistan to expand women's role in managing their reproductive health. There is a critical need to address the low health status of women in Turkmenistan.

Other Donors.

The IMF provides technical assistance in macroeconomic policy. The European Union's development program supports privatization, agriculture, energy, and private sector development. The United Nations Development Program (UNDP) supports a public administration institute, and United Nations Children’s Fund (UNICEF) provides assistance in reproductive health and maternal/child care. Other donors include the Turkish International Cooperation Agency, the British Know How Fund, and United Nations High Commission for Refugees (UNHCR).

FY 2000 Program.

Because of the slow pace on reforms in Turkmenistan, USAID's economic reform assistance will continue to be limited but focused on improving the legal and regulatory environment for investment and growth, and improvement and transparency in the budget process. Most recently, USAID is supporting an initiative in agribusiness and land privatization, and in agricultural policy reform through the USDA. USAID will continue to take advantage of opportunities to provide technical support for accession to the World Trade Organization (WTO). USAID is also increasing its assistance to reform Turkmenistan’s energy sector as described in the Central Asia Regional Presentation.

Under cross-cutting and special initiatives, USAID will continue to fund targets of opportunity in democracy and health. USAID plans to increase assistance to civil society development through indigenous non-governmental organizations (NGOs), especially those working outside of the capital, and on establishing a legal information center. Depending on developments with the governmental democracy working group, USAID is also considering initiating assistance aimed at fostering judicial reform and facilitating the development of an independent parliament.

To help address pressing social needs, health-related programs and family planning activities will be increased to strengthen primary health care and disease prevention and control. USAID will expand assistance in the health sector on infectious disease control, reproductive health, and women’s groups. Complementary in-country and third-country training activities will be expanded to better prepare and persuade decision-makers to adopt policy changes.

TURKMENISTAN

FY 1999 PROGRAM SUMMARY*
(in Thousand of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	---	---	---	---	---
Fiscal Reform	600	---	---	---	600
Private Enterprise	3,200	---	---	---	3,200
Financial Reform	---	---	---	---	---
Energy	---	---	---	---	---

Environmental Management	---	---	---	---	---
Citizens' Participation	---	---	---	---	---
Legal Systems	---	---	---	---	---
Local Government	---	---	---	---	---
Crises	---	---	---	---	---
Social Benefits	---	---	---	---	---
Environmental Health	---	---	---	---	---
Cross-cutting / Special Initiatives	---	---	---	8,200	8,200
TOTAL	3,800	---	---	8,200	12,000
*Freedom Support Act (FSA) funds					

USAID Mission Director: Glenn Anders

ACTIVITY DATA SHEET

PROGRAM: TURKMENISTAN
TITLE AND NUMBER: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $600,000 Freedom Support Act
INITIAL OBLIGATION: FY 1998; ESTIMATED COMPLETION DATE: FY 2002

Summary: Turkmenistan has been relatively slow to effect serious economic restructuring measures. Since independence, USAID and other donors such as the World Bank and the IMF have conducted an ongoing dialogue on the need for change and on the types of approaches required to embark on serious reform. This activity focuses on strengthening the expenditure side of fiscal policies to provide a more rational allocation of scarce government resources and a more transparent picture of the real fiscal costs of maintaining a predominant state role in the production sphere of the economy. The purpose is to increase the soundness of fiscal policies and fiscal management practices. It is anticipated that a key indirect result of this work will be increased GOTK understanding of the need for more rapid privatization of the economy. In the past year, there have been clear indications that the GOTK is more serious about advancing the economic reforms needed to promote sustainable development. Budget reform is a priority reform area for the GOTK, as approximately 50% of state spending was off-budget in 1997 as opposed to 20% at this juncture. Successful reforms by the GOTK would lead to a decline in the general government deficit as a percentage of GDP to 0.1% by 2001.

The direct beneficiary is the Ministry of Finance. More broadly and of greater importance, the citizens of Turkmenistan will benefit from budgetary reforms that lead to more efficient use of public sector resources and encourage private sector growth.

Key Results: Improved fiscal management and reform in Turkmenistan will hinge on: 1) reducing the government deficit as a percentage of GDP to around 0.1% by FY 2001; 2) renewed GOTK compliance with conditions of international financial institutions; and 3) continued reductions in the off-budget share of the total public sector expenditures, to zero by the end of FY 2001.

Performance and Prospects: The USAID fiscal reform program is already gaining momentum, and initial receptivity of the Ministry of Finance to the resident advisor's recommendations has been very positive. The GOT has incorporated 95% of the resident advisor's suggestions into its FY 1999 budget documents, all of which were passed by the Parliament. The number of government entities and investment funds covered under the budget has increased from 30 to 92, thereby significantly decreasing "off-budget" requirements. This is a key step toward the establishment of a comprehensive national budget. In addition, USAID continues support for development of a new budget systems law which, if enacted, will require detailed monthly financial reporting of all state ministry and agency expenditures, including capital expenditures.

In keeping with USG priorities in Turkmenistan, USAID was instrumental in the July 1998 enactment of amendments to the Civil Code, including provisions to conform intellectual property provisions to WTO requirements that were drafted in consonance with the project. Likewise, a Presidential decree was issued abolishing

a significant number of administrative barriers to free trade. This decree incorporated much of what was contained in recommendations USAID made through its resident advisor. USAID assisted the GOTK in drafting a number of laws that will ultimately provide legislation to spur foreign investment.

Possible Adjustments to Plans: The focus of technical assistance is on design and implementation of a formal budget process that brings all state spending on-budget, as well as the establishment of modern program budgeting and analytical methods. At this time, GOTK discussions on a comprehensive macroeconomic reform program with the IMF are intensifying. If these negotiations culminate in a stand-by arrangement, USAID will be well positioned to support implementation of the expenditure control and rationalization measures which would be included as conditionality in the IMF Program.

Subject to continued commitment by the GOTK to budget reform, USAID will continue to fund a resident budget advisor to the Ministry of Finance. The advisor will: 1) support effective implementation of budget reform legislation; 2) train key Ministry of Finance officials in budget analysis and preparation; and 3) introduce a new budget classification system that is consistent with international standards. Such work would complement the World Bank privatization project.

Other Donor Programs: In budget reform efforts, USAID cooperates closely with the World Bank and IMF.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through Booz Allen & Hamilton.

Selected Performance Measures:

	Baseline	Target
General government deficit as percent of GDP:	1,6% (1995)	0.1% (2001)
GOTK compliance with conditions of international financial institutions:	No (1996)	Yes (2001)
Off-budget share of total public sector expenditures:	50% (1997)	0% (2001)

ACTIVITY DATA SHEET

PROGRAM: TURKMENISTAN
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: 3,200,000 Freedom Support Act
INITIAL OBLIGATION: FY 1997 ESTIMATED COMPLETION DATE: FY 2001

Summary: When senior policy makers of the Government of Turkmenistan (GOTK) signaled serious interest in accelerating economic reforms, USAID initiated a technical assistance program in mid-1997 designed to promote private sector development. This initiative has emphasized support for the GOTK's efforts to gain accession to the World Trade Organization (WTO) and associated policy and regulatory reforms to promote investment and acceleration of the privatization process. With USAID assistance, a Presidential decree was issued to abolish various administrative barriers to trade. USAID advisors continued to assist the GOTK in drafting reform legislation covering foreign investment, registration and competition. Additionally, and with USAID assistance, another Presidential decree was issued approving a discounted cash flow method of assessing the value of enterprises. In late FY 1998, USAID initiated the first phase of agricultural land privatization. In addition, the Central Asian American Enterprise Fund (CAAEF) has been active in Turkmenistan with $14 million in equity investment and $5.2 million in approved loans through late FY 1998. With USAID financing, the International Executive Service Corps has provided technical support to potential CAAEF clients and to participating local banks. USAID will be able to gauge success in this area if the share of GDP generated by private enterprises increases to 75% by 2001.

Enterprises and individuals involved in private sector development will benefit from this initiative. More broadly, Turkmenistan's citizens will benefit from reforms that lead to sustainable economic growth.

Key Results: In order to witness progress towards this objective, advances in the following indicators should be observed: 1) the share of GDP generated by private enterprises climbs to 75% by FY 2001; 2) the percentage of total capital investment in the private sector would rise to 75% by FY 2001; and 3) the dollar value of joint funds invested would increase to $11 million by FY 2001.

Performance and Prospects: There have been a number of successes recently, as mentioned above. In addition, amendments to the Civil Code were enacted in July 1998 that included provisions to conform intellectual property to WTO requirements and USAID assisted the government in drafting reform legislation in the area of foreign investment. While these bode well, there are also some significant issues that could hinder prospects for success in the future: 1) the existence of competing state entities involved in privatization as well as overlapping responsibilities; 2) the lack of a clear political commitment to privatization; 3) an inadequate legislative and regulatory base for privatization; and 4) the lack of a securities/capital market to facilitate privatization.

With regard to private business, USAID has only just begun to provide technical assistance to nine private sector companies in different sectors, such as bakeries, an auto parts manufacturer, a poultry farm, a print shop and a private commercial bank. Unfortunately, introduction of the needed macroeconomic reform has been slow. It will be necessary for the business regulatory environment to improve in order for businesses to grow and expand.

Possible Adjustments to Plans: USAID-supported technical assistance continues to focus on analysis of the benefits of WTO accession and review of the compatibility of the current Turkmenistan regulatory environment with WTO standards. A full-scale support program for WTO accession will be launched in 1999, assuming the GOTK commits itself to a comprehensive accession and compliance effort. USAID assistance to the industrial privatization program has been closely coordinated with the World Bank. In January 1998, the GOTK partially reorganized inter-ministerial responsibilities for privatization. The government is establishing a new privatization office within the State Foreign Investment Agency and formulating a pilot enterprise privatization program. USAID will provide analytical and training support for this pilot effort. If the pilot is successful (as expected), USAID will intensify support for privatization of more visible and financially viable industrial assets. Additionally, USAID will be working closely with the Ministry of Agriculture and Water Resources in implementing agribusiness and land reform privatization. Another area of potential USAID support is in privatization of industrial and agricultural construction enterprises. The main objective of the program is to improve food security by means of attracting private business into the agricultural privatization process.

Other Donor Program: USAID works closely with government entities involved in private sector development and economic restructuring. Lead donors include the IMF, World Bank and EU.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented through Booz Allen & Hamilton, CAAEF and IESC.

Selected Performance Measures:

	Baseline	Target
Share of GDP generated by private enterprises	20% (1996)	75%(2001)
Percentage of total capital invested in the private sector	8% (1997)	75% (2001)
Dollar volume of joint venture funds invested (millions)	$3 (1997)	$11 (2001)

UKRAINE

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$225,000,000	$195,000,000	$219,000,000

Introduction.

Ukraine's successful transition to a democratic society and market economy is fundamental to U.S. national interests. A strong, stable, independent, prosperous, and democratic Ukraine will be an important partner in achieving post-Cold War goals such as preventing nuclear proliferation, expanding commercial and economic relations, eradicating disease and conflict, easing environmental degradation, and shaping a more secure and stable Europe. In providing assistance to Ukraine, U.S. strategic goals are to help Ukrainians build a strong, independent, democratic, and economically viable country, and to further Ukraine's effort to become integrated into the global community and forge stronger ties with the West.

The Development Challenge.

After seven years of independence, Ukraine's transformation to a market-based democracy may well be irreversible, but its pace has proven Western expectations overly optimistic. Despite some progress in economic reform, most observers agree that Ukraine has not executed the tough policy reforms necessary to promote economic growth. There are a number of reasons for this: there is still no consensus among the country's people or leaders on the ultimate nature of Ukraine's government or national identity; the leadership either has been uncommitted to reform or unable to articulate and gain support for a particular vision; proposed changes are often blocked by political stalemates between the President's Administration and the parliament, or by the class of elites born of the transition wishing to preserve the status quo; increasingly, politicking for the October 1999 Presidential election is intruding on the policy debate. Lack of political will is surely a problem, but it does not fully account for the failure to reform. Also to blame is the fact that capacity to conceive and implement changes is extremely limited.

The current financial crisis threatens to dissolve hard-won policy gains, and this may serve as renewed impetus for the Government to pursue comprehensive reform in earnest. But the obstacles remain substantial. Given experience to date and the present environment, the United States has begun taking a new approach in its assistance program. In the past, with only limited success, primary emphasis was placed on supporting the Government's reform efforts at the national level. Increasingly, the assistance program has been shifting focus to local-level activities, with the majority of resources directed to programs that empower people and grassroots organizations to foster change. This includes support for small business development, working with private farmers in selected regions, strengthening citizens' groups, think tanks and other non-governmental organizations, and increasing the capacity of local government to implement reforms and promote economic growth. This is complemented by an ongoing policy dialogue with the Government, both on a bilateral basis and in conjunction with other donors, to influence structural reform in key sectors. Limited technical assistance for government reform efforts is provided where there is good potential for progress, particularly in conjunction with IMF and World Bank programs.

Also emphasized in this new approach is pilot-testing reform initiatives in selected progressive regions, and maximizing the use and replication of demonstration projects to provide successful models of reform throughout Ukraine. Greater reliance on partnerships with U.S. organizations will help leverage U.S. assistance dollars further and promote binding ties between groups in the United States and Ukraine. In the same vein, there is great potential for Ukraine to benefit from lessons learned by other former Eastern bloc countries further along in their transition, such as Poland. The United States is supporting this type of cross-border cooperation through technical assistance, training and study tours. Finally, support for anti-corruption measures will play a more prominent role in U.S. assistance programs, particularly in reducing the potential for corruption by encouraging transparent measures,

reducing regulation, and putting in place incentives to reduce corruption.

Other Donors.

The United States is the largest bilateral donor to Ukraine. Other major donors include the World Bank, European Union, United Kingdom, Germany, Canada and the European Bank for Reconstruction and Development. USAID works closely with these donors to ensure that U.S. assistance programs are complementary, mutually reinforcing and do not duplicate each other. General donor meetings are held regularly, and seventeen sector-specific working groups meet periodically to exchange views and information on joint activities and key developments. Programs in which donor coordination has been particularly productive include bank supervision, international accounting standards, power sector regulatory reform, the Regional Environmental Center, the National Environmental Action Plan, the Action Plan to Address the Social Impact of the Closure of Chornobyl, climate change, privatization and capital markets, and business development.

The European Union's assistance program focuses on institutional reform, private sector development, energy and the environment. Germany provides credits to finance German exports to Ukraine and federal guarantees for capital investments, as well as technical assistance on macroeconomic, legal and social issues, financial sector reform, privatization and small and medium enterprise development. Canada's program of technical cooperation supports the transition to a market-based economy, promotes democratic development, and increases Canadian trade and investment links with Ukraine. The United Kingdom's Know-How Fund provides assistance in agriculture, energy, financial services, good government and small and medium enterprise development. The EBRD has a micro- and small enterprise credit line, and provides support for enterprise restructuring, institutional strengthening and post-privatization activities. EBRD investments encompass a broad range of sectors, including food processing, financial sector, oil and gas extraction, agricultural services, telecommunications and port facilities. The EBRD also administers the Chornobyl Shelter Implementation Plan on behalf of the G7 and other contributing countries.

In September 1998, the IMF approved a three year credit of $2.2 billion under the Extended Fund Facility to support the Ukrainian Government's 1998-2001 economic program. However, only $336 million of the total loan package has been disbursed. The current tranche was postponed in November, 1998, due to Ukraine's slow pace of reform. Both the IMF and World Bank have expressed concern that Ukraine is one of only two former Soviet Republics that has yet to register any GDP growth during its post-Soviet existence. In February, 1999, the IMF continues to review performance under the program to determine whether disbursements are possible.

FY 2000 Program.

USAID-Implemented Programs: The objectives of the U.S. assistance program will continue to be promoting economic growth, strengthening democratic institutions, and addressing critical social issues. Activities to strengthen the economy will emphasize improving the investment environment, facilitating small and medium business development, and transforming important sectors of the economy such as energy and agriculture. Assistance with democratic institutions will focus on the development of civil society, rule of law, and an effective local government. Social issues addressed through U.S. assistance will include reform of the pension and unemployment systems, improvement of health care delivery, including women's reproductive health, and strengthening non-government organizations that fill gaps in the social safety net. These objectives are interrelated in their consequences for Ukraine's future. Absent the rule of law, for instance, economic growth is unlikely to flourish even in an otherwise improved investment environment. Likewise, without attention to the collapsed social infrastructure that has left so many Ukrainians without services and resources, popular support for economic reform will be limited.

In addition to these objectives, several special initiatives are also included in the FY 2000 assistance program for Ukraine. The Poland-Ukraine Cooperation Initiative helps Ukraine benefit from Poland's transition successes. The Global Climate Change Initiative will assist Ukraine to develop the human, institutional and technological capacity to reduce greenhouse gas emissions. The Kharkiv Regional Investment Initiative will assist the Kharkiv community in accelerating regional economic growth by improving the investment environment, increasing private investment, and developing trade links with the U.S. private sector. The Anti-Trafficking Initiative is a multi-pronged program to stem the sexual trafficking of women, assist the victims, and prosecute those responsible for this crime.

Improved health care service delivery is an important special initiative of the USAID program in Ukraine, as a healthy workforce is integral to Ukraine's potential for economic growth. Since the break-up of the Soviet Union, the health care system has deteriorated. Lack of available and/or affordable quality health care has contributed to an overall deterioration in the physical and mental well-being of the population. This is illustrated by a recent rise in infectious diseases, a falling birth rate and an increase in degenerative diseases and circulatory illnesses. The inability of the health care system to adequately forecast and respond to potential disease epidemics increases the danger to the population. In addition, there has been a significant decline in life expectancy, particularly among

males.

USAID's work in the health sector emphasizes seven priority areas -- health care financing, women's health, infectious diseases, pharmaceutical management, hospital partnerships, breast cancer assistance, and Chornobyl-related childhood illnesses. The goal of these programs is to reverse the decline in the health status of Ukrainian citizens by helping to transform the health care system to one that is sustainable and capable of meeting the overall needs of the population. USAID is assisting Ukraine to implement a wide range of health care system reforms. USAID's management of infectious disease prevention and control efforts focuses on improving access to and utilization of accurate, appropriate and timely health and management information, specifically regarding the management of vaccine-preventable diseases. The rational pharmaceutical management project emphasizes three technical areas: formulary development and management, rational drug use and pharmaceutical policy/legislation. The health partnership project has expanded to include primary care as a focus of activities. Existing hospital partnerships include Women's Wellness, Neonatal Training and Emergency Medical Service Training Centers. The new partnerships will emphasize family medicine, violence against women and community outreach programs. The breast cancer program continues to focus on screening and diagnosis for early detection and improved breast cancer care, treatment and increasing survival rates. The Chornobyl Childhood Illness Project and the Birth Defects Project screen and treat childhood physical and mental illness related to the Chornobyl accident.

Other U.S. Agency Programs: Included also with this request are programs implemented by other U.S. Government agencies. The request for cross-cutting and special initiatives, in particular, reflects expanded emphasis on the need to reduce the risks of proliferation of weapons of mass destruction through programs which enhance our mutual security, such as export controls, science centers and efforts designed to employ scientists in non-military areas. In addition, other USG agencies participating in technical cooperation programs with Ukraine through inter-agency transfers from USAID include the Environmental Protection Agency, the Nuclear Regulatory Commission, the U.S. Departments of Energy, State, Justice, Commerce and Treasury, and the United States Information Agency.

UKRAINE

FY 1999 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	3,600	--	--	--	3,600
Private Enterprise	36,427	--	--	--	36,427
Financial Reform	7,000	--	--	--	7,000
Energy	6,180	--	--	--	6,180
Environmental Management	1,980	--	--	--	1,980
Citizens' Participation	--	7,200	--	--	7,200
Legal Systems	--	1,000	--	--	1,000
Local Government	--	3,000	--	--	3,000
Crises	--	--	--	--	--
Social Benefits	--	--	5,400	--	5,400
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	147,213	147,213
TOTAL	55,187	11,200	5,400	147,213	219,000
*FREEDOM Support Act (FSA) Funds					

USAID Mission Director:Gregory Huger

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $3,600,000 FSA
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2004

Summary: In a market economy, an efficient fiscal system plays the vital role of providing sufficient revenues to support necessary public expenditures without hampering the growth of the private sector. Reforming both fiscal policy and fiscal management practices in Ukraine will help the Government of Ukraine to better define the size and scope of the public sector and the essential needs for public provision of goods and services. It will also encourage private sector economic growth by limiting the resources consumed by government and establishing a fair and stable tax environment.

The USAID fiscal reform program for Ukraine is aimed at establishing sound fiscal policies and management practices that support both the growth of a market economy and the necessary redefinition of the size and scope of government activity within a market economy. The program currently focuses primarily on (1) improving tax law, policy, and administration; (2) developing analytic techniques and procedures for budget preparation, adoption and implementation at the national and sub-national levels; and (3) formulating macroeconomic policy and analysis. As a vital adjunct to these efforts, USAID is providing assistance for the functional review and restructuring of the Ministry of Finance, Ministry of Economy and State Tax Administration in connection with the public administration reform initiative led by the World Bank. In all areas, emphasis is placed on ensuring that skills are transferred to counterparts and work products are appropriate to the Ukrainian situation. The immediate beneficiaries of USAID activities are the Ministry of Finance, the State Tax Administration, the Ministry of Economy and the Verkhovna Rada's (Parliament) tax and budget committees, and by extension, the taxpayers and voters of Ukraine. Entrepreneurs will benefit as more comprehensible and transparent fiscal systems are established.

Key Results: USAID will consider this objective achieved when Ukraine meets the following criteria: (a) the tax system is sufficiently fair, simple and transparent to encourage greater taxpayer compliance and revenue collection is increased without placing an undue burden on economic growth; (b) public expenditures meet government priorities at a level that can generally be sustained by reliably estimated revenues; (c) the process of budget preparation, adoption and execution is well-informed, accurate, transparent and responsible; and (d) the division of responsibilities and resources at all levels of government are well-defined and the relevant officials are held accountable; and (e) fiscal policy makes a positive contribution to macroeconomic stability and growth in GDP and personal income.

Performance and Prospects: Progress in this strategic objective has been slow, but there have been some improvements and prospects for continued progress are reasonable. USAID has assisted in establishing a macroeconomic monitoring group to compile key economic indicators and provide analysis to aid top GOU officials with economic policy-making. This activity includes developing and supporting a macroeconomic model to assess the impact of policy decisions on the economy. USAID and U.S. Treasury advisors have assisted the Ministry of Finance in implementing a budget classification system, as well as new budget procedures and computerization of the budget preparation process. Training in budget analysis is being provided both at the MOF and through a local NGO. A relational database for budget information has been developed, along with time series for key budget data going back to 1992. A comprehensive budget system law has been drafted, approved by the Cabinet of Ministers and is awaiting Rada action. An intergovernmental fiscal model has been developed, with staff trained to use and maintain it. Work is proceeding to reform intergovernmental finance. New budget preparation systems for oblast and rayon-level governments are being implemented and computerized. These systems and their related databases are expected to be linked with local government-level budgets to form a comprehensive picture of expenditure needs and funding flows across levels of government. The new Value-Added and Enterprise Profits Tax laws were enacted, and a comprehensive tax code has been drafted for submission to the Verkhovna Rada by mid-1999, with enactment expected by the end of the year. Over twenty-one million taxpayer identification numbers, as well as tax forms and instructional materials, have been issued. Significant numbers of tax officials are being trained in new tax laws and more efficient techniques of tax administration. In the Rada, the Fiscal Analysis Office is providing objective and quantitative analysis of tax and budget legislation, used by deputies in debates on proposed budgets and tax laws.

Over the next four years, it is expected that funding levels will phase down slowly and a greater portion of the effort will be directed at lower-level bodies of government. Assuming that the tax code is passed, continued support will be provided in the implementation of tax modernization efforts under the World Bank loan (see below) and in the application of organizational and procedural reforms at the district level. Aside from further improvements in the

budget preparation process, increased attention will be placed on budget program analysis and moving toward program-based budgeting. Activities involving direct work with local governments are likely to increase as the broader intergovernmental functional and funds transfer arrangements are sorted out. Particular emphasis will be placed on development of local government revenue sources, especially the property tax, which requires major efforts to develop the necessary infrastructure and techniques for proper administration. Assuming that the overall restructuring of the Ministry of Finance is accomplished in 1999, further efforts to reorganize and strengthen the Ministry of Finance, including extensive training, are likely to be subsumed under the specialized program areas listed above, e.g., improving the operations of the Budget Department. Finally, in the area of fiscal analysis capability for the Rada, the current Fiscal Analysis Office is expected to become a permanent arm of the Rada, with expatriate advisors phased out over time and all activities shifted to Ukrainian professionals hired by the Rada.

Possible Adjustments to Plans: None, as these programs have recently undergone strategic review.

Other Donor Programs: USAID fiscal reform programs are closely coordinated with both the International Monetary Fund (IMF) and World Bank to ensure that technical assistance supports the fulfillment of loan conditions. USAID is providing technical assistance to the State Tax Administration on a pending World Bank loan for modernization and computerization, to the Ministries of Finance and Economy on the proposed World Bank Public Administration Reform Structural Adjustment Loan, and to various entities on a World Bank Local Government Finance loan. USAID technical assistance in tax administration, budget process, intergovernmental finance and administrative reform are also directed toward helping the GOU meet IMF program conditions. In all these areas, USAID's work is also coordinated with other U.S. Government-funded organizations, mainly the U.S. Treasury, and with other public and private donors and non-governmental organizations. Joint work related to fiscal reform is being carried out with the EU, Canada, and the United Kingdom.

Principal Contractors, Grantees or Agencies: KPMG/Barents, Harvard Institute for International Development, CASE, International Center for Policy Studies, and U.S. Department of the Treasury.

Selected Performance Measures:

	Baseline	Target
The number of budget revisions required due to inaccurate budget forecasts is reduced.	3 (1995)	1 (2000)
Central-to-local government funds transfers are done on a formula basis	no (1995)	yes (2000)
The number of taxpayers included in the taxpayer identification system increases	0 (1995)	35 million (2000)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: A More Market-Responsive Agriculture Sector, 110-S001.3a
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $8,900,000 FSA
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: U.S. assistance to agriculture and agro-industries in Ukraine has been premised on the expectation that fundamental policy reform would take place relatively quickly, resulting in an expanding open market, private sector-driven agricultural economy. Programs were designed to spearhead key policy changes nation-wide through activities that would demonstrate the effectiveness of open markets and related private input supply, processing and marketing institutions, as well as private land ownership and farm management.

Since 1996, however, the prospects for fundamental policy reform at the national level have worsened. The pace of reform has been slow and uncertain, and the Government of Ukraine has undertaken policy measures that resulted in a more adverse environment for private sector-led agricultural development. These measures included restrictions on private marketing of grain, and an initiative by the Government to supply agricultural inputs, fertilizer, and machinery. Opposition to private land ownership and private farming has remained strong in Parliament and in many parts of the Government.

While there is little potential for fundamental reform emanating from the level of the national government in the near

future, USAID believes that regional and local governments may be more amenable to allowing greater private sector participation in the agricultural sector through initiatives that focus on particular regions. Therefore, USAID technical assistance is now being re-focused. Activities will emphasize private farmers and households where people benefit directly. There will be a concentrated effort in 3-5 geographic locations where prospects for private farmer and household production and marketing improvements appear good. Activities will help expand the base of private farmers and improve marketing, input supply, credit and extension services. Farm restructuring and agricultural land privatization will be central to this approach. A major focus of USAID's agriculture sector program to date has been the provision of agriculture inputs through the creation of private dealerships, promotion of trade and the development of cooperatives. This emphasis will continue, but in closer collaboration with the farm restructuring and titling activities to ensure that farms coming out of the restructuring process have available to them the input supply alternatives essential to viable private farming operations.

Given the absence of the traditional sources of credit to private farmers, USAID will explore a range of alternative institutional approaches to address the credit constraint, including credit unions, cooperatives and suppliers credit. USAID will also address the constraints faced by private farmers, restructured farms, and plot holders in dealing with elements of the agricultural production-marketing-processing chain through approaches that reflect the diversified nature of their production. USAID will work to strengthen cooperatives and farmers associations in providing direct links between individual farmers and markets, and to encourage private farmers, restructured farms and plot holders to trade on open markets.

Finally, USAID will adopt approaches that strengthen capacity for policy analysis and reform, facilitate advocacy for policy reform by private professional and trade associations and work with interested local government and oblast officials to create the space necessary for the regional agricultural initiatives to operate effectively. Progress will be articulated to national agricultural policy decision-makers. USAID will continue to provide assistance to the National Private Farmers Association, the National Commodity Exchange Association, the League of Entrepreneurs, and the Ukrainian Cooperative Foundation so that these organizations may acquire a more effective voice in articulating and advocating a unified policy reform agenda.

USAID assistance is benefiting producers and consumers in terms of increased agricultural production and related processing and distribution through increased incomes and lower food prices.

Key Results: USAID will consider this objective met when sustainable nation-wide agricultural policy reforms are implemented and private farmers in selected regions enjoy opportunities to increase their production and marketing of agricultural commodities.

Performance and Prospects: USAID activities have achieved significant results since 1993, although these achievements have fallen short of the fundamental agricultural reform anticipated. First, land ownership has been transferred from the state to collective agricultural enterprises (CAEs). An estimated 6.5 million land shares have been issued for CAE land. Actual land titles have been issued to 8,000 people through USAID-supported activities. The number of private farmers rose from under 2,000 in 1992 to 36,000 in 1997, accounting for over 900,000 hectares. Second, the USAID-supported process of mass privatization resulted in the privatization of over 4,000 agro-industrial enterprises, with the delayed process of privatization of grain elevators now underway. Third, the private sector has become active in input supply and agricultural marketing and processing. Private U.S. agribusinesses in partnership with Ukrainian entities have expanded the provision of inputs, processing facilities, and marketing outlets. Private independent commodity exchanges, with functioning spot and forward contract mechanisms, are operating at a limited level. USAID also established the Commodity Exchanges Information System to provide weekly information on Ukrainian and world prices. Price information is disseminated to over 1,100 direct recipients, including newsletters, new agencies, oblast administrations, agricultural producers, processors, and distributors. Fourth, private industries and commodity exchanges have established, with USAID support, independent associations to defend their interests and lobby for policy change.

Fifth, a framework has been established, through the Inter-Ministerial Commission on Agrarian Reform (IMCAR), under which the Government of Ukraine and international donors are beginning to consider policy changes in agriculture and the agro-industrial sectors in a joint forum.

Possible Adjustments to Plans: These programs have recently undergone strategic review and revision. No additional adjustments are contemplated for the present.

Other Donor Programs: The World Bank, EU/TACIS, the British Know-How Fund and USAID cooperate closely in their policy reform and project activities, and are jointly funding internal Ukrainian agricultural policy analysis through IMCAR. The World Bank has the largest agriculture program in Ukraine, and has released the final $150 million under an Agriculture Sector Adjustment Loan (SECAL). The World Bank is not planning additional

policy-related sector adjustment loans because of the same policy reform problems that have faced USAID's efforts. However, the World Bank is planning to include policy-related issues in various projects that are under development. These include Land Title Registration, Rural Credit, Agribusiness, and a new Rural Development project that may include co-financing of farm restructuring. The World Bank is linking many of these projects to existing USAID initiatives, enhancing the impact and sustainability of USAID's program activities.

Principal Contractors, Grantees or Agencies: RONCO, Chemonics, PricewaterhouseCoopers, Louisiana State University, the U.S. Department of Agriculture, Iowa State University, Citizens Network for Foreign Affairs, Land of Lakes and ACDI.

Selected Performance Measures:

	Baseline	Target
Private sector contribution to agricultural production	60% (1998)	65% (2000)
Government-issued land titles	25,000 (1997)	625,000 (2000)
Grain elevators privatized 100%	15 (1998)	237 (2000)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: Privatized Enterprises are More Competitive and Efficient, 110-S001.3b
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $9,830,000 FSA
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: With completion of USAID's mass privatization program, the vast majority of state-owned enterprises in Ukraine have been privatized. Following on the success of that program, support for the development of privatized enterprises concentrates on providing essential business skills, removing external constraints and creating an enabling environment for private sector growth. The principal focus of USAID's program to support privatized enterprise development to date has been in the area of reducing financial constraints to growth by means of promoting private ownership of urban land under enterprises and land markets in Ukraine. Access to credit is the most critical ingredient for growth of all private enterprise, and USAID has targeted this problem directly through the West NIS Enterprise Fund and indirectly through collateral law and banking reform, and through support to tax system reforms that will facilitate the flow of private investment. Training and certification efforts under the accounting reform activities and the new training program under the enterprise restructuring program ensure access to business skills and information. The legal and regulatory environment has been another important limiting factor preventing these privatized enterprises from restructuring, and the USAID program has provided support to organizations within the GOU to promote reforms to the business, legal and regulatory environment. These activities will benefit the business community of Ukraine and those they would employ through the introduction of training and restructuring methods and the jobs created by new and growing businesses.

Key Results: USAID will consider this strategic objective achieved when the economic environment both encourages and supports efforts by privatized enterprises to undergo restructuring in order to become more efficient and competitive. More specifically, an environment that encourages restructuring will involve (1) greater outside ownership and control over these privatized enterprises, to stimulate the demand for restructuring, as well as (2) an improved financial sector to allow the prospects of additional investment for restructured firms to motivate privatized enterprises to undergo restructuring. A supportive environment will satisfy this demand for restructuring by (1) making business skills and training accessible; and (2) implementing laws to reduce or eliminate the numerous legal and regulatory constraints to growth and restructuring.

Performance and Prospects: Under SO 1.1, over 45,000 small enterprises have been privatized, 15,500 with direct USAID assistance, in over 70 cities in 23 oblasts throughout Ukraine. As a result, over 90 percent of all small and medium enterprises in Ukraine are privately owned, providing employment to more than 660,000 people. By the end of 1998, over 5,000 unfinished construction sites were privatized, resulting in the creation of over 3,000 new jobs in the new firms, the transfer of unproductive state-owned resources to productive employment by new private owners, and additional revenue for the budgets of local governments. Under the USAID-assisted Mass Privatization program, an estimated 35 percent of Ukraine's citizens are now shareholders. By the end of 1998, more than 8,700 medium and large enterprises out of a universe of approximately 10,000 were privatized. Of these, nearly 5,000 are 100 percent privately owned.

Through the Land Privatization program, there has been considerable success working at the level of oblast and municipal government to privatize agricultural and enterprise land. Neither effort is self-sustaining yet and neither has yet reached the stage of nationwide impact. But initial results are promising. Ownership of agricultural land has been transferred from the state to collective agricultural enterprises and some 6.5 million land shares issued to individual collective members. Physical titles have been issued to 155,300 people including 10,300 since July 1997 through USAID-supported programs. Privatization of land under enterprises started only in October 1997, but enterprise land sales offices are now operating in 24 cities and more than 1,500 privatizations will be complete by the end of FY 1999.

Considerable progress has also been made in follow-on programs under SO 1.3b. To date, over 5,000 unfinished construction sites have been privatized, over 1,000 with direct USAID assistance, creating over 3,000 new jobs. By the end of FY 1999, at least 1,500 enterprise land privatizations will have been completed. Privatizations to date have generated over $2.0 million in revenue for municipal budgets. The Accounting Reform Project, which has provided training to accountants and auditors in International Accounting Standards and which assisted in the formation of the Ukrainian Federation of Professional Accountants and Auditors (UFPAA), has helped to improve the management of enterprises and to make their accounts more transparent to investors. At the enterprise level, a program to convert Ukraine's small, medium and large enterprises will result in 30 additional pilot conversions by mid-1999. The West NIS Enterprise Fund continues a program of debt and equity investments in medium and large enterprises in Ukraine, for a total of over $23 million in completed transactions.

USAID believes that the GOU will proceed with privatization of land under enterprises and the development of land markets in Ukraine, including the sale of unfinished construction sites. Despite some opposition within the Rada to private land ownership, the growing interest at the local levels of government in engaging in privatization, along with enterprise demand for private ownership of associated lands, creates a powerful constituency.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: USAID works closely with International Financial Institutions in providing technical assistance to meet their lending conditionality. Regarding enterprise restructuring, USAID recently initiated a donor coordination group for assistance to privatized enterprises. In addition, USAID has coordinated closely with the World Bank regarding the pending Private Sector Development loan.

Principal Contractors, Grantees or Agencies: International Finance Corporation, The Recovery Group, Barents Group, London Business School, PricewaterhouseCoopers, East European Real Property Foundation, and the West NIS Enterprise Fund.

Selected Performance Measures:

	Baseline	Target
Number of unfinished construction sites privatized	5,000 (1998)	15,000 (2000)
Enterprises using international accounting standards	0 (1998)	13,000 (2000)
Number of enterprises on top of privately owned land	30 (1997)	2,000 (2000)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: Expanded Role of Small and Medium Enterprises in National Economy, 110-S001.3c
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $17,697,000 FSA
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: Small and medium enterprise (SME) development is an essential element of Ukraine's transition to a market economy. SME development can make a positive difference in peoples' lives through its impact on the labor market; in the long term, SMEs are likely to become the largest source of employment for the people of Ukraine. In Western Europe, for example, approximately 50 to 70 percent of the workforce is employed by small and medium enterprises. According to official figures, only about 10 percent of the labor force in Ukraine is employed by SMEs; in Russia, the figure is 20 percent; in Eastern Europe, SME employment is between 45 and 50 percent of the labor

force. A large part of SME activity in Ukraine currently exists in the informal economy, so the actual figures for SME employment are probably higher than the official figures. Creating an environment that encourages SME growth will also promote the move from the shadow economy to the formal sector, which leads to additional benefits to the state in the form of increased revenues from greater tax compliance.

The USAID program to support SME development concentrates on removing constraints and creating an enabling environment for private sector growth. Improving access to business skills has been the principal focus to date, but the USAID program has also begun to assist the GOU in promoting reforms in the legal and regulatory environment, a critical constraint to the development of SMEs. Access to credit is another important ingredient for SME growth, and USAID has targeted this problem directly through support for the West NIS Enterprise Fund and recent microenterprise credit initiatives. Beneficiaries include proprietors and employees of micro, small and medium-sized businesses via various firm-level assistance activities and policy/regulatory reforms.

Key Results: USAID will consider this objective achieved when the high tax and regulatory burden on private enterprise is reduced, the weak financial system is improved to permit SMEs greater access to credit and investment, and the level of business skills is improved.

Performance and Prospects: A total of twelve USAID-funded business service centers have been created to date to ensure that SMEs have access to business skills, with four more to be created in 1999. During four years of existence, 15,283 clients had received services through the eight NewBizNet Centers as of May 1998. In addition, the four IFC business centers located in smaller cities in Ukraine have trained over 2,000 SME managers and staff, and have provided business toolkits and other information services to over 200 local businesses. Sustainability of these business centers has been a goal since their creation, and has been achieved in some of the original centers to a substantial extent. By July 1998, business service centers generated a total of well over $1,000,000 in revenue. USAID has also provided modest support to business schools in Lviv, Kiev, and Donetsk, and trained over 1,000 Ukrainian accountants and auditors in International Accounting Standards, reporting, and managerial accounting. Work under The Alliance consortium (IESC, CDC, ACDI/VOCA, and MBA Enterprise Corps) in FY 1998 resulted in 253 business volunteer projects providing training and consulting services to 350 Ukrainian companies. In March 1998, USAID conducted a national workshop on business association development, which resulted in the creation of a coordinating committee of participating business associations. An international conference on SME Development was held in November 1998, with international speakers and roundtable discussions on key topics, presentations by existing SME support programs, and an interactive information fair with participation by various SME support programs available in Ukraine. The conference highlighted the GOU’s success in reducing the number of days required to register businesses from 35 to less than four, and in reducing business registration costs by almost 50%. The State Committee for Entrepreneurship Development now has the capacity to analyze and challenge regulations that are found to be unfavorable to business development. Five regulations have been eliminated, and five more will be altered. Training and seminars have been held for eleven regional membership-based business associations in Ukraine over the past year to improve their services to members, increase their membership base, and develop their capacity to lobby government for the interests of their members. USAID has helped to create regional associations of realtors in Lviv, Odessa, Kharkiv, and Odessa. Nine more small realtor associations are beginning to incorporate in other cities, with memberships ranging from 3 to 24 firms. As of November 1998, the West NIS Enterprise Small Business Loan Fund had provided 52 loans to SMEs averaging $46,000. Through the same period, the Eurasia Foundation Small Enterprise Lending Program provided 15 loans averaging $49,773 through two banks. USAID’s program to create and ensure the sustainability of credit unions has succeeded in setting up eight model credit unions in various regions of Ukraine, and has trained more than 800 credit union managers, board members, and initiative group representatives. This project has also assisted the Ukrainian National Associations of Savings and Credit Unions (UNASCU) to improve its services to member credit unions and to develop new legislation that more appropriately reflects credit union activity in Ukraine.

The prospects for effective SME reform in Ukraine are good. The Government generally looks on SME development as a win-win situation. Even among those in the government who oppose other reforms, development of small enterprises represents a political "good" which both provides jobs and increases tax revenues, while resulting in very few negative side effects. While they may balk at specific deregulation aspects or some other important steps in private sector development, a mandate to push such changes through the system is often easy to establish under the flag of small enterprise development. A very powerful and persuasive argument in favor of reforms to support SME development is that these changes are not costly to the government, either in terms of finance or political capital (i.e., impact on voters is only positive or neutral, but not negative). Finally, the February 1998 mandate from the President that empowered the State Committee on Entrepreneurship Development to challenge all legislation and regulations unfavorable to business development is seen as a means to pave the way for reforms to the enabling environment through the removal of constraints to SME growth.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: Other development partners are active in promoting the growth of SMEs, through such means as loan funds to support microenterprise development, technical assistance, and loan conditionality that requires the GOU to continue to work toward creating a positive enabling environment for SMEs. The governments of Germany, Canada, and Great Britain as well as the European Union, United Nations Development Program and the World Bank are all providing funds for programs to promote the development of SMEs. Representatives of USAID and these agencies meet on a regular basis to coordinate their assistance programs for SME development.

Principal Contractors, Grantees or Agencies: Development Alternatives, Inc., The Alliance, International Finance Corporation, World Council on Credit Unions, and the University of Minnesota.

Selected Performance Measures:

	Baseline	Target
Days spent completing (a) licensing and (b) registration processes	(a) 35 (1997) (b) 30 (1997)	(a) 15 (2000) (b) 5 (2000)
Institutions providing microcredit	0 (1997)	15 (2000)
Business associations conduct roundtables and workshops on policy and regulatory reform	0 (1997)	10 (2000)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: A More Competitive and Market-Responsive Private Financial Sector, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $7,000,000 FSA
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2004

Summary: Financial sector reform in Ukraine will transform a mechanistic, bookkeeping system to a service-oriented sector based on market principles, capable of providing financial support to consumers and to small and large businesses. The Government's role in the transformation is to develop an infrastructure that promotes safe, sound and responsive financial services and to provide the legal and regulatory framework that will allow the sector to operate effectively and responsibly. Such a system critically depends upon several factors: (1) an economic environment of growth and private initiative, supported by government stabilization policies that promote efficient resource allocation; (2) a legal environment that specifies transparent "rules of the game"; (3) government regulatory authorities who are able to implement the "rules of the game" in an evenhanded way; (4) a culture and incentive structure that encourage financial market players to carefully analyze the risks of their activities and conduct their business in a manner consistent with western "best practice"; and (5) a constant upgrading of human capital to provide the sector with needed management and decision-making capacity. During the past six years, USAID’s technical assistance has been developed with these objectives in mind. Emphasis has been placed on developing the fundamentals of the financial infrastructure, upgrading human capital, and strengthening the legal, policy and institutional environment. This thrust will continue, along with careful attention to the sequencing of technical assistance to concentrate on the fundamental building blocks of a functional financial system -- government regulatory authority, accurate accounting and reporting, payments mechanisms, and the training of basic skills.

Beneficiaries of these activities include all those involved in the private financial sector, including enterprises and households that need access to finance.

Key Results: USAID will have achieved its objective of a more competitive and market responsive private financial sector when (1) the fundamental financial infrastructure is developed that will increase public confidence in the banking sector, create a level playing field in which all banks can compete, and strengthen the National Bank of Ukraine’s (NBU) supervisory authority; (2) institutions and practices are established for an open, transparent and safe equity market that will provide savings vehicles for homeowners and businesses, and, in turn, supply capital to industry, commerce and the Government; and (3) a market-oriented legal and regulatory infrastructure is in place that provides both the financial institutions and the entities they serve with an effective and transparent framework in which to operate.

Performance and Prospects: USAID has provided strong support for the development of the Ukrainian

fixed-income market, encompassing banking and government securities. This includes critical support to the NBU's regulatory authority and capacity, putting into place regulations that include classifying and provisioning for bad loans, setting higher minimum capital requirements, and lending to one borrower and related parties. Supervisors have been trained in both Western-based inspection techniques and off-site risk analysis, as well as in rehabilitation techniques for problem banks. In collaboration with other donors, USAID has helped convert the banking system to international accounting standards (IAS). An initial pilot program of banks tested the new chart of accounts. Subsequently, IAS was introduced throughout the banking system in January 1998. Since that time, USAID has been working with commercial banks to deepen the usage of IAS-based financial reporting and to develop back office functions such as internal auditing. Work continues on the creation of a self-sustaining banking school. To date, over 3,000 bankers from all over Ukraine have received short-term training.

USAID has also worked with the leading Ukrainian business school, the International Management Institute, in implementing a one-year intensive training course leading to an MBA in banking. Seventy banking professionals have received MBAs under this program; thirty two are currently enrolled. A number of graduates are currently team-teaching with foreign advisors at the banking school. During 1996 and 1997, USAID's activities led to the formation of the Securities and Stock Market State Commission (SSMSC) and its authorization to regulate the corporate securities market. USAID provided assistance to the SSMSC in conducting enforcement activities and surveillance inspections, analyses of disclosure filings and financial statements, and conducted training/education programs covering all areas of securities markets, especially corporate governance. USAID also spearheaded legislative coalition-building and assistance in the drafting of laws and regulations in the areas of securities and the stock exchange, business association, joint stock companies, and self-regulatory organizations. USAID supported the formation of a broker-dealer organization, which in turn established an organized over-the-counter securities trading system (PFTS). By the end of November 1998, PFTS membership reached 299 in twenty-one cities, and the total volume of trades amounted to nearly 5,500 with a value of $289 million. USAID provided technical assistance and training in Depository and Custody issues. USAID activities also created trade associations for registrars and depositories (PARD), for investment funds (UAIB), and for accountants and auditors (UFPAA). By the end of November 1998, PARD membership surpassed 270 in all principal cities. USAID enabled the UFPAA to adopt guidelines and instructions for four international accounting standards. USAID assistance contributed to the passage of the amendment to the Law of Ukraine on Pledges to provide for a State Pledge Registry of movable property. An extensive training program in bankruptcy and financial restructuring for judges of the Highest Arbitration Court and other legal and financial professionals has been completed. A modern bankruptcy law has been drafted and has passed its second reading in the Parliament.

Current development of the Ukrainian financial sector occurs against a backdrop of turmoil in international financial markets. The difficult situation in Russia is of particular importance to Ukraine because of the close trade and financial ties between the two countries. Compounding this situation, badly askew macroeconomic policies have dampened private sector development and resulted in highly restrictive monetary policies leading to liquidity problems for banks. While USAID's basic objectives, and thus the underlying program, will not change, particular care will have to be taken in this environment to ensure that efforts do not destabilize an already fragile financial system.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: USAID's work in the banking sector is supportive of both the World Bank Financial Sector Adjustment Loan (FSAL) and the IMF Extended Fund Facility (EFF), twenty-five conditions of which concern the banking sector. Upgrading NBU bank supervision, developing NBU capacity to deal with problem banks, passage of banking laws, deepening the conversion to international accounting standards are all examples of USAID activities that feature prominently in both FSAL and the EFF. Joint programs exist with EU-TACIS and the British Know How Fund in bank accounting, with EU-TACIS in problem bank restructuring, and with the Swiss government in bank training. USAID's efforts in strengthening the capital markets are reinforced by the World Bank's activities through its Enterprise Development and Adjustment Loan II. In addition, the European Union has initiated corporate disclosure and custodian development programs that also support the achievement of USAID's objective.

Principal Contractors, Grantees or Agencies: Financial Markets International, PricewaterhouseCoopers, Barents/KPMG, IBTCI, Financial Service Volunteer Corps, Gavin Anderson, IRIS, Deloitte and Touche, and the Ukrainian Legal Foundation

Selected Performance Measures:

	Baseline	Target

Commercial banks meeting minimal capital requirements	89 (1995)	99 (2000)
Bank examinations focusing on asset quality and management	0 (1995)	50 (2000)
Securities enforcement/compliance activities	0 (1995)	10 (2000)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: A More Economically Sustainable and Environmentally Sound Energy Sector, 110-S0 1.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $6,180,000 FSA
INITIAL OBLIGATION: FY 1994 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: Since 1995, progress in the reform of the energy sector has been significant and in some respects is greater than anywhere else in the region. Ukraine began the process of power sector restructuring to address critical financial and managerial problems and to develop a financially sustainable power sector. Critical first steps were the break-up of energy production and distribution monopolies and the establishment of regulatory institutions. The industry now consists of four thermal, one nuclear, and two hydroelectric generating companies (GENCOs), and 27 local distribution companies (LECs).

Deeper reform is required, however. The policy, legal and regulatory environment needs to be strengthened and extended to other aspects of the energy markets, including coal, oil and gas. Suppliers must be empowered to collect energy tariffs. For efficiency and financial reasons, privatization and restructuring of energy companies with significant involvement of international strategic investors is essential. Strategic investments are necessary to supply the needed capital, technology, and management expertise, and to put the energy sector on a sound commercial footing. The ability of strategic investors to withstand political pressure is essential to achieve the final objective. In addition, incentives must be developed that encourage more efficient use of energy, not only to reduce Ukraine's dependency on imported fuels, but to put the sector on a more sustainable foundation to meet future energy needs. Other reasons to promote energy efficiency in Ukraine include environmental and macroeconomic benefits, as well as global climate change.

USAID energy reform assistance directly benefits newly corporatized electric generating and distribution companies, the National Energy Regulatory Commission (NERC), the Alternative Fuel Center, industrial and municipal energy users, employees in the energy sector and the coal industry.

Key Results: USAID will consider this objective met when: (1) the legal and regulatory environment surrounding the development of the energy sector is developed and provides an enabling environment for strategic private investment; (2) the energy sector has become a competitive, financially sustainable energy production and delivery system; (3) Ukraine reverses the decline in domestic fuel production and is able to reduce dependence on imported natural gas and coal from Russia; and (4) improved efficiency in energy utilization is achieved.

Performance and Prospects: Since 1995, the Ukraine electric power industry has undergone far reaching reforms. The totally integrated power system was broken up into 35 generation, distribution, and transmission companies. A regulatory mechanism has been established, and commercialization of wholesale markets has been achieved. The World Bank proposed a Financial Recovery Plan (FRP) in 1997 that would enable the power sector to become solvent and self-sustaining. USAID played an active role in supporting the Government of Ukraine's adoption and implementation of the FRP in 1998. To date, 18 of 26 of the Plan's covenants have been met, and one other has been partially met. USAID has been the lead provider of technical assistance to the NERC, which is providing fair, transparent, and predictable governance over the electric generation and supply market. The NERC is now recognized as a solid institution in the issuance of licenses, regulation of producer-consumer relationships, and formulation of market-based tariffs.

USAID provided assistance to selected coal mines in the development of marketing strategies and business development plans. The western-standard business plan for Krasnolimansaya coal mine has been submitted to EBRD and the World Bank for consideration. Also in the coal sector, USAID played a lead role in promoting health and safety awareness and practices regarding methane gas risks. USAID is promoting the development of coal-bed methane (CBM) as a commercially-viable alternative source of energy. To that end, USAID has identified the key legislative and regulatory issues affecting commercial exploitation of CBM (which has been treated in the past as a hazardous by-product of coal mining with no commercial value). USAID collaborated with the Government of

Ukraine in the creation of the Alternative Fuel Center to coordinate CBM activities, including information dissemination on CBM to assist private domestic and foreign interests in securing investment opportunities.

USAID has been active in promoting energy efficiency through a variety of approaches. USAID has supported the Ukraine-US Program to Promote Sustainable Development, which identified strategies to improve the policy and legal incentives for market-based mechanisms for energy efficiency. USAID activities also stimulated demand for energy audits provided by private energy service companies (ESCOs), including facilitating entry by U.S.-based ESCOs into the Ukrainian market. Finally, USAID collaboration with heating companies in the city of Lviv led to the installation by private sector companies of building-level heat delivery systems through condominium and cooperative associations. Energy efficiency and control of methane emissions can greatly reduce Ukraine's impact on global warming.

The Ukrainian commitment to this objective is strong, but there is not complete agreement on the methods and approaches. The NERC is strongly committed to a competitive, market-based system, while some in the Ministry of Energy want to maintain total Government control and ownership of the power sector. Many in the Parliament, central government and local government still see power as a service that should be provided at nominal cost, or free if necessary, but don't know how fuel, equipment and labor costs of the industry will be financed. The long period of living off capital and subsidized fuel is coming to an end as all other financing sources are cut off, which will require substantial restructuring of the industry or cuts in service that are likely to be unacceptable. This situation is likely to result in greater support for a market-based, sustainable system because there will be no viable alternative.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: The World Bank, the other major donor in the power and gas sectors, is concentrating on policy reform. The Bank has used its policy-based Electricity Market Development Project (EMDP) to help bring about policy improvements. The loan has been suspended for more than a year, but it is expected to be reinstated. The Financial Recovery Plan (FRP) is a device to help bring about reinstatement of the EMDP. If the loan is not reinstated, then the Bank will concentrate purely on project financing. Activities in the gas sector are not as well defined, though the Bank and the Government agreed on a program to reform the gas sector. The EBRD is another major donor in the energy sector with several projects underway. It is the lead financier for the completion of two nuclear generating units at Khmelnitsky and Rivne. The EBRD considers the FRP a benchmark of this project's financial viability. Neither the World Bank nor the EBRD can provide significant technical assistance, although both can bring hundreds of millions of dollars in loan funds, as well as creative short term financing by the EBRD. Other donors include the Government of Japan, the European Union/TACIS and KHF.

Principal Contractors, Grantees or Agencies: Alliance to Save Energy, Partners in Economic Reform, International Institute of Education, Hagler-Bailly Company and the United States Energy Association

Selected Performance Measures:

	Baseline	Target
NERC functions independently of political forces	no (1998)	yes (2000)
Number of energy companies privatized by strategic investors	0 (1996)	15 (2000)
Reduction in industrial, residential and communal consumption of energy	0 (1998)	2% (2000)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: Increased Environmental Management Capacity to Support Sustainable Economic Growth, 110-S0 1.6
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $1,980,000 FSA
INITIAL OBLIGATION: FY 1999 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: USAID programs in support of this objective aim to increase public and private capacity to address critical environmental constraints to Ukraine's sustainable economic growth. By and large, they are carried out at the local level, where the majority of decisions affecting Ukraine's economy and environment are taken by enterprises,

utilities, schools, hospitals, public and private transport providers, local administrations, and citizens. USAID assistance aims to create the necessary conditions and incentives for a greater private-sector role in environmental technology transfer, increase and improve the technological know-how and environmental management capabilities of communities, and create an enabling environment for environmental investment financing. These activities take advantage of the important role of citizens in ensuring that both public and private entities protect environmental values in consonance with economic growth and employment creation, and advance understanding that improving local infrastructure, reducing pollution and minimizing waste increases economic efficiency and productivity. USAID also supports policy and regulatory reform initiatives at the national level where environmental constraints to economic development cannot be addressed at the local level, and contributes to integrating environmental policy initiatives and regulatory reforms into Ukraine's economic reform and restructuring activities at the national and local levels. Finally, this program contributes to strengthening linkages among environmental professionals in the region and between Ukraine and its U.S. counterparts, particularly with a view to promoting environmentally sound technology transfer and meeting Global Climate Change mitigation goals through emissions trading and joint implementation activities. The activities under this objective are distinct from, but synergistic with, activities under other objectives, including SO 1.5 (energy restructuring), SO 1.3 (private sector development), SO 2.3 (improved local government), and SO 2.1 (citizen participation/NGO development).

The primary beneficiaries of these activities are the citizens of the areas in which USAID activities are concentrated, including Lviv, Donetsk, Dnipropetrovsk, Kiev, Crimea, Slavutych, Ivano-Frankivsk, Kharkiv and Odessa.

Key Results: USAID will consider this objective met when (1) increased integration of economic, environmental and social policy objectives is achieved and market-based policy tools are adopted to strengthen environmental policy, regulatory, and enforcement capabilities; (2) increased capacity to uphold commitments to international agreements is achieved, including administering emissions trading and joint implementation programs; (3) improved environmental management practices are achieved, including the adoption of environmentally sound and energy efficient technologies by private and public sector entities; (4) sustainable regional and U.S. partnerships are formed; and (5) increased number of Ukraine citizens and environmental NGOS are empowered to participate in and influence the decision-making process affecting human health and the environment at the local level.

Performance and Prospects: Notwithstanding the critical state of Ukraine’s environment and economy, USAID has made significant progress under its environment program, and has established a solid foundation for further progress. Since 1996, the core of USAID’s environmental program has been the U.S.-Ukraine Council and Work Group Program to Promote Sustainable Development. This program also marked the initiation of efforts to integrate economic and environmental development objectives. Field demonstration projects in urban water, agriculture, industry, energy efficiency, environmentally sound business development, and international treaties were linked to work groups that proposed legislative and policy solutions to barriers to sustainable development encountered in the field. Ten policy/legislative reform proposals have been sent forward through the Council to Ukraine’s Cabinet of Ministers. Four of these have been adopted so far, and it is anticipated that the remaining five will also be adopted. Those adopted include reforms to Ukraine’s tax collection system, capital reinvestment, and depreciation procedures affecting capital improvements and maintenance of water utilities. USAID’s environmentally sound technology transfer activities have also progressed in both the municipal and industrial sectors. An example at the municipal level is USAID’s Lviv Urban Water Program. Through the transfer of U.S. EPA computerized water system modeling technology, U.S. engineering technologies, and financial management and efficiency know-how, local capacity to provide water services was increased from 0-3 hours per day to 24 hours per day. A USAID pilot project in the Pasichna district achieved these results for 35,000 residents and significantly improved water services for an additional 70,000 residents. The installation of energy-efficient pumps in nearby pump stations has enabled improved water services for an additional 200,000 residents in the city of Lviv. In the industrial sector, USAID projects helped to generate $3.4 million in annual savings in ten Donetsk and Dnipropetrovsk enterprises, and improved energy efficiency in 24 enterprises.

USAID also initiated programs on environmental financing and market-based tools by sponsoring workshops and seminars, and sponsored a Ukrainian-U.S. conference on Global Climate Change and Greenhouse Gas Mitigation. Progress was also made on increasing the number of viable NGO’s in Ukraine. The network of NGOs has grown from a membership of approximately 150 in 1994 to 562 in 1997, an increase of 275%. The focus will now shift to building institutional capacity within these organizations and to coordinating these efforts with the establishment of the new Regional Environment Center.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: USAID works closely with The World Bank, EBRD, and other donors on environmental

issues. The Environment for Europe Environment Action Plan Task Force and Project Preparation Committee have committed to focus donor attention on the NIS for the period 1998-2002.

Principal Contractors, Grantees or Agencies: United Nations Development Program, U.S. Environmental Protection Agency, CH2M Hill, Hagler Bailly, and ISAR

Selected Performance Measures:

	Baseline	Target
Number of laws and regulations adopted that strengthen the policy, legal and regulatory framework for environmentally sustainable development	0 (1998)	8 (2002)
Number of private and public entities utilizing Innovative financing mechanisms	0 (1998)	50 (2002)
Number of private and public entities that have adopted improved environmental management	0 (1998)	100 (2002)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: Increased Better-Informed Citizen Participation in Political and Economic Processes, 110-S0 2.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $7,200,000 FSA
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: For democracy to succeed, well-informed citizens must participate in the political and economic decision-making processes. Active non-governmental organizations (NGO), an independent and unrestricted press, and free elections are all essential for citizens to make informed decisions and to participate. This strategic objective contributes to Ukraine's transition to a market-based democracy by strengthening these essential elements of democracy. An active civil society will also contribute to the broader reform process. NGOs or citizens who demand transparency and accountability would create a counterbalance to Ukraine's largely corrupt and erratic reform process.

This strategic objective will also help empower Ukrainian citizens to participate in and drive forward Ukraine's political and economic transitions. Programs that increase citizens' participation and government responsiveness at the local level under the local government objective and that support NGO legislation and strengthen NGO capacity under the social services objective also contribute to the achievement of SO 2.1. Similarly, enhancing the rule of law under is a vital link to building citizens' confidence in the political process, overcoming apathy, and, accordingly, encouraging greater citizen participation. Finally, the success of strategic objectives in other sectors, such as support to small and medium enterprises, address some of the economic barriers to broader citizen participation. Collectively, these programs comprise a comprehensive strategy to increase the level of citizen participation in political and economic decision-making.

Ukrainian NGOs, political parties, independent media and trade unions, and the Central Election Commission all benefit from USAID support for and promotion of citizen participation and education activities. Ukrainian citizens also benefit from system improvement as a more informed electorate.

Key Results: USAID/Kiev will consider progress towards the achievement of this strategic objective on track if public attitudes towards participation begin to change and more citizens strive to become involved. In addition, media support programs will be progressing satisfactorily if non-state media approach financial sustainability and are free from blatant government attempts to restrict freedom of speech.

Performance and Prospects: Ukraine has made some progress in its democratic transition. Since 1991, the number of non-governmental organizations (NGOs) has grown significantly. The number of independent newspapers that compete with the government press has also increased. Ukraine was the first post-Soviet state to undergo a peaceful transfer of presidential power following free and fair elections in 1994. In 1996, the adoption of the Constitution and the subsequent establishment of the Constitutional Court created a basis for adopting and implementing reform legislation. With USAID support, thousands of Ukrainians, including judges, journalists, attorneys, newspaper

managers, political party activists, NGO leaders, civic activists, legislative drafters, municipal government leaders, law faculties, and trade union leaders, have received training that is contributing to their efforts to support democratic reform.

USAID's support for NGOs that pursue issues that have an impact on people's lives, particularly by influencing political process and upholding citizens' rights, has proven successful. An illustration of this is that a coalition of environmental NGOs that attempt to hold government accountable to environmental and public participation laws has had a high success rate, advancing an issue of primary concern to citizens while increasing their confidence in the political process and legal system. In addition, legal advice to democratic trade unions has resulted in the successful resolution of several cases by trade union members. For example, the courts ordered an enterprise to reinstate and compensate the chairman of an independent trade union who had been fired for his union activities. Independent trade unions have also received training and information in collective bargaining, workplace safety, and pension reform. Similar legal advice and training is being provided to journalists, editors, and media lawyers under a media legal advocacy program. Public policy, legal advocacy, and human rights NGOs have been strengthened through training and small grants, enabling them to advocate on behalf of citizens, produce informational bulletins and TV programs, conduct regular and well-publicized opinion polls, and investigate human rights violations. Women's NGOs have received assistance that has helped them address key issues such as domestic violence, inequality, and women's entrepreneurship.

USAID has assisted the Government with election administration and voter education. Political party activists have received training in campaign management, coalition-building, and fund raising. USAID/Kiev has supported their efforts to be active and informed participants in the constitutional debate and the drafting of new election laws. A new parliamentary election law was adopted and implemented for the March 1998 elections. This law contributed to greater representation in the parliament, cost savings through elimination of repeat and run-off rounds, and further development of national political parties. USAID provided comprehensive assistance prior to the March 1998 elections, including support for political party debates, voter education programs, and training for CEC officials. In addition, get-out-the vote efforts contributed to youth voter turnout almost equal to that of all other age groups. USAID also supported an election observation effort by 17,000 non-partisan domestic monitors, the first independent election night news program, and an exit poll. These efforts contributed to relatively smooth election administration despite new changes to voting procedures under the new election law.

A USAID-funded press center is providing journalists with access to a wide range of resources including the Internet, legal databases, and Ukrainian and Western wire services. In addition, USAID provided technical assistance to a loan fund that was established to support the development of self-sustaining and independent media-related enterprises. In response to the growing constraints on independent journalism, a new activity was initiated to provide legal protection to journalists and to monitor legal actions and persecution against the media. This program will fund lawyers who advise or represent individual journalists and will support lobbying efforts for legislative acts that support an independent press. Programs to encourage government accountability through increased availability of information to the media have proved successful. Within the Public Education Program, a network of 25 press clubs has been developed throughout Ukraine where journalists meet on a regular basis with government officials to discuss issues such as privatization and economic reform. The weekly meetings at the Kiev Press club are covered in newspapers, radio, and national television news programs, allowing government officials to reach a large audience while promoting the accountability of officials to the public.

During the next four years, USAID/Kiev will continue to build upon achievements to date. The focus of activity will shift slightly to place greater emphasis on work with NGOs that enforce citizens' rights and demonstrate to citizens that their rights can be upheld and their concerns addressed through participation in the political processes. In addition, election support will be phased down after the 1999 presidential elections.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: Several other donors are currently providing grants to NGOs. Their efforts complement USAID's support to civil society and give additional NGOs an opportunity to expand activities that provide citizens with examples of the benefits of civic action. USAID leads or participates in donor meetings to coordinate assistance for NGOs, independent media, and elections.

Principal Contractors, Grantees or Agencies: International Foundation for Electoral Systems, International Republican Institute, National Democratic Institute, Free Trade Union Institute, NIS-U.S. Women's Consortium, Freedom House, Internews, and IREX

Selected Performance Measures:

	Baseline	Target
Citizens believe they could do something about an infringement of their rights by the government	6% (1995)	17% (2000)
Draft national legislation introduced by the legislative branch in which there was citizen participation in the deliberative process	0 (1995)	20 (2000)
Medium and large cities with coverage of daily national news by non-government stations	16 (1996)	24 (2000)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: Legal Systems that Better Support Democratic Processes and Market Reforms, 110-S0 2.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $1,000,000 FSA
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: The establishment of and respect for rule of law is essential to the success of market-oriented democratic systems. Ukraine, like other former Soviet republics, is striving to overcome a 70-year history of communist rule where law was subverted to the dictates of the party leadership and the population had little expectation of the State as guarantor of rights. While the country has made tangible progress since independence in enacting legislation and instituting policy reforms, the challenge of creating an entirely new, Western-oriented legal system and transforming the existing political-legal culture is enormous.

USAID will continue to emphasize strengthening the institutional capacity of the courts and the parliament to assist these branches of government to fulfill their constitutionally-established role in the national political process. Activities to bolster the effectiveness of the court system, through training of judges, technical assistance, and limited equipment purchases (e.g. computerization and access to legal databases), constitute the centerpiece of USAID's broader effort to reform Ukraine's legal system. At the same time that USAID is augmenting the capabilities of key government institutions involved in the creation of a Western-oriented legal system, it is also seeking to reform that system by empowering citizens who are generating pressure for adherence to the rule of law. USAID will extend and expand the various activities that have supported citizen and NGO efforts to hold government accountable to the law. This includes targeted legal assistance to groups such as journalists, broader support for pro bono clinics at law schools, small grants for legal advocacy NGOs, and support for indigenous media programs that provide practical legal information and encourage greater citizen participation in demanding accountability under the rule of law. There is close coordination with USAID activities under other strategic objectives, including private enterprise development and increased citizen participation, as well as special initiatives to combat sexual trafficking of women, to promote awareness of women’s legal rights, and to reduce corruption.

The Ministry of Justice, Supreme Court, Higher Arbitration Court, law schools, students, judges, lawyers, legislative drafters, and the National and Subnational Rada all directly benefit from USAID’s activities in legal system reform. Citizens dealing with the legal system also benefit from system improvements and more knowledgeable jurists and lawyers.

Key Results: USAID will consider that this objective has been achieved when the laws needed to support free-market democracy are in place and effectively enforced through fair and timely judicial processes.

Performance and Prospects: The foundation for a Western-based legal system was laid with the adoption in 1996 of Ukraine's new post-Soviet constitution, a generally progressive document that guarantees citizens an impressive set of rights and establishes the structures of national government. That adoption of companion enabling legislation such as an updated civil code has lagged, that endemic corruption has produced tremendous cynicism in the population, and that the judiciary faces serious material, institutional and political hurdles in fulfilling its constitutional role as an independent branch of government overseeing the administration of justice, all point to the enormity of the task in putting in place a legal system suited to the needs of a modern democratic, free-market system. Transforming institutions and mindsets is a long-term undertaking.

Still, since independence and the dissolution of the Soviet Union, Ukraine has made important headway in

establishing the rule of law. Formation of a Constitutional Court, creation of a judicial training center, computerization of court administration and installation of electronic legal data bases, widespread dissemination of legal information such as citizens' rights, introduction of mechanisms for alternative dispute resolution, reform of law school curricula, improvement in the education of legal professionals, and more widely available legal advocacy and representation for citizens, all underscore the country's progress in the rule of law sphere. Not coincidentally, these are areas in which USAID as well as other Western donors have been active, providing technical assistance, training, and other assistance.

But progress in discrete activities does not provide a full picture of the changes, some admittedly difficult to measure, that have begun to take hold in erecting a legal system more supportive of democratic processes and market reforms. Though the Constitution establishes an independent judiciary, judges have only recently begun to see themselves part of an independent, co-equal branch of government. The same can be said for members of the Verkhovna Rada. Despite the inefficiency of its internal procedures and its lukewarm support for economic reform, parliament is also emerging as a prominent actor in national policy making. In both cases, USAID and other donor-supported programs to bolster the institutional capacity of the courts (e.g. judicial training center) and the parliament (legislative drafting and analysis) have contributed to this emerging sense that these bodies should have a co-equal role in the governing process. The norm of free and fair (though by no means perfect) elections has also taken hold. Not only have citizens come to expect and demand an electoral process with integrity, but legislators and political leaders from across the ideological spectrum view the ballot box as the only legitimate path to power.

The change that may have the most profound long-term consequences is the increasing incidence of citizens, primarily through NGOs, using the court system to hold government authorities, particularly at the local level, accountable for observing the rule of law. For example, one USAID project supports a coalition of environmental NGOs that attempts to hold government accountable to environmental and public participation laws. The resulting efforts by citizens and NGOs to use their rights under the law have had a high success rate, advancing an issue of primary concern to citizens while increasing their confidence in the political process and legal system. Similar projects that provide legal and advocacy support to journalists, members of independent trade unions, and special interest groups such as consumer and business associations, have had impressive, albeit limited, success. This trend has been greatly abetted by growing awareness on the part of citizens about the law, and by the expanding supply of competent legal representation and increased citizen access, in part through USAID-supported pro bono legal clinics. An ever larger number of NGOs in areas such as consumer rights, human rights, environment, and small business, is involved in legal advocacy.

Possible Adjustments to Plans: USAID will carry out a rule of law assessment in 1999. While no major changes are expected in the strategy, the assessment will be used to refine programs.

Other Donor Programs: USAID continues to coordinate with the World Bank, EU/TACIS, OSCE, and other donors on legal reform issues. Most notably, USAID’s programs are designed to complement the proposed World Bank Legal Reform loan which has been under negotiation for several years. USAID organizes and participates in donor meetings to coordinate assistance to the courts, parliament, and specific legislative drafting initiatives. Coordination meetings often include Ukrainian government counterparts as well as NGO development partners such as the Ukrainian Legal Foundation.

Principal Contractors, Grantees or Agencies: ABA/CEELI, ARD/Checchi, Indiana University/U.S.-Ukraine Foundation, and Management Systems International.

Selected Performance Measures:

	Baseline	Target
Number of target laws enacted	1 (1995)	9 (2000)
Citizens aware of basic human and civil rights	25% (1997)	43% (2000)
Number of operational pro-bono legal clinics	1 (1997)	11 (2000)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: More Effective, Responsive and Accountable Local Government, 110-S0 2.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $3,000,000 FSA

INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: Improving the capacity of local governments to manage resources and provide services is crucial to the success and sustainability of Ukraine's overall reform effort. Assistance at the local level not only has visible impact on people's lives, but also improves public perceptions of and experience with democracy and economic reform. In cities, towns and villages, the interaction between citizens and government is most vigorous. There is evidence that local governments with the capacity to exercise well-informed choices in partnership with citizens and civil society can solve problems, identify and maximize opportunities, narrow the gap between resources and responsibilities, and engage the central government on policies that encourage local initiative. In fact, a recent survey indicated that from 1997 to 1998, there was a 14% increase (from 2% to 16%) in citizens who indicated that local government is the most likely branch of government to resolve the economic problems facing Ukraine in the next year. This may very well be an indication that public confidence in local government officials is growing.

Much of USAID/Kiev's programs that support democratization, housing, finance, privatization and private enterprise, environment, health, and training have taken place in or directly benefited cities or towns. In 395 Ukrainian communities, USAID/Kiev is working at the grassroots level with citizens, NGOs and local governments to bring about positive change.More than 1000 community-based activities help to build responsive, well-run communities and increase public confidence not only in local government but also in the transition to a free-market economy and democratic society. These efforts help bring about tangible improvements in people's lives. Strengthening local government capacity and encouraging citizen participation at the community level is the key to the sustainability of these efforts.

The strength of USAID's approach lies in the fact that U.S. assistance results in tangible evidence that priority community concerns can be addressed more effectively through local government initiative and citizen participation. USAID/Kiev will continue to build upon experience to date in promoting: (1) democratic governance -- transparency, accountability, responsiveness, citizen participation and effectiveness; (2) improved fiscal and financial management, including the development of operating and capital budgets, financial planning, business and investment plans, and economic development plans; (3) improved management capacity and administrative practices; (4) improved municipal services delivery and tariff reform, including improvement in the quality of service and the efficiency of service provision in the areas of public transportation, heating, water/sewer, solid waste, and housing; and (5) continued strengthening of the Association of Ukrainian cities as the lobbyist and professional association for local governments.

These programs are mutually supportive of programs under other strategic objectives that increase citizen participation, build citizen confidence in political processes, and strengthen the rule of law. In addition, the restructuring of the intergovernmental finance system under SO 1.2 also will make an essential contribution to the achievement of this objective. Finally, as municipal development is truly a cross-cutting issue, objectives and Special Initiatives in the areas of economic growth, environment, and health that promote development or address citizen needs and concerns at the local level reinforce the efforts of activities under this objective.

The principle beneficiaries of these programs are mayors, city administrators, local government officials and policy makers through increased local authority and improved management. The citizens of these communities benefit through improved services and greater transparency of government operations.

Key Results: USAID will consider progress towards the achievement of this strategic objective on track as targeted local governments and citizens begin to work together to solve priority community problems and to identify opportunities for future development. These efforts will help bring about tangible improvements in service delivery. Sharing positive experience and lessons learned with other local governments in Ukraine and in the region will facilitate the duplication of effective approaches in other localities, enabling a broader impact of USAID programming.

Performance and Prospects: While local governments in Ukraine continue to face significant challenges, USAID has made progress that will serve as a foundation for continued development of local government. USAID has provided local governments with training and technical assistance in management, financial planning, municipal operations and budgeting through in-country and cross-border exchanges with public and private organizations. Dramatic improvements in nine communities' transportation services resulted in significantly improved public perception of local government. Six cities also adopted financial analysis methods and operating/capital budgets to help exercise their new authority to raise revenue and plan expenditures. Over 50 cities are using the Financial Analysis Models developed under this program.

USAID-sponsored activities have promoted more open and responsive city government operations, public accountability of local officials, and increased citizen participation. Open and competitive procurement procedures,

budgeting processes, distribution of annual reports, and public hearings have been introduced in communities that received USAID assistance. A zoning manual has been distributed, and five cities have developed zoning rules and enlarged boundaries and schemes of planning restrictions. Ten local governments received assistance in instituting and implementing computerized titling and registration.

Laws on Local Self-Government and State Power and on Local Administrations were passed. The USAID-supported Ukrainian Association of Cities (UAC) assisted in drafting the Local Self-Governments bill, passed in July 1997, and continues to assist in the development of and lobbying for bills regarding local taxes and fees, communal property rights, the State budget and the budget system in Ukraine. UAC's membership continues to grow (from 79 in 1996 to 232 at present) and has become more effective in its lobbying of the central government for greater decentralization.

The implementation process for housing sector reforms has been documented in how-to manuals and model legislation. Through outreach programs, 4,200 officials and thousands of residents in 196 localities throughout Ukraine have access to information on condominium conversion and private maintenance and management services. On October 1, 1997, responsibility for delivering technical assistance under this program was transferred from USAID's contractor, PADCO, to the entirely Ukrainian-run Housing and Municipal Reform Support Center, an NGO formed by former PADCO employees. This serves as a promising example of sustainability of USAID activities.

The Urban Water Project in Lviv introduced a successful model for financially viable and sustainable vodokanals (water utilities). The USAID-funded Ukraine Council to Promote Sustainable Development endorsed an action plan on institutional, management and tariff reform for Ukraine's urban water/wastewater sector, which was forwarded to the Cabinet of Ministers. These reforms were included in the recent Law on Taxation of Profit of Enterprises.

These activities have demonstrated that increasing local government capacity to manage and promote democratic processes and transparency can bring about tangible improvements that build citizen support for local government and for reform. The interest in replicating USAID models and approaches in other cities confirms not only the success of these programs, but also the opportunity to make a significantly broader impact.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: Many donors and international organizations are working to strengthen local government. A Municipal Development Working Group has been established and meets regularly to discuss donor coordination. Participants have included USAID; the World Bank; EU TACIS; the British Know How Fund; the EBRD, and representatives from the German, Swedish and Dutch embassies and foundations. USAID is also working closely with the World Bank on the Municipal Development Loan Fund Project.

Principal Contractors, Grantees or Agencies: U.S.-Ukraine Foundation, Research Triangle Institute, and International City/County Management Association

Selected Performance Measures:

	Baseline	Target
Cities with a municipal business plan	0 (1998)	4 (2000)
Cities with improvements in specific services	10 (1998)	14 (2000)
Cities with institutionalized citizen participatory mechanisms	1 (1995)	30 (2000)

ACTIVITY DATA SHEET

PROGRAM: UKRAINE
TITLE AND NUMBER: Improved Sustainability of Social Benefits and Services, 110-S0 3.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $5,400,00 FSA
INITIAL OBLIGATION: FY 1995 **ESTIMATED COMPLETION DATE**: FY 2005

Summary: Ukraine's transition from Soviet-era central planning and authoritarian rule has imposed substantial hardship on the vast majority of the population. As price controls were lifted, food, housing, energy, and other basic goods and services were no longer affordable to people dependent on government pension and invalid benefits or on

fixed wages. Explosions of inflation ignited by attempts to cover budget deficits by printing money eliminated family savings accumulated over many decades -- leaving the elderly with no cushion to protect them from the new economic realities. The abrupt end of the arms race placed millions of manufacturing employees on indefinite lay-offs or in part-time employment. With economic growth still elusive, few people have access to proper jobs. The absence of a financial sector to redirect investment funds stifled the growth of new opportunities. Endemic corruption, punitive taxes, intrusive regulations, and xenophobia reduced to a trickle the level of foreign investment, which have supported transition in Central Europe. And worsening budget deficits froze pensions and other government benefits far below subsistence levels. Most people are denied access to decent quality, affordable health care reflected in rising rates of infant mortality and epidemics of diseases long-controlled in the west.

Improving sustainability of social benefits and services would help strengthen the flailing political support for economic reform in Ukraine. With over half of Ukraine's population living below the poverty line, such support, already dwindling, will soon evaporate if measures are not taken to shelter the most vulnerable groups in society. Ukrainian citizens cannot be expected to envision and aspire to a more promising future when their immediate welfare is in such a precarious position. The newly poor resent the bewildering "reforms" that have destroyed their living standards. They have turned to political parties calling for a "return to the normalcy" of socialism. These parties have effectively slowed or even blocked reform -- further exacerbating social and economic problems and discouraging foreign aid.

To achieve this objective, USAID assistance is aimed at (1) building a firm, rational and consistent legal, regulatory, and administrative framework to support the three-pillar pension system, including the solidarity system, the beginning of a mandatory funded system and safe, voluntary, private pension plans; (2) developing sound actuarial pension models to allow accurate evaluation of alternative pension reform scenarios and better management of the state pension system; (3) assisting the creation of a national database of all pensioners to allow automated pension calculations, auditing of pension expenditures, and reduced administrative costs; (4) creating a nationwide database of all working Ukrainians modeled on the U.S. Social Security Administration database to improve collection of payroll contributions, eliminate workbooks, improve labor mobility, and allow auditing of all social protection programs; (5) consolidating revenue collection in the State Tax Administration and providing the Pension Fund with full responsibility for calculating and distributing pensions; and (6) improving the infrastructure, management capacity, organizational government structures of indigenous NGOs providing social services to vulnerable groups in society, and improving the legal and regulatory environment in which they operate.

Because the social welfare of the population is so closely tied to many spheres of life, practically every other USAID objective contributes to the achievement of this one, particularly private sector development, increased citizens' participation and government responsiveness, and health sector reform.

Beneficiaries of these programs include low-income Ukrainian children and adults, especially pensioners and women at selected sites in Lviv, Odessa, Donetsk and Kiev. Ukrainian NGOs and charity organizations, hospitals, orphanages, boarding houses, invalids, the elderly, and most other vulnerable groups also benefit from USAID assistance under this objective.

Key Results: USAID will consider this objective to have been met when (1) there is increased efficiency in public sector delivery of services, (2) NGOs and other private organizations provide needed services to vulnerable groups, and (3) there is effective delivery of emergency and humanitarian assistance.

Performance and Prospects: Despite a number of formidable obstacles, Ukraine, with the help of foreign donors and international financial institutions, has made some headway in creating more sustainable social benefits and services in selective areas. Working closely with GOU counterparts in key ministries, USAID has helped to design and implement a number of social sector reform programs and more generally played a catalytic role in moving the government to give greater priority to social sector restructuring. Among the most notable social sector reform achievements since 1995 to which USAID contributed are: improved cost recovery for housing and communal services, saving the State budget an estimated $1 billion per year; a successful housing subsidy program, including automated caseload management and financial reporting systems, which provides targeted assistance to some four million poor families; models to forecast Unemployment Insurance and Employment Fund revenues and expenditures and training for relevant staff; a pilot quarterly household labor force survey, coordinated with the IMF/World Bank's revised household budget and expenditure survey; systems created for monitoring the social protection needs of the population; a new system for reporting wages and contributions to the State Pension Fund that allows improved tax collections, relates pensions to employment history, and will lead to the eventual elimination of work books; fiscal models for accurate budgeting of social assistance programs; grants and training provided to social service NGOs that have helped increase effectiveness in strategic program planning and implementation, cross-sectoral cooperation with government and business, fund-raising; and advocacy; and an

almost tenfold increase in client base served, from 125 to 1,000, as well as increased diversification of funding sources.

USAID's social sector reform strategy will build on these achievements to create an efficient and effective social benefits and services system that allows continued progress on economic reform. This will include reform of the state pension system and the introduction of viable private pension funds, building an NGO network; and providing humanitarian assistance to address problems of acute human suffering during the transitional period. For the foreseeable future, USAID will also support efforts to build a sustainable network of public and private Ukrainian institutions and NGOs whose mission is to alleviate to the extent possible the privations imposed on the most vulnerable members of Ukrainian society as a result of the difficult economic and political reform process.

Possible Adjustments to Plans: These programs have recently undergone strategic review, and no adjustments are contemplated for the present.

Other Donor Programs: Other donors also recognize the importance of social sector reform in Ukraine. IMFconditionality has included requirements for better targeting of social assistance, the elimination of general entitlement programs, as well as improvement of state pension system administration. The World Bank has been exploring for several years the possibility of providing credits to support pension reform. It has expressed willingness to collaborate with USAID on phasing-in some elements included in USAID's pension reform strategy. European Union Technical Assistance to the CIS (EU TACIS) has provided training and policy assistance in the area of pension reform and is currently collaborating with USAID contractors in developing the social safety net. The British Know-How Fund is also developing a scope of work for a modest program to support targeted assistance. Bilateral donors --- including regional German Governments and the Government of Canada and the British Know-How Fund are also engaged in pilot projects related to improvements in the state pension system and active labor programs to create jobs and retrain workers. USAID also works closely with other donor organizations in NGO development, particularly through the Donor's Working Group, which includes EU-TACIS, UNDP, the Netherlands Embassy, British Council, the Mott Foundation, International Renaissance Foundation (Soros). One of the projects the Donor Group has developed is a database to track all NGOs that apply for or receive assistance from any member of the donor community. This information will provide background on the NGO for purposes of coordinating efforts and checking for the NGO's history and reliability. A separate database on which the British Council has taken the lead, provides information on the different donors and programs which will be accessible through the Internet, with public access available throughout the NGO Resource Center network. USAID and the USAID-funded Eurasia Foundation programs have taken the lead in the most comprehensive and substantial support to NGO Development.

Principal Contractors, Grantees or Agencies: Counterpart, PADCO, Gavin Anderson and Financial Markets International

Selected Performance Measures:

	Baseline	Target
Law on mandatory state pension insurance enacted	no (1997)	yes (2000)
NGOs that increased the number of beneficiaries	60% (1998)	85% (2000)
Share of social assistance spending that is targeted	5% (1995)	45% (2000)

UZBEKISTAN

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$20,651,000	$27,610,000	$37,500,000

Introduction.

U.S. national interests in Uzbekistan reflect a combination of commercial and strategic concerns. As the largest country and market in Central Asia, Uzbekistan offers trade and investment opportunities through a diverse economic base which include agricultural, industrial and energy resources. Its oil and gas reserves also provide opportunities for U.S. investors and an option for diversifying U.S. energy sources. A prosperous Uzbekistan could be central to the commercial expansion of the region. Thus, Uzbekistan has the potential to contribute to U.S. economic prosperity. Uzbekistan aspires to regional leadership, and is increasingly seen as a key player in maintaining stability in Central Asia. It has played a role in the crises in Afghanistan and is a guarantor in the Tajik peace plan. The U.S. has a national security interest in ensuring that the region remains stable. Uzbekistan clearly contributes to that priority.

The Development Challenge.

USAID's primary goal in Uzbekistan is to promote economic growth and social stability. The reluctance of the Government of Uzbekistan (GOU) to introduce broad-based market reforms in the privatization and financial sectors has stifled economic recovery. After a significant movement in the mid-1990's toward free market reforms through pricing and trade liberalization measures and tightened short-term fiscal and monetary management policies, the government has retreated in the late 1990's by restricting convertibility and access to foreign currency. This resulted in suspension of its International Monetary Fund (IMF) Standby Arrangement. The lack of convertibility or movement towards economic or fiscal reform is having a serious debilitating effect on the Uzbekistan economy as well as a chilling effect on the international donor community. Recent IMF consultations revealed deepening financial imbalances. The GOU's tentative start at privatization, through an investment-fund based auction program for 200 medium and large-scale enterprises as of September 1998, has yet to gain momentum. The investment climate continues to suffer from onerous bureaucratic obstacles in registration, licensing, and inspection areas which increase the cost and unpredictability of private business operations.

USAID's economic reform strategy is designed to address the three key policy reform areas which are essential for a transition to a market-based economic system: fiscal policy and management; a stable market-based financial intermediation system; and a policy, legal and regulatory environment supportive of private enterprise and international investment (particularly in the energy sector). In the fiscal reform area, USAID has supported the development and passage of a comprehensive western-style tax code and has promoted tax administration procedural and automation reforms which have helped strengthen revenue inflows. In 1998, USAID initiated its accounting reform project working closely with the Ministry of Finance to introduce new international accounting standards. In 1999, USAID aims to convert at least 600 Uzbek firms to the international accounting standards, train accountants in free market accounting, and introduce a modern accounting curriculum to Uzbek universities. USAID has also supported the development of budget and treasury laws which should provide the legal basis for the development of more rational and better targeted budget planning, tracking and reporting systems.

In the financial sector, USAID is providing intensive support to improve bank supervision and the ability of the Central Bank to enforce tightened financial performance and reporting requirements for commercial banks. More recently, USAID has supported bank accounting with the goal of improving the quality of bank financial information available to both commercial bank managers and regulatory officials and thereby significantly improving the

efficiency of banking services. When controls on foreign exchange and credit allocation policies and inter-bank transactions are reduced, it will be important to have the basic regulatory and accounting infrastructure for the effective operation of a commercial banking sector in place. One of the glimmers of progress is the GOU's decision to proceed with the World Trade Organization (WTO) accession. Ultimately USAID's goal is to use this to focus key decision-makers on the importance and benefits of adopting reforms in trade and investment policy and regulation. With USAID support, the GOU finalized and submitted its Memorandum of Foreign Trade Regime to the WTO in Geneva in late 1998.

Citizen participation in economic and political life is limited and ill-informed. Political opposition to the regime is not tolerated, and the upcoming elections are not expected to meet international standards. As a result, election-related assistance has been scaled back and reformed. While opportunities to advance government transparency and responsiveness are restricted, there are significant opportunities to increase civic participation by strengthening non-governmental organizations' (NGOs) capabilities in management, civic education, media relations, community issues, and advocacy. In particular, there are important opportunities to support citizen involvement through NGOs at the local level as economic pressures are forcing the de-centralization of government in the country. Though the media is closely watched by the GOU, some 48 small TV stations have received USAID assistance and 18 contribute to a biweekly news magazine. Openings also exist to promote rule of law concepts. Legislative assistance by USAID has resulted in improved sections of the criminal and commercial codes and a progressive draft NGO law, which after passing its first reading, is now before the parliament for its second reading.

Currently, government-supplied social services critical to maintaining a social safety net are not financially sustainable. The GOU is committed to providing good health services and this is an area in which USAID technical assistance is very effective. In 1998, USAID began to work on health reform by focusing on new management and payment systems for improved health service delivery and financing. The results have been impressive with 13 primary health care sites already established in pilot areas. Community groups have been organized to participate in health services. The World Bank (IBRD) has provided a $30 million loan to build on the results of USAID's pilot health reform activity and replicate it in three provinces. Responding to a resurgence of tuberculosis (TB), USAID introduced the new, more effective World Health Organization (WHO) protocols for treatment in 1998. USAID initiated-programs have made significant contributions to improved health for Uzbeks -- polio has essentially been eradicated; abortions have been reduced by about 50%; and more than 1,000 health care providers have received training in family planning. The Medical Partnership Program provides comprehensive health care for women as well as training in emergency care. USAID plans to build on these successes and expand its health assistance in 1999.

Other Donors.

USAID closely coordinates with other donors. The IMF continues to closely monitor the macroeconomic policies of the GOU even though the Standby Arrangement has lapsed. The IBRD is working on privatization and health. The European Union (EU) has the largest country program after the IBRD. This focuses on technical assistance in agriculture, private business development, and energy and includes support for accounting reform. USAID is the lead donor in fiscal policy/management reforms, commercial law, accounting reform, reproductive health care, and strengthening NGOs and the media. The United Nations (UN), the Adenauer Foundation, and the Organization for Security and Cooperation in Europe (OSCE) fund training to improve civil society. The European Bank for Reconstruction and Development (EBRD) has made loans for textile plants, energy, and small enterprise development.

FY 2000 Program.

USAID's assistance will continue to evolve and shift to opportunities where USAID can be an effective development partner with the government and with nongovernmental groups especially in health and local community development. In the fiscal area, USAID's assistance on fiscal reform will continue but shift from tax policy to tax administration and to focus on budget planning, banking supervision and accounting. Assistance for accounting and commercial law reform is being initiated to respond to new opportunities. Following up on the GOU's recent submission to the WTO, USAID will provide intensive technical assistance and training to help the GOU accelerate the WTO accession process and provide a springboard for more far-reaching reforms on commercial law.

Involving Uzbekistan citizens in public affairs through an active, effective NGO community represents the most viable means of promoting a more participatory political process, closely complemented by a strong, independent media. USAID is increasing support for civic education, women's legal rights, NGO activity, and grassroots community issues. It is also working with the more mature NGOs on policy advocacy skills, coalition building and community development. USAID assistance to commercial TV stations will help address equipment, finance, and

management deficiencies and subsequently improve programming quality.

USAID assistance will also expand in the health sector where successful USAID pilot projects in health care delivery have begun to document cost effective models which reach critical populations and which have leveraged substantial additional IBRD support. USAID will continue to work with the bank to provide much needed technical assistance to support a new major IBRD health loan as well as strengthen the role of the commercial sector in the management and supply of pharmaceuticals and contraceptives. In the area of infectious disease, cost-effective ways to treat TB will be introduced. USAID will also increase activities which strengthen the ability of NGOS, including traditional groups such as community councils, to deliver social services.

UZBEKISTAN

FY 1999 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	800	--	--	--	800
Private Enterprise	6,200	--	--	--	6,200
Financial Reform	1,500	--	--	--	1,500
Energy	--	--	--	--	--
Environmental Management	--	--	--	--	--
Citizens' Participation	--	2,500	--	--	2,500
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	1,500	--	1,500
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	25,000	25,000
TOTAL	8,500	2,500	1,500	25,000	37,500
*Freedom Support Act (FSA) funds					

USAID Mission Director: Glenn Anders

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE AND NUMBER: Increased Soundness of Fiscal Policies and Fiscal Management Practices, 110-S001.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $800,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993; ESTIMATED COMPLETION DATE: FY 2000

Summary: In 1994 USAID began working on this activity, the purpose of which is to increase the soundness of fiscal policies and fiscal management practices. In early 1998 USAID gauged that this activity was "on track," although implementation had been slow. While the year commenced with the introduction of the tax code and a proposed Budget System Law, neither were passed by the Majilis, even though they had been submitted to the Cabinet of Ministers in June 1998. Additional support is helping to modernize both the indirect and direct tax administration system. Modernization of the computer systems within the tax administration is the most advanced of the Central Asian Republics. USAID assistance has been responsible for three budget reform seminars and one seminar in fiscal reform. In total almost 400 local participants received training under these activities. Continued progress in these areas would cause the general government deficit as a percentage of GDP to decline to 2.6% by 2001.

This effort seeks to benefit Uzbeks at all levels by ensuring greater transparency and a more rational revenue collection and budgetary expenditure process. Potential entrepreneurs and foreign investors will benefit as more comprehensible and transparent fiscal systems are adopted. Increased government revenues and a more rational system for allocating their use should also lead to more effective governance and greater macroeconomic stability.

Key Results: For fiscal reform to be sustained it will be necessary for: 1) the government deficit as a percentage of GDP to fall to 2.6% by FY 2001; 2) the percentage of total revenue generated by local governments to rise to 59% by FY 2001; 3) continued compliance to the conditions of international financial institutions by the GOU; and 4) the average volume of all types of government securities outstanding to climb to $150 million in 2001 from $30 million in 1995.

Performance and Prospects: Although a new tax law has been passed, it has a few significant deficiencies. USAID advisors are attempting to effect corrections through implementing regulations. The new Budget Systems Law and companion Treasury Law, drafted with USAID assistance, are expected to go to Parliament by spring 1999. Progress is being made in installing a budget classification system developed with USAID assistance. The Ministry of Finance is receiving USAID-sponsored training of fiscal forecasting, and now appears committed to the development of an improved budgetary planning framework which would improve the targeting and cost-efficiency of major social expenditure programs.

Possible Adjustments to Plans: By most accounts, Uzbekistan is headed for serious fiscal problems. The change in leadership at the Ministry of Finance, while initially promising, does not look to yield the reforms anticipated. The IMF removed its Treasury Advisor from the Ministry of Finance in late 1998. Continued assistance in budget reform is high-risk at this time, and indications of additional reform are sparse. The USAID Fiscal Reform Activity represents the only current effort in this sphere. USAID can claim success in its efforts to reform tax administration, although the potential for future impacts are low. It appears as if the time for a phase-out of USAID's assistance is approaching. Immediate termination of USAID-supported budget reform activities and activities in fiscal analysis, however, may be ill-timed. Over the near term, USAID will monitor closely events in this area.

Other Donor Programs: Ongoing work in the fiscal area is closely coordinated with the Know-How Fund of the UK in the development of a computerized risk assessment system for the State Tax Committee. USAID is also cooperating closely with the IMF in the fiscal analysis.

Principal Contractors, Grantees, or Implementing Agencies: USAID activities are implemented through KPMG/Barents, a contractor working closely with the Ministry of Finance and State Tax Committee.

Selected Performance Measures:

	Baseline	Target
Government deficit as a percentage of GDP	3.5% (1995)	2.6% (2001)
Local government revenue as a percentage of total	47% (1997)	59% (2001)
GOU maintains compliance with conditions of international financial institutions	Yes (1995)	Yes (2001)
Average volume of all types of government securities outstanding during year (millions)	$30 (1995)	$150 (2001)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE AND NUMBER: Accelerated Development and Growth of Private Enterprises, 110-S001.3
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $6,200,000 Freedom Support Act
INITIAL OBLIGATION: FY 1998; ESTIMATED COMPLETION DATE: FY 2000

Summary: In 1997 USAID initiated a trade and investment program designed to educate state officials on the merits, benefits and requirements of the World Trade Organization (WTO) and to assist in the preparation and adoption of changes to the legal and regulatory framework necessary for accession to the WTO. The Accounting Reform Activity was launched in late 1998. USAID advisors are working with the Ministry of Finance to introduce a new chart of accounts that is in accord with the International Accounting Standards (IAS). Finally, USAID continues to work with local private enterprises, offering technical assistance to promising industries. If Uzbekistan would

begin to make progress in privatization, the share of GDP generated by the private sector could climb to 65% by 2001.

Aspiring entrepreneurs stand to benefit from a more comprehensible and transparent business environment, including one that promotes greater trade and investment. The entire population stands to gain from a market-based economic system that supports employment, increases incomes, lowers prices and expands individual choice. Enterprises which adopt the new accounting standards will be better able to manage their business. Foreign investors will be better able to assess the value of investments.

Key Results: Indicators of the growth of private enterprises will be the following: 1) maintenance of compliance with international financial conditionality; 2) percentage share of GDP generated by private enterprises increasing to 65% by FY 2001; and 3) the dollar value of joint venture funds invested climbing to $30 million during FY 2001.

Performance and Prospects: USAID briefly supported the Uzbekistan privatization program. A lack of commitment on Uzbekistan's part to serious, wide-ranging and transparent privatization resulted in a USAID decision to curtail this involvement. New opportunities to promote private sector expansion include launching work in the legal and regulatory environment and providing an advisor to the petroleum sector. At the August 1997 session of the Parliament, a new Tariff Law and a Customs Code prepared with USAID assistance were enacted. The government recently sent its Memorandum of Foreign Trade Regime (prepared with USAID assistance) to the WTO. By December 1998, the GOU had replaced its Soviet style accounting standards with international (IFAC) based accounting standards. USAID will support enterprise conversion to international accounting standards and practices, accountant training and accounting curriculum reform in 1999.

USAID intends to continue offering technical advice in the legal and regulatory reform area, especially as it relates to Uzbekistan's accession to the WTO, simplification of the legal/regulatory regime related to business formation and operation and development of the oil and gas sector. This work will draw on largely successful reform initiatives in these areas already being carried out in neighboring Kazakhstan and Kyrgyzstan. In-country, third-country and U.S.-based training will also be undertaken to support these efforts.

To date, the private enterprise development work of USAID has been successful despite the difficult business environment. Small and medium-sized enterprises continue to want and need assistance offered by IESC and CAAEF.

Possible Adjustments to Plans: The worsening macroeconomic environment in Uzbekistan may have created the desire on the part of the Government of Uzbekistan to affect substantial progress in commercial law reform and trade and investment. USAID will monitor the situation to determine if it is the case, and will respond accordingly.

Other Donor Programs: The World Bank, EBRD and EU are all engaged in activity aimed at improving the business climate and promoting private sector growth in Uzbekistan. The EU has worked with USAID in the early stages of accounting reform. USAID's own technical assistance and training in this area is coordinated closely with these other organizations.

Principal Contractors, Grantees, or Implementing Agencies: USAID activities are implemented through U.S. commercial contractors (Booz Allen and Hamilton and Carana Corporation) as well as U.S. PVOs such as IESC. Further, CAAEF is an important grantee because of its role in providing equity and credit to the nascent private sector.

Selected Performance Measures:

	Baseline	Target
Percentage share of GDP generated by private enterprises	26% (1996)	65% (2001)
GOU maintains compliance with conditionality of international financial institutions	No (1996)	Yes (2001)
Dollar volume of joint venture funds invested (millions)	$13 (1996)	$30 (2001)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE AND NUMBER: A More Competitive and Market Responsive Private Financial Sector, 110-S001.4
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $ 1,500,000 Freedom Support Act
INITIAL OBLIGATION: FY 1993; ESTIMATED COMPLETION DATE: FY 2000

Summary: This Strategic Objective will create a more competitive and market responsive private financial sector. In early 1998 USAID gauged that progress in this area was going slower than in other Central Asian Republics where USAID was providing assistance. This was the case due to distorting foreign exchange management policies and restrictive controls on local currency denominated accounts. In the securities market area, it was judged that the Privatization Ministry continued to play the key role in securities market regulation, resulting in a clear conflict of interest situation, thereby directly impugning the integrity of the securities market regulatory framework. Progress in the financial area would be seen by growth in the ratio of bank deposits to GDP -- to 15% by 2001.

Immediate beneficiaries include professionals involved in financial development, especially targeted towards private bankers. More importantly, new entrepreneurs as well as a broad range of Uzbek citizens should benefit from a more effective and efficient banking system

Key Results: Indicators of progress in the financial arena would include the following: 1) bank deposits as a percentage of GDP climbing to 15% by 2001; 2) the number of financial services available growing to 17 by 2001; 3) a positive USAID assessment of the readiness of the Central Bank to regulate the financial sector; and 4) the percentage of the public pension system's total current obligations that are actually disbursed to beneficiaries would rise to 100% in 2001.

Performance and Prospects: The USAID banking advisors have developed an outstanding working relationship with their counterparts and have conducted practical training of bank supervisors combined with on-site bank inspections. USAID-funded technical assistance has trained accountants in commercial banks. Plus, efforts with the Central Bank has caused it to developed reporting requirements for all commercial banks. The Central Bank was assessed to have achieved an almost complete regulatory capacity during 1998 to ensure the enforcement of pertinent legislation. All commercial banks have adopted international accounting standards.

While international accounting standards have now been officially adopted by Uzbekistan’s commercial banks, there remains a significant gap between theory and practice. A great deal of training is required to bring Uzbekistan’s commercial bank accountants to a level that will permit them to truly utilize the international accounting standards.

Meanwhile, the Capital Markets Development Activity in Uzbekistan was discontinued because the government refused to allow the securities regulatory body, the Center for Coordination and Control of the Securities Market, to become and independent institution.

Possible Adjustments to Plans: As a result of the noted successes thus far, the Central Bank has requested an expansion of USAID assistance. Another Bank Supervision Advisor will focus on off-site supervision, leaving the first to focus on-site inspection. Additional advisors may assist the bank in the installation and training of staff to use the new IMF-provided chart of accounts and facilitate accounting conversion within major commercial banks. Training for Uzbek counterparts is also included as part of this initiative. USAID has provided substantial technical assistance in the area of pension reform and it is anticipated that legislation for a comprehensive pension reform program will soon be passed. Technical support to facilitate the development of the regulatory, technical and organizational infrastructure of the nascent securities market will also be provided, assuming the GOU agrees to enact key regulatory reforms required for the operation of a stable and competitive securities market. In summary, USAID is proceeding cautiously in this area, as additional reforms are enacted.

Other Donor Programs: USAID work in this area is closely coordinated with that of other donors. The EU has developed a banking training facility in Tashkent, an activity also supported by the EBRD and the Turkish Government. The World Bank has identified the financial sector as a key area and has provided some technical assistance to both the Central Bank and commercial banks.

Principal Contractors, Grantees, or Implementing Agencies: USAID activities are implemented through IBTCI. Those advisors work closely with local counterparts at the Central Bank and private commercial banks.

Selected Performance Measures:

	Baseline	Target
Private bank deposits as a percentage of GDP	4% (1995)	15% (2001)
Number of financial services available	12 (1996)	17 (2001)
Assessment of regulatory readiness of the GOU Central Bank	No (1995)	Yes (2001)
Percentage of public pension systems holding that are distributed to beneficiaries in a given year	60% (1995)	100% (2001)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE AND NUMBER: Increased Citizens' Participation in Political and Economic Decision-making, 110-SOO2.1
STATUS: Continuing
PROPOSED OBLIGATIONS AND FUNDING SOURCES: FY 2000 $2,500,000 Freedom Support Act
INITIAL OBLIGATION: FY 93; ESTIMATED COMPLETION DATE: FY 2006

Summary: When the USAID began work on this Strategic Objective, civil society was virtually non-existent, with the exception of social associations under the guise of the former communist state. There were extremely low levels of citizen participation in the decision-making process, and fledgling independent outlets were immediately suppressed. The USAID seeks to break this legacy by increasing citizen's participation in the political process through the introduction of concepts of civil society and democratization. Technical assistance, training and grants to local organizations help disseminate information and educate local counterparts about the role of potential non-governmental players in contributing to the economic, political, and social development of the country. The Counterpart Consortium focuses on NGO training and provides small support grants. Another USAID grantee works with local TV and radio broadcasters to improve the professionalism and viability of independent media, but editorial independence is limited in the current environment.

Key Results: Three key intermediate results were concluded to be necessary to achieve the Strategic Objective. NGO participation in civil society must be strengthened, information on domestic economic policies and politics must become more widely available, and the government must become more responsive and accountable to citizens and citizens organizations.

Performance and Prospects: NGOs are becoming stronger and more assertive in Uzbekistan, with many embracing local advocacy as a part of their program as a result of training and grants administered by USAID-funded Counterpart Consortium. One example of these civil society developments is the creation of the Bukharan Tourist Business Association which is challenging the dominance of the state-run tourist company through advocacy for government support and recognition on the local level. With the assistance of USAID-funded Internews, 26 independent television stations (not affiliated with the State TV service) in almost every large city are being strengthened through training and equipment donations. As a result, 18 of the 26 are now contributing well-produced pieces for inclusion in a biweekly news magazine program edited and distributed by Internews. With the assistance of the USAID supported International Center for Not-for-Profit Law, a new NGO law has been successfully passed in its first reading in parliament and is up for a second reading. Furthermore, over the past two years, USAID assistance has provided effective commentary on several pieces of draft legislation including the Law on Advocacy, the Law on Public Health, sections of the criminal and commercial code, and the Law on Notaries.

Democratic reforms in Uzbekistan are challenged by the GOU's continued interference in the work of NGOs and restrictive NGO legislation which may soon change. It appears that the upcoming presidential elections in Uzbekistan may not meet international standards, leading USAID to divert assistance previously intended for elections to other areas of democratic reform. Independent media may face further obstructions from the Government due to the newly created "Intergovernmental Commission on the Mass Media." Given these restrictions, USAID is focusing much of their democracy assistance in Uzbekistan over the next year on local level community development by NGOs as a grassroots impetus for citizen participation.

Possible Adjustments to Plans: USAID plans to refocus assistance from election activities toward civic education. In addition, openings at the local level with traditional leaders have presented increased opportunities to work on civil society participation in community development. Programming in Nukus, Bukhara, and Kokand is expected. In the area of independent media, The USAID intends to refocus its efforts on supporting journalists associations and discussions of their legal rights so as to give journalists a defense against increasing government harassment.

Other Donor Programs: The United States is a major donor working in the area of democratization in Uzbekistan. Programs supported by various U.S. Government agencies are closely coordinated with those of USAID. The Konrad Adenaur Foundation, the Soros Foundation, OSCE/ODIHR, and the UN Development Program (UNDP) also provide assistance in this area. In addition, UNHCR is co-funding NGO resource centers in conjunction with USAID-financed Counterpart Consortium.

Principal Contractors, Grantees or Agencies: Several USAID-funded U.S. PVOs such as the American Bar Association/CEELI, Internews, and the International Foundation for Electoral Systems (IFES), have played a role in promoting democracy in Uzbekistan. The Counterpart International, Aid to Artisans, and the International Center for Not-for-Profit Law, which together form the Counterpart Consortium, also participate in local NGO development in Uzbekistan. Initiative for Social Action and Renewal in Eurasia (ISAR) will also participate in the development of local environmental NGOs.

Selected Performance Measures:

	Baseline	Target
Number of NGOs involved in advocacy (media/govt):	70/52 (1996)	275/25 (2001)
Average daily minutes of local news programming:	2 (1994)	12 (2001)
Number of Parliamentary hearings and committee meetings addressing legislative/policy issues:	0 (1994)	4 (2001)

ACTIVITY DATA SHEET

PROGRAM: UZBEKISTAN
TITLE AND NUMBER: Improve the sustainability of social benefits and services, 110-S003.2
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000 $1,500,000 Freedom Support Act
INITIAL OBLIGATION: FY 1998; ESTIMATED COMPLETION DATE: FY 2003

Summary: USAID is providing the technical assistance to support the Government of Uzbekistan (GOU) in developing a program for reforming its health system. The program builds on the lessons learned from the health reform demonstration activities in both Kazakhstan and Kyrgyzstan. With USAID's assistance, the GOU has started developing a new rural primary health care model staffed with retrained family physicians. The rural clinics will introduce new, market-based payment systems to increase efficiency. USAID-supported activities are designed to fit within the framework of a World Bank loan which will finance the construction/renovation and re-equipping of reformed rural primary health care facilities. The World Bank and GOU will replicate successfully-tested financial and management systems from the USAID demonstration site to three oblasts. The immediate beneficiaries are the health care providers while ultimately all citizens of Uzbekistan benefit, especially the segment of the population classified as vulnerable (e.g., elderly pensioners, women, children).

Key Results: This activity contributes to improved sustainability of selected social services through achievement of two intermediate results. Cost-effective health care services demonstrated in selected Oblasts and cost-effective health sector reforms adopted nationally. Establishment of primary health care centers have begun and to date 13 have been established. Intensive training of family medicine practitioners have started and the new payment systems, information systems and population enrollment have been designed and ready for implementation. The other two Selected Performance Indicators began only in 1998, therefore, results are not expected until well into 1999.

Performance and Prospects: Performance is on target, however, if the World Bank project disbursements are slow, it will affect the USAID progress. The World Bank loan for approximately $30 million has been approved to reform the health care system in three pilot Oblasts. A Memorandum of Understanding between the GOU and the Government of the United States to promote and support this project exists. Recently, the President of Uzbekistan issued a Decree that provided the legal basis for implementation of the Health Care Reform Project until the year 2005, making this project a priority for the future years. The increased efficiency and accountability of the health care system has shown some very positive results within the first year of operation, with the reduction and restructuring of hospital capacities and the development of primary health care services. Community-based NGOs

have been created to increase community participation in health services. Incentive-based payment systems are being designed. In-country and U.S. training have been provided to counterparts, training for family medicine practitioners has already started. In addition to World Bank loan and the Governmental Decree, prospects of expansion are excellent in Uzbekistan. The government has taken initiative in the restructuring of their health care system by creating primary health care services in rural areas. They are making funds available from the governmental budget for these activities.

Possible Adjustments to Plans: Starting in 1999, the technical assistance and the program might be expanded to meet the request of the Government, if current progress and the commitments from the Government's part continue to be made.

Other Donor Programs: The Ministry of Health at the national level and local health officials in the demonstration area, are the primary counterparts. However, various other GOU entities, such as the Ministries of Finance and Justice, the Cabinet of Ministers and the Presidential Apparat, are also involved. In addition to the close, collaborative relations with the World Bank, USAID's work is closely coordinated with the British Know How Fund and the EU.

Principal Contractors, Grantees, or Implementing Agencies: Abt Associates is the principal contractor implementing this activity.

Selected Performance Measures:

	Baseline	Target
Increased number of independent primary care practices - family group practices (FGP's)	0 (1997)	50
Percentage of health care providers reimbursed by market-oriented payment systems	0 (1998)	25%
Percentage of the population enrolled in FGPs	0 (1998)	60%

FEDERAL REPUBLIC OF YUGOSLAVIA

(Serbia, including Kosovo, and Montenegro)

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Support for East European Democracy	$15,300,000	$24,300,000	$55,000,000
Child Survival and Disease	500,000	---	---
P.L. 480 Title II	9,853,000	16,551,000	---

Introduction.

The present regime of the Federal Republic of Yugoslavia (FRY) represents a significant challenge to efforts to develop the Balkans into a stable democratic region that can be integrated into post-Cold War Europe. Yugoslavia continues to be a bastion of authoritarian rule that resists political and economic reform. A major civil conflict that erupted in March, 1998, in the southern Serbian province of Kosovo after years of repression of the ethnic Albanian community there, rising tensions between the Republics of Serbia and Montenegro -- which together form the FRY-- and a persistent economic crisis threaten domestic stability. In the region, Yugoslavia has been a difficult partner in efforts to implement the terms and principles of the Dayton Accords. The importance of the FRY to regional stability and the realistic potential for exerting a strong positive influence in favor of systemic change constitute the rationale for U.S. engagement to address key democratic and economic transition issues. The direction Serbia and Montenegro takes over the next several years, particularly toward establishing a more open democratic society, will be a major determinant of the nature of politics and economic development in the region for many years to come. Prospects for long-term peace and stability in the region would be greatly enhanced by the successful establishment of an open, democratic society with a high standard of respect for the rule of law and protection of human and civil rights in Serbia and Montenegro.

Development Challenge.

FY 1998 was the start-up year for USAID field presence in the FRY. USAID operates within the framework of the sanctions environment, particularly the Lautenberg Amendment to the 1998 Foreign Assistance Act that restricts the scope of bilateral assistance and the U.S. imposed-"outer wall" sanctions that constrain Serbia’s economic access to the international community. The "outer wall" sanctions have effectively prevented traditional policy reform advice and technical assistance and potentially large transfers of policy-conditioned capital from the World Bank [International Bank for Reconstruction and Development (IBRD)] and the International Monetary Fund (IMF) required to attract new investment and re-start the national economy. Accordingly, neither the World Bank nor the IMF maintains formal contacts with the country, though each does track political and economic developments. Defining program strategy and implementation specifics within the unique FRY circumstances of a sanctions environment and regional differences among the FRY’s two republics and the Serbian province of Kosovo are major challenges. Other constraints include the government’s continued lack of cooperation and good faith commitment to the terms and principles of the Dayton Accords which are essential to establishing a democratic society and free market economy.

The ongoing Serb persecution of ethnic Albanians in Kosovo so outraged the international community that in July, 1998, the UN passed resolution 1160 condemning FRY activities in Kosovo. In September, 1998, resolution 1199 demanded that the FRY cease hostilities toward the ethnic Albanians or face NATO intervention. As this deadline approached, all non-emergency US government personnel, and all family members, were forced to evacuate from the FRY. The curtailment of USAID’s operations, even for this brief period, had a negative impact on the program. The government of FRY used the threat of NATO air strikes as a rationale to implement a series of repressive laws in the name of national security, setting back efforts to encourage democratic growth and independent media.

USAID recognizes the political and socioeconomic diversity among geographic regions of the country, and has tailored its program to address these varied circumstances and the realities of each implementing environment. Interventions differ for each of the three geographic and sociopolitical areas--Central Serbia/Vojvodina, Kosovo and Montenegro--in order to achieve the highest impact while serving the particular needs of each region. The program is implemented primarily through US NGOs working as partners with indigenous NGOs and other local organizations.

Of FY 1999 SEED funding totaling $24,300,000, $13,500,000 was allocated to USAID programs, $10,000,000 was transferred to the U.S. Department of State and $800,000 was transferred to USIA for USIS activities complementing USAID programs in the areas of independent media, political and social process and civil society development. In addition, the non-SEED funded, Office of Transition Initiatives small grants program (over $1.0 million in 1998), supporting independent media and local NGO development, was an important component of USAID efforts, particularly in Kosovo. Other non-SEED funded activities included Office of Foreign Disaster Assistance (OFDA) activities (over $14.0 million) and a PL-480 Title II program for emergency food assistance.

Other Donors.

At this time, other bilateral donors in the region have very limited assistance programs in Serbia and Montenegro. The humanitarian aid multilateral organizations, principally war related--United Nations High Commission for Refugees (UNHCR), World Food Program (WFP), World Health Organization (WHO), and UNICEF--plus the Soros Foundation have made significant commitments. The European Union (EU) has recently announced programs for Montenegro and Kosovo. As a result, USAID, even in its short period of on-the-ground presence, has become a high visibility agency within the donor community and to the public at large. International donor coordination is excellent.

FY 2000 Program.

The USAID program strategy is aimed at encouraging political and economic change in an effort to help lead the country into transition status. USAID concentrates its democratic resources on empowering change agents. These include information providers such as media and educational institutions, political organizations, professional and trade groups; reform minded individuals and organizations; democratic institutions, human rights organizations and economic reform entities. At the same time, economic reform assistance is provided to Montenegro, supporting the program of President Djukanovic and, in part, rewarding it for taking major steps in democratic reform. In addition, USAID has community building programs in Kosovo aimed at ethnic reconciliation between the Serbian and Albanian populations.

The U.S. assistance program for Serbia and Montenegro is structured around achievement of two strategic objectives: increased, better-informed citizens' participation in political and economic decision-making; and recovery from crisis, mainly in Montenegro and Kosovo. The program is focused primarily on seeking the FRY’s democratic transformation through building a democratic foundation from the bottom up. The framework of this focus consists of interrelated activities in the areas of an improved political process, more participatory and effective civil society organizations, a more independent and responsive media, legal systems that better support democratic processes and market reforms and more effective, responsive and accountable local government. Recovery from crisis includes responses that support democratic and market reforms in Montenegro and several new initiatives directed at community building which includes rehabilitation of social and small infrastructure, social stabilization, humanitarian concerns and improved developmental and quality of life prospects in Kosovo. Participant training, using USAID and United States Information Agency (USIA) training programs, is a cross-cutting activity supporting USG democracy objectives throughout the country, the Government of Montenegro’s reform agenda and the variety of special stabilization and developmental initiatives being undertaken in Kosovo.

Plans are being developed for a possible expansion of USAID democracy activities in Kosovo, including funding to prepare for and carry out elections. Specific democracy area objectives and activities being planned for Kosovo are interrelated components of comprehensive program which addresses the development of the institutions and processes necessary to make local government more effective and representative and, as may be determined in anticipated political agreements, directly support an enhanced degree of autonomy for the province. Economic restructuring activities and social sector activities associated with USAID responses and management of the humanitarian crisis in Kosovo and increased attention to improved sustainability of health and social benefits and services are intended to accomplish changes in conditions that very significantly affect people's lives. Accordingly, USAID is considering developing formal core strategic objectives and corresponding results frameworks for these program areas. USAID's near term strategy to help the people of Kosovo recover from the economic and social destruction caused by the past year of fighting and conflict includes several new initiatives in community building, small and micro lending, enterprise recovery and development, agribusiness development and small infrastructure

reconstruction.

FEDERAL REPUBLIC OF YUGOSLAVIA (FRY)

FY 2000 PROGRAM SUMMARY*
(in thousands of dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	--	--	--	--	--
Financial Reform	--	--	--	--	--
Energy	--	--	--	--	--
Environmental Management	--	--	--	--	--
Citizens' Participation	--	23,000	--	--	23,000
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	25,000	--	25,000
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting/Special Initiatives	--	--	--	7,000	7,000
TOTAL	--	23,000	25,000	7,000	55,000
*Support for East European Democracy (SEED) Act funds					

USAID Director: Richard Hough

ACTIVITY DATA SHEET

PROGRAM: FEDERAL REPUBLIC OF YUGOSLAVIA (FRY)
TITLE AND NUMBER: Increased, Better Informed Citizens' Participation in Political and Economic Decision-making, 180-SO02.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $23,000,000 SEED
INITIAL OBLIGATION: FY 1997 **ESTIMATED COMPLETION DATE:** FY 2004

Summary: The USAID democracy portfolio in the Federal Republic of Yugoslavia (FRY) works in the areas of increasing citizen participation in the political process and public decision making. This includes: directing social stabilization activities in Kosovo; supporting judicial and local government reform in Serbia, Montenegro and hopefully Kosovo; encouraging indigenous NGO and trade union development in all areas of the FRY; assisting political party development; advocating election reform in Montenegro; creating a more objective and viable independent media; and development of legal systems that better support democratic processes and market reforms. Progress on the FRY's democratic transformation was constrained during 1998 due to the Government's limited progress on adhering to the agreements set forth in the Dayton Accords and the disruptions in activities caused by the hostilities in Kosovo.

Key Results: USAID activities focus on the FRY's democratic transformation through building a democratic foundation from the bottom up. Although the program is changing rapidly as new imperatives and opportunities arise, activities are at present focused on the following intermediate results considered necessary to accomplish this objective: improved political process as indicated by increased citizen involvement in political parties and increased voter participation in elections; more effective civil society as indicated by a growing number of NGOs and other civil society organizations active in the country; a more independent media as indicated by increased numbers of citizens who listen to, watch, read and have access to independent media and have informed opinions regarding government actions; legal systems that better support democratic processes and market reforms as indicated by how well the rule of law is institutionalized in terms of fairness, objectivity and consistency in application; and more

effective, responsive and accountable local government. USIS and OTI programs have significant impacts on progress in the areas of independent media, political and social process and civil society development.

Performance and Prospects: Progress on the FRY's democratic transformation was constrained during 1998 due to the Government's limited progress on adhering to the agreements set forth in the Dayton accords and the disruptions in activities caused by the hostilities in Kosovo. Significant achievements included a successful program of technical assistance and other activities for parliamentary elections in Montenegro (including voter education and election monitoring), initiation of activities related to political party development, and the development of a larger, more effective network of civil society organizations, particularly NGOs. Improved planning and program execution by NGOs were very important. Increased communication and collaboration by NGOs were critical elements of improved effectiveness. USAID supported the strengthening of indigenous NGOs and creation of local institutions to foster independent self-determination. Human rights organizations were assisted in promoting dialogue and conflict resolution. Humanitarian relief organizations received extremely significant and life-saving assistance to support displaced persons and other vulnerable groups. Training was conducted for citizens groups and labor unions in the democratization process and related organizational development. Local government elected officials and staff were provided training and technical assistance to more effectively represent their constituents. USAID provided technical assistance for review of Federal legislation and practices concerning the operations of international NGOs in the country. A program of technical assistance activities to promote the development of more transparent, participatory, responsive and effective local government was initiated in two municipalities in Central Serbia in the areas of fostering local economic development, municipal finance and budget, management information systems and improved services management through competitive contracting. USAID was the motivating donor for a new ANEM television network. ANEM has been the most vocal, articulate and outspoken voice against the current FRY government crackdown on the media. USAID/FRY offered journalism and media management training to radio and print professionals with the objective of stimulating more interesting and thought provoking news presentations. USAID also provided business management assistance to print media outlets. Transfers to USIA provided funding for Democracy Commission grants, internships and important study visits to the U.S. and other countries.

Possible Adjustments to plans: Plans are being developed for a significant expansion of USAID democracy area activities in Kosovo, including funding to prepare for and carry out elections. Specific democracy area objectives and activities being planned for Kosovo during FY 1999 and FY 2000 are interrelated components of a comprehensive program which addresses the development of the institutions and processes necessary to make local government more effective and representative and, as may be determined in anticipated political agreements, directly support an enhanced degree of autonomy for the province. A key element of USAID support to an eventual political agreement on increased autonomy for Kosovo may involve assistance in developing new structures for elected local and county governments. This would include technical assistance and training in various public administration areas for the thirty county-level and many more local government institutions and elected representatives. A critical component of USAID's strategy for helping to establish democratic practices and institutions in Kosovo is assistance to new, community based and supported judicial systems and personnel. A significant rule of law initiative is a necessary complement to USG and other assistance to the establishment of new community based police authorities. A media program to facilitate a more open and complete flow of accurate information within Kosovo and between Kosovo and the rest of the country is essential. The NGO community in Kosovo has shown itself to be both courageous and effective in delivering services to and representing the interests of many groups in the province. These groups are essential partners to international NGOs operating in Kosovo. Local NGO effectiveness in the implementation of relief, recovery and reconstruction programs requires institutional development assistance commensurate with the programmatic responsibilities these organizations are being asked to fulfill. Party politics in Kosovo is at a very basic stage of development. The success of new self-governance systems and more autonomous institutions may depend greatly on the parties' ability to serve their constituencies and on their parallel willingness and ability to compromise and collaborate within coalition arrangements. USAID may provide technical assistance and training to party personnel to facilitate the effective functioning of the parties expected to be in a more direct position of governing responsibility. At every level in Kosovo, new institutions of governance will require new elections to select representatives. USAID will increase its support of OSCE to take the lead and assume responsibility for preparing and organizing expected elections in Kosovo by funding selected aspects of the electoral support program. New activities in the areas of judicial reform and local government are being developed for Montenegro during FY 1999.

Other Donor Programs: Other donor participation in democracy area activities increased significantly during 1998, as did USAID's interaction with other donors, particularly in the area of independent media in Montenegro and responses to the humanitarian crisis in Kosovo. The principal international donors with programs in the Federal Republic of Yugoslavia include several European governments, the United Nations, the European Union, Soros Foundation and British Know How Fund.

Principal Contractors, Grantees or Agencies: USAID implements its democracy area activities primarily through

U.S. based NGOs and contractors.

Selected Performance Measures: Appropriate results frameworks and indicators are under development.

ACTIVITY DATA SHEET

PROGRAM: FEDERAL REPUBLIC OF YUGOSLAVIA (FRY)(Serbia, including Kosovo, and Montenegro)
TITLE AND NUMBER: Recovery from Crisis, 180-SO03.1
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCES: FY 2000: $25,000,000 SEED
INITIAL OBLIGATION: FY 1997 **ESTIMATED COMPLETION DATE:** 2004

Summary: Recovery from Crisis includes activities developed to provide an effective response to and management of the humanitarian crisis resulting from hostilities in Kosovo and several new economic restructuring activities developed in response to requests from the Government of Montenegro for assistance in developing and implementing critical components of Montenegro’s reform program.

Key Results: USAID economic restructuring activities are at present mainly focused on accelerated development and growth of private enterprises in Montenegro, with a view to the impact this focus may have on the level of income and employment. The basic structure of these objectives would also be relevant in Kosovo and Central Serbia, were there to be justification and approvals to extend the program to these areas. The intermediate results considered necessary for realizing significant acceleration in the development and growth of private enterprises in Montenegro include: increased transfer of state-owned assets to the private sector, an improved policy and regulatory environment; improved small and medium enterprise policies and practices; increased access to capital resources; and increased access to information resources. Funding is being provided to structure and carry out a mass privatization program, including assistance in drafting appropriate legislation and setting up a secure system of share registration and secondary trading, combined with a special public education program needed to explain the objectives and benefits of privatization and to inform people on how they can participate. Funding is also being provided to stimulate the development of entrepreneurship and small business by means of creating a network of business centers and support to the Center for Entrepreneurship which offers open enrollment courses to assist small entrepreneurs in developing basic skills in the areas of planning, management and finance. Economic restructuring activities and social sector activities associated with USAID responses and management of the humanitarian crisis in Kosovo and increased attention to improved sustainability of health and social benefits and services are intended to accomplish changes in conditions that very significantly affect people's lives. Accordingly, USAID is considering developing formal core strategic objectives and corresponding results frameworks for these program areas. USAID's near term strategy to help the people of Kosovo recover from the economic and social destruction caused by the past year of fighting and conflict includes several new initiatives in community building, small and micro lending, enterprise recovery and development, agribusiness development and small infrastructure reconstruction. Community and civil society assistance includes: a parents-school-partnership program for Montenegro and Kosovo that targets upgrading of school conditions and curriculum in 25 communities; an ongoing maternal and infant health care activity that works with medical professionals to build capacity and encourage the use of public hospitals by all ethnic groups in Kosovo; and a community development activity focused on the development and delivery of clean, potable water to communities in Kosovo. Complementary activities include a Title II emergency food assistance program in Kosovo and OFDA emergency health interventions that seek, for example, to reduce the incidence of tuberculosis in Kosovo.

Performance and Prospects: Most of the activities under this objective are in a start-up phase. The overall privatization program in Montenegro anticipated privatization by early 1999 of 20 large companies by tender and an additional 260 small to medium sized companies through mass privatization vouchers. By end-1998, only a large aluminum company had initiated a pre-privatization restructuring program (by means of a management contract, not the sale of shares). The reason for slow progress on privatization was inability to secure enabling legislation, although USAID provided technical assistance for drafting appropriate legislation.

Possible Adjustments to plans: A new activity to promote integrations in the Montenegrin dairy industry to improve efficiency and the adoption of cost effective production techniques is planned during FY 1999. Plans are being developed to expand USG support of Montenegro's reform efforts and humanitarian assistance activities in Kosovo. USAID's ongoing community organization and development programs, through the establishment of additional or expanded NGO programs with such an organization, will permit more effective "partnering" of technical or infrastructure focused activities such as water system repair or clinic reconstruction. Political, social and

economic recovery in Kosovo must involve some level of reconstruction. Support infrastructure may require a significant amount of repair and reconstruction that cannot be self-financed by families rebuilding shelter and small businesses. USAID may provide some support for investments in repairing water and sanitation systems, electricity transmission lines, health clinics and schools. These kinds of investments are essential to support the return of displaced persons to their communities, and may be critical to timely revitalization of household and community level economic activity. Enterprise support services, agribusiness development and small and micro lending activities are being developed for possible implementation in Kosovo. These efforts would focus on rebuilding local businesses that directly result in increasing employment and household incomes. USAID is developing an integrated set of programs which will deal with trauma and the psychosocial and related impacts of the war on the children of Kosovo.

Other Donor Programs: The humanitarian aid multilateral organizations, principally war related--United Nations High Commission for Refugees (UNHCR), World Food Program (WFP), World Health Organization (WHO), and UNICEF--plus the Soros Foundation have made significant commitments. The European Union (EU) has recently announced programs for Montenegro and Kosovo. The British Know How Fund has ongoing programs in several areas.

Principal Contractors, Grantees or Agencies: USAID implements these activities primarily through U.S. based NGOs and contractors.

Selected Performance Measures: Appropriate results frameworks and indicators are under development.

CENTRAL ASIA REGIONAL

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$7,874,000	$11,300,000	$11,500,000

Introduction.

U.S. assistance to the Central Asian Republics affects our nation's security, economic well-being and the global environment. As an energy-importing country, the U.S. requires a diversified energy supply and Central Asia has the potential to become a world class exporter of oil and gas. The region's political and economic future depend on how these resources are managed and used. American business will have significant trade and investment opportunities in the region if the Central Asian Republics can establish market-based economies and a legal and regulatory environment which both protects investment and promotes efficient use of energy resources. The energy sector is also a major contributor to global greenhouse gases. Transboundary cooperation in addressing key environmental issues, especially water resource management, can help preserve regional political and economic stability.

The Development Challenge.

The regional nature of many of Central Asia's development challenges, particularly in energy and the environment, require coordinated and integrated assistance from USAID. In the petroleum sector, regional approaches are required to deal with the legal, economic, technical and environmental concerns surrounding offshore drilling in the Caspian Sea and development of the Trans-Caspian and Trans-Eurasian export pipelines. Similarly, sustainable water management in the Aral Sea basin for: a) the competing seasonal uses of electricity generation and irrigation; and b) regional energy security and trade in electricity, can only be accomplished through regional cooperation among all five Central Asian republics.

Regional long-term water sharing agreements are required to address the competing demand for water for upstream power generation in Kyrgyzstan and Tajikistan against downstream irrigation needs in Kazakhstan, Uzbekistan, and Turkmenistan. Adherence to such agreements must be factored into the electricity sector privatization programs of the two upstream countries. Privatization in turn will support the creation of a regional wholesale power market for the hydropower generated upstream, creating an incentive for the upstream countries to enter into agreements on the release of water to the downstream countries. USAID technical advisors are working closely with the counterpart entities which oversee the water and energy subsectors in all five of the Central Asian Republics.

Other Donors.

The World Bank, the United Nations Development Program, and the European Union (EU) are heavily involved in environmental and energy reform efforts in the region. In addition, there is substantial collaboration with a wide range of officials and host country national and local organizations.

FY 2000 Program.

USAID's regional work will continue its important focus on energy and environment. In energy the objective is to establish a more economically sound and environmentally sustainable energy system as the primary engine of regional economic growth. The focus is on legal and regulatory reform of the energy subsectors, and the facilitation of foreign investment in critical energy infrastructure, such as Trans-Caspian and Trans-Eurasian export pipelines. In Kazakhstan and Turkmenistan, work will continue to prepare and implement rules and regulations on the development of onshore oil/gas resources. Also, in Kazakhstan, work will continue to implement transparent, cost-of-service petroleum pipeline tariff methodologies. In Uzbekistan and Turkmenistan, USAID will support these governments in the implementation of petroleum laws designed to attract foreign investment. In all of the countries,

USAID will work with state energy companies to prepare various assets for privatization. In the electricity area, legal and regulatory reform of the power subsector will continue, along with work to strengthen national and regional power markets, and to facilitate intra-regional energy trade and reliability in electricity.

In water management, the underlying causes of the Aral Sea disaster need to be addressed through regional long-term, international agreements for multipurpose (power vs. irrigation) management of dams, water sharing and quality. There needs to be further legal and regulatory reform particularly in water pricing and privatization of local water use rights as well as the organization of self-sustaining, non-governmental water user associations. This will require the passage of reform legislation and the implementation of rules and regulations to establish water user associations, waste management guidelines, and a pollution fines system.

Increasingly, USAID's program is being expanded to respond to U.S. concerns about global climate change (GCC) and the reduction of greenhouse gases. Central Asia has been designated a "key" region for programming in climate change because of greenhouse gases produced, in main, by its energy sector. The program's initial focus will be on Kazakhstan, which because of USAID advocacy, has committed to acceding to Annex 1 of Framework Convention on Climate Change (FCCC) and Annex B of the Kyoto Protocol on GCC. A priority will be the further development of national climate change action plans. These plans, primarily associated with energy, will need to establish procedures for monitoring emissions and supporting jointly implemented climate change projects. If resources are available, educational programs related to energy efficiency for industry and the general public will be initiated.

Under cross-cutting and special initiatives, FY 2000 funds are requested for a CAR performance fund to provide additional resources to activities achieving results and to respond to new opportunities for reform.

CENTRAL ASIA REGIONAL

FY 1999 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	--	--	--	--	--
Fiscal Reform	--	--	--	--	--
Private Enterprise	--	--	--	--	--
Financial Reform	--	--	--	--	--
Energy	3,600	--	--	--	3,600
Environmental Management	1,400	--	--	--	1,400
Citizens' Participation	--	--	--	--	--
Legal Systems	--	--	--	--	--
Local Government	--	--	--	--	--
Crises	--	--	--	--	--
Social Benefits	--	--	--	--	--
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	6,500	6,500
TOTAL	5,000	--	--	6,500	11,500
*FREEDOM Support Act (FSA) funds					

USAID Mission Director: Glenn Anders

ACTIVITY DATA SHEET

PROGRAM: CAR Regional
TITLE: A More Economically Sound and Environmentally Sustainable Energy System, 110-S001.5
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000:$3,600,000 Freedom Support Act

INITIAL OBLIGATION: FY 1996; ESTIMATED COMPLETION DATE: FY 2001

Summary: The formerly Soviet state-run energy institutions in the region have been struggling to become more economically sound and environmental sustainable. These industries (especially oil and gas) have the potential to be the primary engine for economic growth in the region in which the general populations of all five republics can benefit/participate. As Central Asia moves from state-run energy companies to private sector energy firms, the function of government changes from being the owner-operator to that of a regulator. In a market driven energy sector, the regulatory structure is very important to potential investors. The energy sectors of Central Asia need an independent regulatory agency that can represent in a transparent and balanced manner the energy interests of the government, the customers, and the investors. At least four working independent regulatory agencies need to be established, and over 20 state energy assets privatized, by the year 2001.

Key Results: The two key intermediate results necessary to achieve this objective are: (1) independent functioning regulatory agencies, and (2) state assets opened to private investment.

Performance and Prospects: Performance over the past year, particularly in the oil and gas sector, has been hampered by lower world energy prices. In spite of these lower prices, the governments have moved forward with some privatization activities. Significant work has been completed in the development of rules and regulations for petroleum operations in Turkmenistan.

The challenge is to develop and then implement a policy framework that is conducive to domestic and international private sector investment and a functioning market economy. Such a framework also needs to promote efficient, safe and environmentally sound resource recovery. In addition, work will continue on the development of new transportation routes required for the region to realize its potential as a major supplier of the world's petroleum.

Overall, progress toward achieving a legal and regulatory environment conducive to private investment has been encouraging. Now the challenge is to see these regulatory agencies become fully effective, and to insure that they do not lapse back to the ways of the former Soviet Union.

Possible Adjustments to Plans: USAID will work with the new regulatory agencies to ensure that they have appropriate open and transparent operations that will attract economically sound, environmentally sustainable international investment.

Other Donor Programs: Other active bilateral and multilateral agencies include the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and the European Union.

Principal Contractors, Grantees, or Implementing Agencies: Hagler-Bailly is the principal implementor, but assistance is also being provided by Minerals Management Service, and the U.S. Energy Association. In addition various U.S. firms and regulators are partners with organizations in the region.

Selected Performance Measures:

	Baseline	Target
Number of independent regulatory agencies established	0 (1994)	4 (2001)
Number of energy assets opened to private investment	0 (1994)	20 (2001)

ACTIVITY DATA SHEET

PROGRAM: CAR Regional
TITLE: Increased Environmental Management Capacity to Support Sustainable Economic Growth, 110-S001.6
STATUS: Continuing
PROPOSED OBLIGATION AND FUNDING SOURCE: FY 2000: $1,400,000 Freedom Support Act
INITIAL OBLIGATION: FY 1998; ESTIMATED COMPLETION DATE: FY 2002

Summary: The overall objective is improved environmental management capacity to promote sustainable growth. The Environmental Policies and Institutions for Central Asia (EPIC) Program of USAID/CAR has the following foci: a) water resource management for the Aral Sea basin; and b) global climate change (GCC). The EPIC Program represents the third phase of USAID environmental assistance to Central Asia. The first phase was a humanitarian aid program for the Aral Sea ecological disaster zone with projects designed to provide potable water system upgrades to affected Kazakhstan, Turkmenistan, and Uzbekistan communities. The second phase focused on projects

to promote interstate cooperation in water and energy resources management. The third phase consists of: a) negotiation and implementation of interstate agreements on water/energy use in the Syr Darya river basin; b) national and local market-based water pricing in Amu Darya and Syr Darya river basins; and c) support of national, regional, and global environmental policy coordination efforts, primarily through on-going National Environmental Action Plan processes and GCC activities.

Key Results: Over the next two years, key results include: 1) the preparation and implementation of international water and energy agreements which are essential for achieving sustainable water use for the Aral Sea Basin; 2) drafting of an international agreement on water quality standards for the Aral Sea Basin; 3) generating revenues for the operation and maintenance costs of river basin facilities; 4) development of Water User Associations to price and collect water fees, and manage water conservation and irrigation systems at the local level; 5) assistance to Kazakhstan to prepare to fully accede to Annex B of the Kyoto Protocol and to participate in international carbon trading schemes; and 6) strengthening National Environmental Action Planning Centers so that they can develop and support projects in pollution mitigation and global warming.

Performance and Prospects: A major milestone was the signing by the Central Asian Prime Ministers of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan of a multi-year, multi-national agreement on the Naryn Syr Darya cascade of hydroelectric dams. This requires a legal framework for implementation and improved means of pricing water so that operation and maintenance costs can be recovered.

USAID/EPIC accomplishments over the past year include: establishment and training of an experts' group on water resource modeling for optimal water resource use decision-making in the Aral Sea basin; training of water officials in developing systems to assess, calculate and recover operation and maintenance costs for hydroelectric facilities; formation of an initial working group to assist in the formation of water quality standards; and assessments of the strength of Water User Associations and the state of legal and regulatory legislation in each CAR republic and the development of plans on how best to privatize and further develop the associations.

The next steps in water resource development include additional training as well as adoption of a common mechanism to calculate and recover operations and maintenance costs across the region and high-level meetings of water and environment officials to agree on water quality standards and present them to the governments of the region. The activities in Global Climate Change include consultations with high-level groups of Kazakhstani decision-makers on the development of a national strategy for participation in the Kyoto Protocol, further technical assistance with modeling of industrial and economic forecasting required, and assistance to the Government in preparing for global emissions trading and joint implementation projects. USAID will also working with environmental officials from Kyrgyzstan, Kazakhstan and Uzbekistan to develop priority environmental projects for funding by IFIs as part of the National Environmental Action Plans.

Possible Adjustments to Plans: As part of global climate change, USAID needs to increase support for Kazakhstan’s full participation in international emissions trading, a U.S. priority. Additional assistance will also be required for the Amu Darya, the other main river basin feeding the Aral Sea, if the Prime Ministers sign the agreement on water and energy exchanges as they did for the Syr Darya River.

Other Donor Programs: USAID works closely with the World Bank on different components of the Global Environmental Fund project for the Aral Sea Basin. There has also been good collaboration with EU-TACIS on regional water management issues. USAID will also work closely with the new European Union and World Bank program on climate change to ensure that our efforts are mutually supportive.

Principal Contractors, Grantees, or Agencies: Harvard Institute for International Development, International Resources Group, and Hagler Bailly Consulting.

Selected Performance Measures:

	Baseline	Target
Multilateral agreements on sustainable water use management	0 (1997)	3 (2002)
Water pricing measures enacted	0 (1997)	4 (2002)
Water User Associations formed	10 (1997)	200 (2001)
Number of water experts trained in water system management modeling	0 (1998)	50 (2001)
Countries accede to Annex B	0 (1998)	1 (2001)
Joint implementation project is conducted	0 (1998)	2 (2001)

REGIONAL ACTIVITIES IN CENTRAL AND EASTERN EUROPE

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
Support for East European Democracy	$58,933,000	$63,300,000	$60,000,000
FREEDOM Support Act	---	---	$10,000,000

Introduction.

Since its inception in 1989, USAID assistance to Central and Eastern Europe (CEE) has evolved from a regional program to a country-specific one. Initially the regional approach gave the United States the flexibility to respond quickly to varying needs across countries in a rapidly transforming environment. The program has matured. Country-specific programs within Central Europe are described earlier in this presentation. Described below are activities that still operate regionally, across countries.

In addition, USAID is developing innovative post-presence mechanisms to manage remaining activities and reinforce the sustainability of results in countries graduating from USAID assistance. These mechanisms include regional activities managed out of Washington, the Regional Service Center in Budapest, and the establishment of public-private partnerships to facilitate the financial sustainability of local civil society organizations.

FY 2000 Program.

Strategic Goal: Economic Restructuring

USAID seeks to foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed.

Privatization, Financial Sector, Fiscal Reform: Regional funds are requested to support special economic restructuring needs across the region. More recent initiatives include commercial law and anti-corruption concerns. Funds are allocated to: Washington-based technical advisors who support field missions in activity design and implementation; service contracts that assist USAID with a variety of non-technical support functions; inter-agency service agreements, such as those with the Securities and Exchange Commission and the Department of the Treasury, and contracts, such as that with the National Securities Clearing Corporation, which help in performance monitoring, assessment and rapid response to fiscal and capital markets related needs across the region; and collaboration with other donors on anti-corruption initiatives in targeted countries. Funds will also be used for workshops to share lessons learned among countries in topics such as bank supervision, accounting reform and privatization. On a cost-sharing basis, USAID plans to provide targeted short-term assistance or training to government or market institutions in graduated, or soon to be graduated countries to enable them to continue and solidify their transition to market economies. This assistance will be implemented through large and small grants with nongovernmental and voluntary organizations, technical assistance and training from other U.S. government agencies, and contracted technical assistance.

Environmental Management: USAID has broadened its environmental focus beyond reducing health risks, placing greater emphasis on developing environmental management capacity to support sustainable economic growth. This shift reflects growing evidence that environmental policy initiatives and reforms need to be fully integrated into the economic reform and restructuring process at an early point to ensure that the transition takes full account of long-term environmental costs and benefits in a market environment. USAID encourages reliance on market mechanisms to the maximum extent possible in promoting higher environmental quality, while also recognizing that

environmental costs and benefits are never fully internalized in a market system, and governmental agencies at both national and local levels have important regulatory roles to play. To implement this approach, USAID has developed a new Environmental Partnership Program (ECOLINKS). ECOLINKS will foster partnerships between U.S. and regional entities aimed at finding market solutions to environmental problems and promoting application of U.S.-based environmental expertise, best practices, goods and services as part of those solutions.

Private Sector: USAID will assist in establishing better cross-border linkages in trade in critical regions in order to reduce regional tensions and integrate national economies to the World Trade Organization/ world trading system. USAID will also support regional self-regulatory organizations in auditing and accounting in order to promote regional development, integration and harmonization of auditing standards and practices, training, education and certification of professional accountants and auditors and development of regional accounting and audit professional associations in support of accounting reform in the region.

Enterprise Funds: The Baltic-American Enterprise Fund budget remains regional, since it funds investments in Latvia, Estonia and Lithuania. An evaluation of ENI enterprise funds is planned to assess impact of the program on private sector development in the region.

Energy: Given the international character of energy supply systems, USAID facilitates regional energy cooperation and trade/investment. Activities in FY 2000 will focus on: (1) developing regional power pools in the Baltic region; and the southern tier; (2) promoting private sector development and investment in energy efficiency and supporting efforts aimed at reducing emissions and improving environmental performance as part of the Agency's environmental priorities; (3) facilitating competitive power systems and independent energy regulatory agencies through regional workshops and training programs and partnerships in utility management.

Strategic Goal: Democratic Transition

Under this goal, USAID supports the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes.

Trust for Civil Society in Central and East Europe (Trust): A proposed Trust is a visionary idea in that long after the SEED program ends, the United States will have an opportunity to promote deeper and more sophisticated civil societies in former totalitarian countries. While there is ample evidence of the transition from command to market economies and while there are many symbols and indicators of democratic society in most Eastern and Central European countries, the remaining challenge is the *institutionalization* and *deepening* of democratic institutions and open, transparent economies. To accomplish this, traditional bilateral assistance at the governmental level may diminish, but direct assistance to a panoply of philanthropic organizations, advocacy groups, professional societies and other non-governmental organizations will ensure citizen activism and governmental accountability -- the hallmarks of a sound democracy.

By leveraging private contributions through a public-private partnership with major American foundations, the USG will have added resources and expertise to sustain transitions to democratic, market-driven countries even beyond the period of direct bilateral assistance.

Rule of Law: Funds are provided for regional training, exchanges and technical assistance programs of the American Bar Association - Central and Eastern European Legal Initiative for key legal reformers and members of the judiciary. Funds are also provided for an enhanced anti-crime and corruption program being implemented by various U.S. government law enforcement agencies, including the FBI, Treasury and the Criminal Justice Division of the Department of Justice.

Local Government: Regional funding supports the creation of a region-wide network which will provide experience-based information to local government officials, municipal association members and relevant national officials for solving municipal problems and will improve their responsiveness to citizens' needs. USAID will support the full array of technical areas integral to the effective, transparent functioning of local governments and the continued enhancement of decentralization. These include municipal credit, local environmental planning, citizen participation, urban service delivery and infrastructure, local economic development, municipal budget and finance, condominium formation and maintenance, property and asset management, housing policy and finance.

Independent Media: Under USAID's ProMedia program, regional funds will support journalist exchanges within the region, regional workshops for journalists in participating countries, and regional training for resident advisers in the region.

Political Process: Funds will be set aside for unanticipated requests for election assistance, training of labor leaders,

and possible assistance in conflict resolution.

Non-Government Organization (NGO) Development: Under the Democracy Network Program to strengthen NGOs in the CEE Region, USAID manages two regional programs: a legal reform program through the International Center for Not-for-Profit Law (ICNL), to improve the regulatory and legal environment vis-a-vis NGOs, and a regional networking program run by Freedom House, to increase collaboration and coordination among local NGOs in CEE - - through exchanges, regional workshops, U.S. and cross-border internships, and publication of a quarterly newsletter.

Strategic Goal: Social Stabilization

Under this goal, USAID assistance focuses on the human dimension of the transition to democracy.

Labor Market Transition: The Department of Labor maintains regional training programs for all countries in the region and supports World Bank social sector reform initiatives.

Health: USAID provides support for technical assistance, training and special studies to build cross-cutting initiatives in health such as financing, management, service delivery reform, partnerships, and infectious diseases. These funds also provide support for regional conferences that promote best practices, lessons learned, and dissemination of success stories in the CEE region.

Cross-cutting and Special Initiatives.

South Balkan Development Initiative: This program helps Albania, Former Yugoslav Republic of Macedonia and Bulgaria, front-line countries most severely affected by the conflict in the former Yugoslavia. With normal trade routes to Serbia cut off, the resultant economic setback has threatened the survival of these nascent democracies. In coordination with and with funds leveraged from other donors, the initiative will improve links among the South Balkan nations, encourage regional integration and promote cooperation.

Southeast Europe Cooperation Initiative: This program promotes regional cooperation on common environmental and economic problems among the countries of Southeast Europe with the goal of achieving regional stability. Activities include joint cooperation to improve border crossings, creation of a cross-border crime information sharing center; development of joint approaches to energy efficiency and waterways clean-up (the Danube).

Training: Funds are set aside for regional participant training and the Georgetown University scholarship program. Evaluation and project development and support also are funded here.

Performance Funds: In a changing political environment, U.S. interests are best served by having a modest level of Performance Funds available for new or accelerating reform, such as in the Bulgaria financial sector and the Croatia refugee return program.

CEE REGIONAL

FY 2000 PROGRAM SUMMARY*
(in thousands of dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	200	--	--	--	200
Fiscal Reform	--	--	--	--	--
Private Enterprise	2,300	--	--	--	2,300
Financial Reform	3,900	--	--	--	3,900
Energy	700	--	--	--	700
Environmental Management	2,400	--	--	--	2,400
Citizens' Participation	--	17,645	--	--	17,645
Legal Systems	--	2,530	--	--	2,530
Local Government	--	200	--	--	200
Crises	--	--	--	--	--
Social Benefits	--	--	800	--	800

Environmental Health	--	--	--	--	--
Cross-cutting/ Special Initiatives					39,325
-- SEED	--	--	--	29,325	[29,325]
-- ESF	--	--	--	10,000	[10,000]
TOTAL	9,500	20,375	800	39,325	70,000
* Unless otherwise noted, Support for East European Democracy (SEED) Act funds					

Deputy Assistant Administrator for the CEE: John Tennant

REGIONAL ACTIVITIES IN THE NEW INDEPENDENT STATES

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Request
FREEDOM Support Act	$46,853,000	$102,990,000	$84,500,000

Introduction.

Since its inception in 1992, USAID assistance to the NIS has progressed from a regional program to a country-specific one. While initially the regional approach gave the United States the flexibility to respond quickly to varying needs across countries in a rapidly transforming environment, the program has matured. USAID now has more field representation which has provided improved knowledge of a country's transition environment and enabled development of country-specific strategies. Nevertheless, some activities are appropriately funded regionally because several countries are benefitted.

Described below are activities that still operate regionally, across countries, including: regional enterprise funds; performance funds; contract personnel who provide technical services to more than one country; and regional conferences, working groups and courses that benefit participants from a number of countries. Activities of other U.S. agencies which receive funds through transfers from FSA accounts are in some cases applied regionally.

FY 2000 Program.

USAID is pursuing the following strategic goals with regionally designated funds in the NIS:

Strategic Goal: Economic Restructuring

USAID seeks to foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed.

Privatization, Financial Sector, Fiscal Reform: Regional funds are requested to support special economic restructuring needs across the region. More recent initiatives emphasize commercial law and anti-corruption concerns. Funds are allocated to: Washington-based technical advisors who support field missions in activity design and implementation; service contracts that assist USAID with a variety of non-technical support functions; inter-agency service agreements, such as those with the Securities and Exchange Commission and the Department of the Treasury, and contracts, such as that with the National Securities Clearing Corporation, which help in performance monitoring, assessment and rapid response to needs across the region; and collaboration with other donors on anti-corruption initiatives in targeted countries. Funds will also be used for workshops to share lessons learned among countries in topics such as bank supervision, accounting reform and privatization.

Enterprise Funds: The Central Asian Republics and West NIS Enterprise funds continue to foster private sector development by providing investment capital to small and medium-scale businesses in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and in Ukraine, Belarus and Moldova, respectively. Under the FY 1996 and 1997 Trans-Caucasus Enterprise Fund earmarks, the private investment fund partially guaranteed by the Overseas Private Investment Corporation and the small enterprise lending program, managed by USAID, are fully funded and operational. An evaluation of ENI enterprise funds is planned to assess impact of the overall program in promoting private sector development in the region.

Energy: Given the international character of energy supply systems, USAID's program in this area facilitates regional energy cooperation and trade/investment. Activities in FY 1999 will focus on three major areas: (1)

development of cooperation among the newly-formed energy regulatory agencies in areas of licensing, tariff development, market and grid code regulations and organizational development and public participation; (2) regional activities to support cooperation among Caspian states in legal, economic/financial and environmental aspects of oil and gas development and pipelines; (3) training, analysis and technical assistance related energy efficiency and environmental issues and mutually-beneficial options for reducing emissions in key countries in the NIS region.

Environmental Management: USAID has broadened its environmental focus beyond reducing health risks, placing greater emphasis on developing environmental management capacity to support sustainable economic growth. This shift reflects growing evidence that environmental policy initiatives and reforms need to be fully integrated into the economic reform and restructuring process at an early point to ensure that the transition takes full account of long-term environmental costs and benefits in a market environment. USAID encourages reliance on market mechanisms to the maximum extent possible in promoting higher environmental quality, while also recognizing that environmental costs and benefits are never fully internalized in a market system, and governmental agencies at both national and local levels have important regulatory roles to play. To implement this approach, USAID has developed a new Environmental Partnership Program (EPP) that will be fully operational early in FY 1999. The EPP will foster partnerships between U.S. and regional entities aimed at finding market solutions to environmental problems and promoting application of U.S.-based environmental expertise, best practices, goods and services as part of those solutions. To maximize the impact of USAID's investment throughout the region, support will be provided to identify and apply cross-border lessons in the environment sector and to encourage regional networks.

Strategic Goal: Democratic Transition

Under this goal, USAID funds support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes.

Rule of Law: Funds are provided for technical assistance programs and seminars addressing topics such as Civil Code drafting which are common to multiple countries, and expanding activities of the Sakharov Center Human Rights Institute. Funds are also provided for regional anti-crime and corruption programs being implemented by various U.S. government law enforcement agencies, including Treasury and the Criminal Justice Division of the Department of Justice.

Local Government: Regional funding supports the creation of a regional network which will provide experience-based information to local government officials, municipal association members and relevant national officials for solving municipal problems and will improve their responsiveness to citizens' needs. USAID will support the full array of technical areas integral to the effective, transparent functioning of local governments and the continued enhancement of decentralization. These include municipal credit, local environmental planning, citizen participation, urban service delivery and infrastructure, local economic development, municipal budget and finance, condominium formation and maintenance, property and asset management, housing policy and finance.

Strategic Goal: Social Stabilization

Humanitarian: USAID assistance responds to humanitarian crises and strengthens the capacity to manage the human dimension of the transition to democracy. Technical assistance places a strong focus on vulnerable groups feeding; strengthening local, social service NGOs; and leveraging multilateral assistance. In addition, some food aid and kerosene for winter heating are allocated on a contingency basis for most vulnerable groups in crisis situations

Health: USAID uses regional health funds, when not clearly attributable to individual country programs, to provide technical assistance and special initiatives for women's and children's health programs, control of infectious diseases, vaccine procurement and health partnerships between American health care institutions and their NIS counterparts.

Cross-cutting and Special Initiatives.

Funds for programs which cut across a number of strategic objectives or which are not directly related to the achievement of USAID objectives.

Performance Funds: In a changing political environment, U.S. interests are best served by having a modest level of Performance Funds available for support of new or accelerating macroeconomic reform or superior performance in key economic sectors, such as with the Central Asian Republics Energy Initiative.

Southern Caucasus Regional: USAID funds humanitarian assistance, reconstruction and remedial activities for refugees, displaced persons, and needy civilians affected by the conflicts throughout the Southern Caucasus region.

Regional Training: USAID supports the New Independent States Training and Exchanges Project. Training programs funded under this project are directly linked to the USAID strategic objectives for each country. In order to maintain the project, there are functions which are carried out regionally because of the economies of scale inherent in combining process functions. For example, regional training funds support maintenance of health coverage and data collection. In addition, regional funds are used for impact analysis, project monitoring and report preparation. Since there is a substantial amount of training that is done in the U.S., there is more U.S. based monitoring in this project than in most USAID financed activities.

Other Agencies: Similarly funds are provided to other U.S. agencies such as the Departments of Treasury, Commerce, Justice, U.S. Information Agency, the Trade and Development Agency, and to the State Department for Science Centers and for transport of humanitarian assistance commodities.

NIS REGIONAL

FY 2000 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization	790	--	--	--	790
Fiscal Reform	135	--	--	--	135
Private Enterprise	1,100	--	--	--	1,100
Financial Reform	1,420	--	--	--	1,420
Energy	650	--	--	--	650
Environmental Management	3,475	--	--	--	3,475
Citizens' Participation	--	420	--	--	420
Legal Systems	--	340	--	--	340
Local Government	--	607	--	--	607
Crises	--	--	15,330	--	15,330
Social Benefits	--	--	3,125	--	3,125
Environmental Health	--	--	--	--	--
Cross-cutting / Special Initiatives	--	--	--	57,108	57,108
TOTAL	7,570	1,367	18,455	57,108	84,500
* FREEDOM Support Act (FSA) funds					

Deputy Assistant Administrator for the NIS: George Ingram