USAID's Assistance Strategy for Central Asia 2001 - 2005

USAID Regional Mission for Central Asia

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EXECUTIVE SUMMARY

This document presents USAID's FY2001 - 2005 Assistance Strategy for the five new nations of Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. It is the product of a highly participatory, iterative process over the last year with a wide range of actors in the region and in Washington. It was informed by a number of important reviews and assessments, and prepared under the overall policy guidance of the Department of State, NIS, Ambassadors in the region, and the Europe and Eurasia (E&E) Bureau of USAID.

The U.S. foreign policy goal is stable Western-oriented development.

As described in the five respective Embassies' Mission Performance Plans (MPP) and in several important Congressional hearings, the overarching goal of U.S. foreign policy for the five new nations is stable, Western-oriented development to ensure access to the region's substantial oil, gas and mineral resources and to prevent the expansion of radicalism and trafficking in weapons and narcotics. As the primary assistance arm of the U.S. Government with a substantial professional presence in the region, USAID has a significant role in fostering this stability and development.

Important achievements with USAID assistance

Since 1996 the progress of the five nations of Central Asia—and consequently the results of USAID's earlier Assistance Plan—has been mixed. None of the nations have conformed to expectations for rapid economic and political transition through structural reforms. Yet there have been important achievements. Kazakhstan's economy is growing, attracting substantial foreign investment. Its stable, strengthening macroeconomic structure weathered the Asian financial crisis, and it has embarked upon progressive reforms in the financial and social sectors. Kyrgyzstan, while bereft of high-value exports and struggling with a heavy debt burden, is restructuring its economy, is struggling with vocal civil society, and is growing small enterprise led by agriculture. It has acceded to the World Trade Organization (WTO) and is renewing privatization efforts. Tajikistan, after a destructive civil war, is completing a difficult peace and reconciliation process with competitive albeit flawed elections. It has also initiated some macroeconomic reforms. Uzbekistan, while embracing neither economic nor political reform, remains stable, strongly supports its social sector, and is relatively open to the West. Turkmenistan, the least reformist and most isolated nation of the region, continues to be stable and ostensibly welcomes foreign investment. Notably, all of these countries have growing numbers of indigenous non-governmental civic organizations, whether community, professional, or advocatory in nature. All remain resolutely secular and steadfast against radicalism.

Huge challenges, but with little popular support for reform

Notwithstanding these positives, the progress of all five new nations on the path of economic and political reform has been halting; in some areas there has even been some regression in recent years. Many critical economic reforms are stillborn or incomplete, and state control and corruption remain pervasive. The new ruling elites allow minimal, if any, political competition or dissent and Islamic sentiments are highly suspect. Economic competition is limited by vested interests, and both investors and small businesses experience difficulties. Social services and the environment continue to deteriorate. Regional cooperation is largely rhetorical. Moreover, there is little popular clamor for reform by the citizenry at large; opinion surveys indicate a continuing nostalgia for the communist system. Of course, these

are broad generalities. Two countries, Kyrgyzstan and Kazakhstan, are relatively more reformist, and two others, Uzbekistan and Turkmenistan, are relatively more repressive. The fifth, Tajikistan, is a mix, still recovering and rebuilding itself. The overall lack of reform across the region has been the source of a keen disappointment to the U.S. It has led to questioning whether the initial expectations and approaches were well informed and realistic.

A longer-term approach is needed to build popular demand and political will for change.

The Eastern European model of a rapid, structural transition to open market democracy is not appropriate for the Asian republics of the former Soviet Union. These new nation states have historically been isolated, lack any modern national experience, and had independence thrust upon them. They are also as much Asian as they are post-Soviet. A modified, longer-term approach is needed, which builds popular knowledge, demand and political will for pluralistic economic and political change within government, business and professional sectors, and among the citizenry. Thus, USAID's new strategy, while continuing to support and provide assistance for key macro-level reforms – where the political will exists – must also concentrate assistance on selected institutions, organizations and people at local levels to grow pluralism, the non-governmental sector, and partnership. It must educate and demonstrate the benefits of reform, thereby building pressure for and facilitating necessary change. It must be a strategy with a human face to complement the harder U.S. security and commercial interests.

The goal is to expand opportunities for citizens.

Three sets of critical problems are common in varying forms and degrees to each five of the countries: the lack of broad private enterprise and consequent stagnant income and employment growth, the prevalence of autocratic and corrupt governance, and deteriorating health systems and environmental conditions. USAID must continue to address these, but in more fundamental ways. Thus, the goal of USAID's new strategy is to expand opportunities for the citizens of the new nations to participate in improving their governance, their livelihoods, and their quality of life through four primary objectives for each country:

- the growth of **small-scale enterprise and trade,** with emphasis on finance, regulations and education
- building a more **open, democratic culture,** with emphasis on non-governmental organizations, information and electronic media and parliamentarians
- better management of **environmental resources**, with emphasis on regional water management and energy regulation and efficiency
- improved **primary healthcare**, with emphasis on community and family practices, infectious diseases and social marketing

These are region-wide objectives. They are tailored in different ways to the unique situation in each of the five countries. There are two additional country-specific objectives to improve governance in Kazakhstan and Kyrgyzstan, where there is greater commitment to reform: improved **fiscal policy and management**, and more **responsive, accountable local government**.

These six sectoral objectives are supplemented by three important crosscutting objectives:

Corruption, gender bias and conflict are also concerns.

- reducing corrupt practices
- minimizing gender biases
- mitigating potential for conflict

In addition, over the last year, wide-ranging discussions, stocktaking, lessons-learned, and assessments in the region and in Washington have also identified important program principles to increase the effectiveness, impact and relevance of U.S. assistance:

Fewer objectives, greater selectivity

- increase knowledge and information flows among citizens, especially youth
- sharp focus on critical groups, sub-regions and localities
- link macro-level policy reforms with education and on-the-ground demonstrations
- foster intra-regional dialogue, exchange, and networks among citizenry
- seek complementarities and synergies with other assistance or investment

USAID's efforts will now emphasize **new attitudes and values** as well as modern practices and techniques. These principles and the goal of increasing opportunities for citizens make this, in essence, both a "democratization" and an "education" strategy. USAID assistance will help to broaden and diversify the base of the economic growth, civil governance, and social services through participation and knowledge.

In Kazakhstan, deepened efforts with a broad range of partners and programs with potential cost-sharing

In Kazakhstan, given the level of U.S. assistance, the relative size of the economy and its progress on economic restructuring, USAID will continue with deep support for a broad range of partners and efforts. Foremost is increasing private enterprise and trade, especially by improving government regulation and policies (including WTO accession), credit and capital markets, and business skills and education. USAID will also assist continued improvement to taxation and budgeting. Given disappointment with recent elections and that next elections are years away, USAID support for democratization will focus on advocacy and sustainability of a broad range of citizens' organizations, on expanding civic education and information dissemination, and on building capacity of parliamentarians and local governments, with particular emphasis on reducing opportunities for corruption. USAID will continue to help expand a new health reform model as well as improved methods to control infectious diseases. USAID will also assist with several critical environmental problems including oil and gas regulation, energy conservation, global climate change, and water management. The Regional Initiative in Atyrau will be fully developed and a second initiative is under development. As oil revenues increase, USAID will seek increased government cost-sharing.

Substantial and broad assistance to Kyrgyzstan, especially to build the economy

Kyrgyzstan will have similarly broad level assistance in response to its dire needs and current reforms and somewhat more democratic society. The largest efforts will be on deepening and broadening economic and financial reforms, in order to stabilize the macro-economy, rationalize government regulation, and grow the private sector. These efforts will focus on completing and implementing banking, land and commercial law reforms, WTO accession, support to small and medium enterprises,

and business and economic education. Democratization through sustainable growth of civil society will continue as a priority with considerable assistance for local government, selected Parliamentarians, media and civic organizations, including anti-corruption efforts. Specialized USAID assistance, training, and partnerships will continue to deepen, broaden and fully implement health care reforms. Special attention will be paid to southern Kyrgyzstan in the Ferghana Valley.

Building on success in peace and reconciliation in Tajikistan

Assistance for Tajikistan is constrained by security concerns that prevent the full deployment of U.S. or contractor resident personnel. If and when a resident presence is possible, assistance will be expanded. With regular staff visits, USAID has had considerable success working through resident international and grantee partners. With the peace and reconciliation process coming to a successful conclusion, USAID is shifting from short-term humanitarian assistance to a broader effort to include small and medium enterprise development; business and economic education; training for new Parliamentarians; community and civic organizations; information dissemination; and selected help for elements of health care. Third-country training will continue to be important. Special attention will be given to reconciliation of former combatants, and to the Khojand area of the Ferghana Valley.

Limited and more selective assistance to Turkmenistan

Assistance to Turkmenistan will likely remain quite limited because of pervasive government control and the lack of commitment to any real economic or political reforms by the current regime. USAID assistance will improve environmental management including energy development, increase the quality of health care, especially for infectious disease control, and build foundations for the private sector and civil society through education and organizational assistance. If the situation changes and political will arises, USAID will be prepared to respond by assisting with selected economic and financial reforms.

Modest, more focused assistance to Uzbekistan, especially in health, education, and water management

Although it represents a challenging country due to its centrality, size and diversity of its population, Uzbekistan will receive a modest level of assistance due to the pervasive control by a massive governmental structure. USAID assistance will focus on several areas of opportunity and comparative advantage: small business and economic education; active and informed, citizens and community organizations; healthcare decentralization and infectious disease control; river basin and wetlands management. Youth, gender, conflict prevention and activities in the Ferghana Valley and Nukus will be particularly important. Economic reform assistance could be quickly expanded should the government embark on serious monetary reform and privatization.

By the end of this strategy—notwithstanding a major conflict or disaster in the region—USAID expects growth in the numbers of small enterprises, businessmen and women, and reform-minded officials; better-informed and sustainable civic and community organizations; more professional jurists and parliamentarians; examples of efficient management of energy and water resources; family group practices improving healthcare and disease control; and instances of regional cooperation. In Kazakhstan and Kyrgyzstan, there will be fiscal and financial stability and several more transparent, responsive local administrations. Kazakhstan will cost-share technical assistance and training. The impacts of USAID assistance will be measurable in several sub-regions: the Ferghana Valley, Atyrau, Turkmenbashi, and Nukus.

Greater complementarity with other USG efforts and other donors collaboration and more partnerships

On an operational level, USAID will strive to be ever more collaborative, not only with host country counterparts, but also with a range of important other U.S. government and donor agencies, implementing partners and partnerships. Through the Ambassadors' Country Teams, USAID will work particularly closely with Department of State Public Diplomacy, the Embassy Democracy Commissions, Peace Corps and DOD humanitarian assistance. Important complementary efforts will continue with the World Bank. As a leading bilateral donor, USAID will closely collaborate with UN agencies, EU-TACIS, EBRD and ADB. Important institutional partnerships include those with the city of Tucson, Arizona, the U.S. Energy Association, the American International Health Alliance, and U.S. Centers for Disease Control and Prevention, the National Oceanic and Atmospheric Administration and Israel's MASHAV. New partnerships will be identified as well as ways to sustain current partnerships.

A cost-effective, responsive regional operation delivering high quality assistance

For reasons of cost-effectiveness and the benefits of regional interaction and synergies, USAID will operate as it has in Central Asia through an efficient, responsive regional structure, with its center and "critical mass" of specialists in Almaty, plus small country offices for coordination and support with Embassies in Tashkent, Ashgabat, Bishkek, Dushanbe, and eventually Astana. In order to fulfill this mission and provide responsible stewardship of U.S. resources—with a total of 20 USDH officers, a large USPSC and FSN staff and commensurate operating expenses—safe, secure facilities and high-quality communication and processing systems are essential. USAID/CAR will operate on a "team of teams" principle with staff participating on sectoral teams (e.g. enterprise, health, environment, democracy), on cross-cutting teams (e.g. gender, Atyrau, corruption) and on country teams in Embassies. Partners will be fully included. Depending on political developments, assistance levels, and logistics, Tashkent could become a sub-regional hub for operations.

The new strategy focuses and concentrates USAID assistance on several objectives, and sub-regions. Reductions in assistance levels or operating expenses below the current FY2000 minimal ranges would require either the elimination of one of the region-wide sectoral objectives and staff, and/or the closing of a country office.

PART I: Summary Analysis of Assistance Environment and Rationale for Strategic Choices

U. S. Foreign Policy Interests in Central Asia

The stable economic and political development of Central Asia is important to the United States. The more democratic and prosperous these countries become, the greater the commercial opportunities, and the less likely civil strife, nuclear proliferation and other global threats. Unfortunately, Central Asia's energy resources and location make the region a potential point of conflict,[2] vulnerable to other major powers including Russia and China. Its porous borders provide openings for radicalism from Iran and Afghanistan[3] as well as transshipment of arms and drugs. Recent commentary on Central Asia has focused as much on its potential for conflict as on its energy resources. The grave environmental and health issues—which include the dramatic rise of drug-resistant tuberculosis and the Aral Sea disaster—are global concerns.

"We have learned that our own well-being is dependent on the well-being of other nations far away."[1]

— Franklin D. Roosevelt

U.S. national interests in security, trade, democracy and global problems feature prominently in the Mission Performance Plans (MPP's) of the five U.S. Embassies which USAID/CAR serves. U.S. Ambassador to Turkmenistan, Steven R. Mann, speaks for the region when he states that "our greatest interest here is maintaining U.S. national security. It is firmly in the United States' interest to support the independent states that have emerged from the former Soviet Union and in doing so, prevent the reformation of a large multinational power hostile to America's interests." U.S. Ambassador to Kyrgyzstan, Anne Sigmund, further illuminates this point when she associates Kyrgyzstan's importance to "its location astride a strategic arc of instability along which East and West have historically clashed." U.S. Ambassador to Uzbekistan, Joseph Presel, notes how important it is for the U.S. to "reinforce Uzbekistan's responsible engagement on world issues and its resistance to undue influence from countries such as Iran and to instability such as plagued its neighbors Tajikistan and Afghanistan." U.S. Ambassador to Tajikistan, Robert P. Finn, highlights the need to "lessen Tajikistan's relative isolation and its position as a potential transit/source for transnational crime." U.S. Ambassador to Kazakhstan, Richard H. Jones, describes how "our efforts to build…democracy, support private efforts to develop hydrocarbon resources…and foster regional cooperation and dialogue in such sensitive areas as water sharing…serve the [U.S.] national interest."

"Of all of the regions of the former Soviet Union, Central Asia is potentially one of the most explosive…"[4]

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[1] Franklin Delano Roosevelt, Fourth Inauguration Address, Washington D.C., January 1945.

[2] "The Silk Road countries which together hold more than $4 trillion in oil and gas reserves have suffered political and social turmoil since the breakup of the Soviet Union and have not been included in other regional initiatives… expanding U.S. aid makes sense not only because of the region's oil reserves but also because the Silk Road Countries border such countries as Iran, Afghanistan and China and could represent a starting point to spread democracy." "House Authorizes Expanded Aid to Countries Along Silk Road, *CQ Daily Monitor*, August 2, 1999.

[3] Ahmed Rashid discusses this vulnerability in "The Taliban: Exporting Extremism," *Foreign Affairs*, November/December 1999, Volume 78, Number 6, pg. 22-35.

[4] Barnet Rubin, *Calming the Ferghana Valley: Report of the Center for Preventative Action*, New York: The Century Foundation Press, 1999.

This strategy for USAID assistance has been designed to support directly the specific foreign policy objectives articulated in the five MPPs. It is the product of an extensive yearlong dialogue about U.S. interests and priorities with the Ambassadors and other members of the Country Teams, as well as the Department of State's Office for Newly Independent States (S/NIS). USAID's efforts are integral to the achievement of U.S. strategic goals in regional security, economic development, democracy and human rights, humanitarianism, health and environment as articulated in the MPPs.

Each of the five Central Asia nations poses its own challenges and opportunities for U.S. foreign policy. In Kazakhstan, for instance, USAID's help with tax and budget policy, and small and medium enterprise growth, is central to MPP economic objectives. The MPP highlights the importance of the USAID-led Atyrau Regional Initiative, a high-level public private partnership between the United States government and U.S. investors. The initiative will reduce obstacles to small business development and create jobs in Atyrau *oblast*, the underdeveloped region at the center of major oil production.

This strategy, the product of an extensive yearlong dialogue about U.S. interests and priorities with the Ambassadors and S/NIS, directly supports foreign policy objectives.

In Kyrgyzstan, USAID assistance is essential in achieving the MPP goal of strengthening democratic institutions and practices, through increasing citizen participation in economic and political decision-making. Although Kyrgyzstan has made some progress toward increased democratization, the recent manipulations of parliamentary elections demonstrate the need for continued work. The activism of hundreds of new indigenous non-governmental organizations (NGO) offers hope. USAID assistance in natural resource management encourages the neighboring countries to fulfill regional commitments in water sharing, a key issue for regional security.

In Uzbekistan, USAID support for healthcare is critical to MPP health goals of reducing infectious disease, promoting voluntary family planning and decreasing reliance on abortion as a method of fertility control. Health has proven to be one of the few areas where the U.S. government has a strong, influential partnership with the Uzbek government. A focus on the Ferghana Valley aids the population in a critical area of potential unrest.

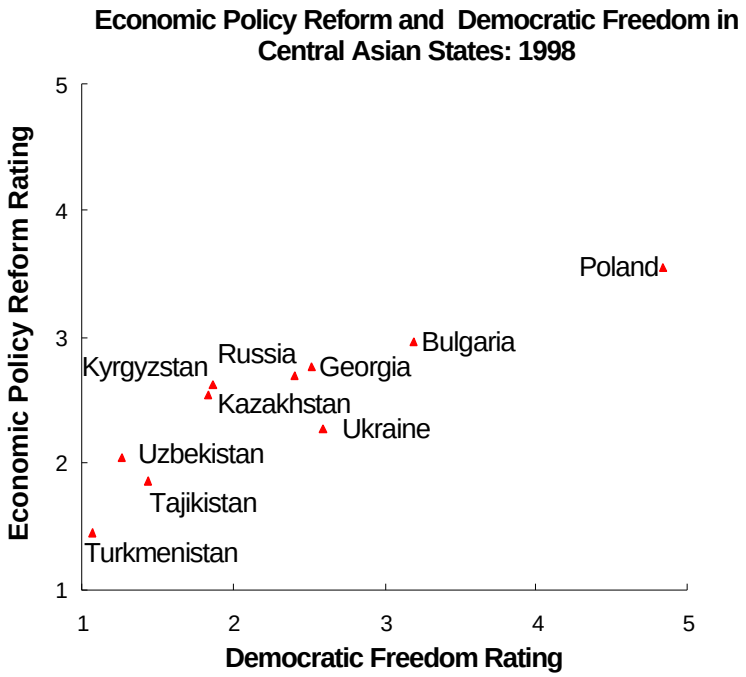
In Tajikistan, the United States' primary goal is reconciliation and national stability. USAID's support for community development, small and medium enterprises (SME), democracy and health improves lives and builds much needed social capital by enabling citizens to participate in community decision-making, earn incomes and receive better healthcare.

In Turkmenistan, where economic and democratic reform remains problematic, USAID's efforts on oil and gas regulation are critical; they open up this sector and encourage Turkmenistan's partnerships with the West while also helping develop and transport the country's significant natural gas and oil reserves.

Country Conditions and Strategic Priorities

Regional Trends and Issues

The five Central Asian republics together have a combined population of 55 million, a land mass greater than Western Europe, and a significant share of the world's oil and gas reserves. Surrounded by Russia, China, Iran and Afghanistan, they are adjacent to and affected by some of the 21st century's most important ideological, political and economic struggles. These landlocked nations have a history of flux and conquest, with historically limited access to world markets and ideas. More than anywhere else in the former Soviet Union, the region's circumstances and prospects still, nine years after the breakup of the USSR, are fluid and uncertain.



Source: E&E Bureau Strategy based on Freedom House democracy ratings and EBRD economic policy ratings.

At independence in 1991, each of the five republics had different circumstances, resources and challenges. Since then, they have evolved differently. After 150 years of Russian and Soviet dominance, the Central Asian countries have been heavily influenced by Russian socio-economic systems. They are, however, quite different from East European countries and most former Soviet republics. They had no history of modern statehood, no exposure to the West, and were less advanced at the beginning of the transition process than their Eastern European counterparts. Their national borders do not respect ethnicity, topography or economics. Soviet control created considerable dependence on subsidization and an interlinked infrastructure—without any systems of self-determination or intra-regional cooperation.

U.S. Ambassador Stephen Sestanovich noted in congressional testimony that "Central Asian states face great challenges. The absence of democratic traditions, of a civil society, of business experience, and of strong national identities has made the years since independence tough."[5] These factors, plus a history of natural and man-made disasters, challenge Central Asia and threaten stability.

All the countries of Central Asia also suffer from limited investment from and isolation from major world markets. Despite potentially vast energy assets and other

[5] Ambassador Stephen Sestanovich, Ambassador-At-Large and Special Advisor to the Secretary of State for the Newly Independent States, Asia-Pacific Subcommittee House International Relations Committee, March 17, 1999.

resources, the Central Asian countries are generally very poor; only Kazakhstan has a per capita Gross Domestic Product (GDP) above $1,000, while the annual GDPs of Tajikistan, Kyrgyzstan, Turkmenistan and Uzbekistan range between $213 and $591 per capita[6]. There is considerable poverty and income inequality[7]. Industry is limited and economic development highly imbalanced, with a reliance on inefficient agricultural and mineral extraction systems that exacerbate already fragile environmental situations. Although there are large state enterprises and international companies, as well as independent traders and small retailers, the important middle ground—small and medium enterprises—are nearly absent. These SMEs are critical for economic growth and the creation of jobs. Rent-seeking corruption by bureaucrats and organized crime, combined with stifling bureaucratic procedures, discourage businessmen from expanding their companies and destroy many smaller enterprises.

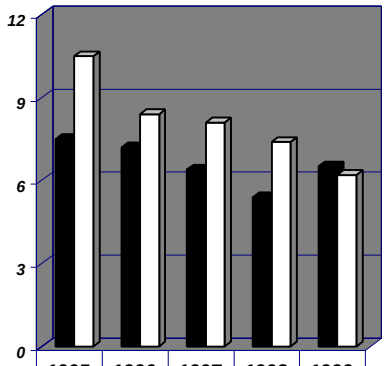
"Decisions today regarding the environment and natural resources can affect our security for generations."[8]

— President Clinton, 1999

While there are enormous variations in the five economies, the expected rapid transition to a market economy has not materialized anywhere in the region. In the wealthiest and most advanced country, Kazakhstan, vested interests, corruption, poor infrastructure and a largely economically illiterate population have slowed the transition. In Uzbekistan and Turkmenistan, the respective governments have not yet taken even the first basic steps in the process of building market economies. Kyrgyzstan and Tajikistan fall in the middle: initial reforms have been adopted, but limited resources, poverty, corruption (and political instability in Tajikistan) have stymied progress.

Democratization remains a great challenge in all five republics. Former Communist party officials still head all the governments. There is a mutual mistrust between the populace and the government, and the citizenry is generally passive from years of domination. However, the beginnings of citizen activism have appeared in Kazakhstan, Kyrgyzstan and Tajikistan. The only progress towards democratization has occurred in the area of civic participation. There has been significant growth in Kazakhstan and Kyrgyzstan—and to a lesser extent Tajikistan—in the number and nature of citizen associations, community groups and other non-governmental organizations (NGOs). Even though a new law recognizes NGOs in Uzbekistan, citizen groups remain under close observation. The situation is yet more difficult in Turkmenistan, where government controls and restrictions on non-governmental organizations and the public have increased. In 1999, government-mandated exit visas made it difficult for citizens of Turkmenistan to participate in international training and exchanges.

Expenditures on Health & Education (% of GDP)



	1995	1996	1997	1998	1999
Kaz	7.5	7.2	6.4	5.4	6.5
Kyr	10.5	8.4	8.1	7.4	6.2

Due to the consequences of Soviet era mismanagement of natural resources, some of the worst environmental disasters in the world have occurred in Central Asia. Live anthrax spores have been discovered at the world's largest biological weapons disposal site on an Aral Sea island.[9] The Aral is a poster child of exploitation, as over-irrigation continues to

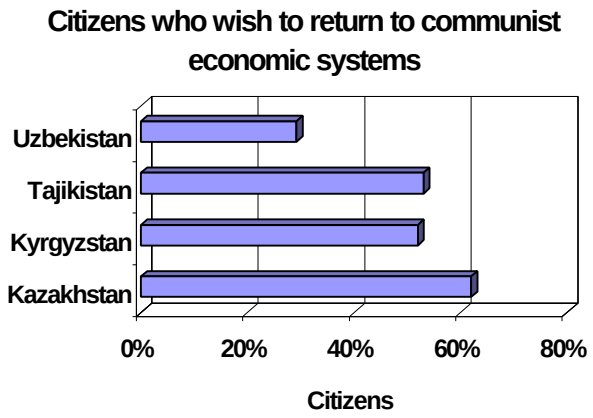
[6] EBRD, *Transition Report 1999.*
[7] EBRD estimates the percentage of the population below the poverty line in 1993/5 as 65% in Kazakhstan; 88% in Kyrgyzstan; 63% in Uzbekistan and 61% in Turkmenistan, *Transition Report 1999*, pg. 16.
[8] President Clinton on a National Security Strategy for A New Century, December 1999
[9] Judith Miller, "In Soviet Dump, Deadly Germs Live On," *New York Times*, June 3, 1999.

turn the sea into a salty wasteland. The sturgeon in the Caspian Sea risk becoming extinct. The tragic human consequences of above-ground nuclear testing in the vicinity of Semipalatinsk are well-known. The most widespread negative impacts result from mismanagement and inefficient use of energy and water resources. Heavy subsidies in the energy sector have also contributed to gross wastage and excessive emissions. Similarly, the sustained overuse of water on agricultural lands has resulted in the salinization of vast areas and reduced crop yields. These severe environmental conditions affect economic growth.

"Many people in the former Communist countries find the new conditions unsatisfactory, even by the sorry standards of Communist times."[10]

— Mancur Olson, 1999

In the past, Moscow subsidized most infrastructure and social services in Central Asia. Following independence, the new nations could not afford to maintain the costly, inefficient systems they inherited. Inadequate and mismanaged public finances have particularly weakened health and educational services. Governments are unable to pay salaries, maintain infrastructures or purchase basic supplies. There has been a sharp reduction in the quality and quantity of services, with scarce resources barely covering building maintenance with little left over to serve the public. The impact has been particularly clear in the health sector. Life expectancy has declined, especially for adult males. Recent evidence shows disturbingly large increases in infant and child mortality. There has been a resurgence of infectious disease, particularly acute respiratory infection, tuberculosis and hepatitis. HIV/AIDS looms on the horizon. Life is difficult for pensioners, who seldom receive their small pensions on time. In Kazakhstan, for instance, pension arrears totaled 1.2 percent of GDP by mid-1999,[11] although the government had caught up by year's end. Not surprisingly, most citizens express a desire to return to communism.[12] The social contract has been broken.



Source: USAID/CAR Opinion Poll, August 1999

USAID Assistance

The United States was quick to provide assistance to the newly-independent Central Asian republics. Since 1992, U.S. assistance has totaled more than $1.7 billion, mostly humanitarian and security related, but including $650 million in USAID assistance. The expected results of USAID's programs, based on the Eastern European model of rapid transition, were too ambitious for the political and economic realities of the region. Nevertheless, USAID made an impact on economic restructuring through its assistance for small-scale privatization, fiscal reform, enterprise development, financial institutions and the energy industry. Initial steps in democratic transition have been made through strengthening of NGOs, media and the local governments. Social sector transition began in some countries which have incorporated changes in healthcare, housing and pension systems.

[10] Mancur Olson, *Power and Prosperity*, pg. 169.
[11] EBRD, *Transition Report 1999*, pg. 231.
[12] Based on public opinion polls commissioned from the Kazakhstan based firm Brif conducted in Kazakhstan, Uzbekistan, and Kyrgyzstan and a public opinion poll commissioned from the Tajik civic organization Sharq in Tajikistan in the summer of 1999. Polls were not conducted in Turkmenistan.

USAID assistance in Central Asia has generally been well received. U.S. expertise is respected and usually desired; advice is listened to, albeit not always followed. While USAID has contributed to change in every country, the results are logically greatest where it was possible to establish a collaborative relationship with reform-minded host country leaders.

With USAID assistance, the Central Asian governments have made progress.

— GAO Report, 1999

The vast differences in reform opportunities in the five countries mean that USAID's impact in the economic sphere has varied widely. A recent General Accounting Office (GAO) report on USAID/CAR's economic and democratic assistance notes: "with USAID and other donor assistance, the Central Asian region's governments have made progress. Most notably, Kazakhstan and the Kyrgyz Republic—the two republics most committed to reforms—have privatized many small and medium-sized, state-owned enterprises; implemented trade and financial reforms; and developed non-governmental organizations and independent broadcast news stations."[13]

The results of U.S. technical assistance have been mixed, with the greatest gains in those countries which are committed to reform.

Given the complete absence and understanding of the private sector or modern commercial laws in Kazakhstan and Kyrgyzstan just eight years ago, it is remarkable how far both countries have come with the support of USAID and other donors. For example, both have been leaders in small-scale privatization and the institution of international accounting practices. Each has established modern, viable securities markets and banking supervision. Kazakhstan has been a pioneer in pension reform as well as banking reform. Kyrgyzstan has recently become a member of the World Trade Organization. Both have embarked upon serious fiscal and land reforms.

In contrast, comparatively little economic reform has been accomplished in the other three countries. In Turkmenistan and Uzbekistan, USAID technical advice has been largely without effect, as neither government has been willing to embrace economic restructuring. In Tajikistan, chronic political instability has severely limited USAID's ability to provide assistance. In these three countries, USAID's primary impact has been to educate better future leaders through training and exchange programs.

Success in building citizen organizations

USAID has been most successful in building citizen organizations in each of the five republics. Civil society, virtually unknown at independence, has grown and become more sophisticated in all the countries. Literally, thousands of diverse citizen organizations are now thriving. In Kyrgyzstan, they play increasingly vocal political roles. USAID assistance has also been important in sustaining independent electronic media and improving legal skills of parliamentarians, judges, lawyers, and legal associations in Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan.

USAID assistance has led to important results in revamping healthcare systems and combating the threat of infectious disease. These include a sustainable model for family healthcare, the adoption of new modern approaches to tuberculosis prevention and improved national systems for the procurement of essential drugs. USAID's assistance has had an important role in the peace process in Tajikistan through small

[13] General Accounting Office Report to the Chairman, Committee on International Relations, House of Representatives on U.S. Economic and Democratic Assistance to the Central Asian Republics, August 1999, GAO/NSIAD-99-200.

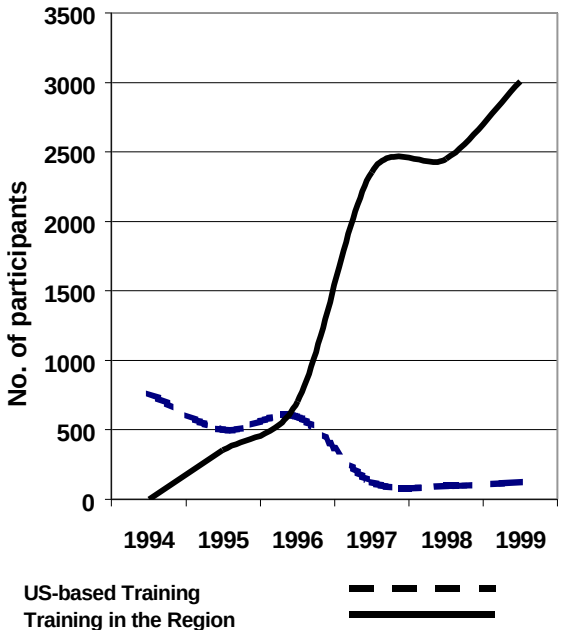
projects which reintegrate former combatants, enable communities to rebuild and provide citizens with income and a stake in their country's future. On a regional basis, USAID strives to reduce the potential for conflict by strengthening regional water and electrical power sharing agreements. USAID support has also facilitated restructuring of the energy sector in several countries.

Close collaboration with other donors and U.S. agencies has been essential.

Close collaboration with other donors and U.S. agencies has been an essential element in accomplishing results. USAID worked closely with Ambassadors and other senior U.S. officials, and with multilateral donors such as the World Bank and International Monetary Fund to encourage reform and change national policies. The World Bank structural loans in privatization and fiscal policy, for example, have often been designed with USAID assistance and reinforce U.S. policy dialogue and in-country technical guidance and leadership. Often World Bank resources make it possible for successful pilot activities developed by USAID to be replicated for a broader audience. USAID's strong on-the-ground technical capacity enables governments to make better use of the loans from the World Bank and other donors. There are a number of specialized donor and investor working groups that coordinate donor efforts. These prevent overlap, conserve resources and ensure consistent messages on priorities, issues and opportunities. Other U.S. Government agencies such as the Centers for Disease Control, the Department of Energy, the National Oceanic and Atmospheric Administration and the Treasury Department make high-level domestic U.S. expertise available and foster important exchanges and partnerships.

In Central Asia, information, training, exchanges and partnerships are particularly important to overcome centuries of isolation. These programs reach those individuals who are currently implementing change—be they public officials, professionals, business leaders, or citizen activists—and in the less progressive countries, help inspire those who will become tomorrow's reformers. Last year, the number of participants trained through USAID in Central Asia was over half of the total trained in the entire E&E region.[14] Since 1993, over 11,000 Central Asian decision-makers, professionals and citizens have participated in USAID training and exchanges. Thirty-four percent of the participants were women. Dozens of USAID-nominated counterparts have benefited from the State Department's International Visitors (IV) Program and ACTR/ACCELS-administered human resources development programs. Many of those who participated in USAID or other U.S. government training or exchanges have gone on to fill national leadership roles.

Increased training opportunities



Source: USAID Global Training for Development Project

[14] In the1999 Fiscal Year, 4,288 participants trained through USAID's Global Training for Development; 2,225 came from Central Asia. *U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union, FY1999 Annual Report*, Pg. 177, S/NIS, January 2000.

Initially USAID-funded exchanges and training were primarily held in the United States, to provide new leaders with an opportunity to observe Western economic and democratic systems. Training programs at U.S. universities introduced fundamental concepts in economics and political science. This approach, and complementary Public Diplomacy exchanges, remain particularly beneficial for participants from Tajikistan, Turkmenistan and Uzbekistan, where reform has stalled and USAID must cultivate future leaders. Increasingly, however, USAID-supported training is conducted within Central Asia and in third countries, which are further along in their transition. The priority in training has shifted to providing officials, professionals and citizen leaders with both the practical skills they need to manage and implement change, as well as new attitudes and values. The cost savings from the regional approach make it possible to train many more participants as well as help local institutions become regional centers of excellence.

Training, exchanges and partnerships have been fundamental to USAID efforts.

Exchanges and partnerships have been carried out with a range of collaborators: private organizations, government agencies and universities. The partnership between the city of Richmond, Virginia Emergency Medical Services and Ashgabat, Turkmenistan addressed emergency healthcare. It introduced hands-on and participatory health training approaches, which continue to be used by the Turkmen director in his new position directing national substance abuse programs. A USAID-financed partnership with the League of Women and local NGOs in Kazakhstan helped open up and improve the electoral process and encourage more women to run as candidates. In Kyrgyzstan, partnerships between the University of Kansas City Medical Center and the Kyrgyz Ministry of Health, and between the University of Nevada School of Medicine and the Kyrgyz National Academy strengthen the institutions responsible for quality healthcare. A beautiful Tajik teahouse in Boulder, Colorado reflects the value Dushanbe places on its sister city relationship and the sustained health partnership the two cities have. In Uzbekistan, a new partnership planned with Israelis will provide the Russian-speaking experts necessary to strengthen the nursing profession.

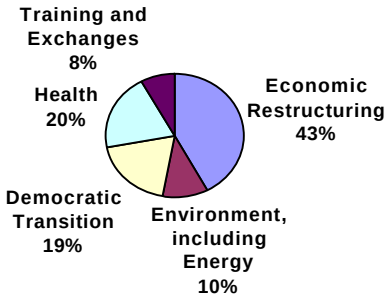
"Transition cannot be legislated, decreed, or in some other way imposed from above. People need…to be in the driver's seat."

— Joseph Stiglitz, 1999

New Program Directions

More than elsewhere in the newly independent Eurasian countries, early expectations about the pace of change possible in Central Asia were naive and unrealistic. With the benefit of experience and greater realism, USAID's new assistance strategy shifts focus and emphasis. The most important change is the increased emphasis on individuals, communities and the institutions that nurture and serve them. This shift reflects the findings from evaluations and surveys,[15] here and across the former Soviet Union, that the human costs of transition have been seriously underestimated. The benefits of reform have not reached the average citizen. As Joseph Stiglitz noted in his paper *Whither Reform*, "The social and organizational capital needed for the transition cannot be legislated, decreed, or in some other way imposed from above. People

Planned FY 2001 Expenditures



[15] In 1999, USAID/CAR carried out 21 evaluations and assessments to provide an empirical base for the development of the strategy.

need to take an active and constructive role in their self-transformation…they need to be in the driver's seat."[16] The revised approach reflects this need to involve the public in their own destinies.

The new strategy is more realistic about what is possible and what is required to bring about change. It is more selective about the assistance provided to each country—less centered on technical practice and more devoted to improving public knowledge and changing attitudes and values. And finally, the new strategy emphasizes a longer term perspective: stressing fundamentals; focusing on basic sociopolitical issues; and designing ways to build relationships and partnerships between these new nations, their citizens and the world community. The need to build a constituency for reform across the board, in health, democracy, and enterprise development programs, is fundamental.

"It is now even more clear that institutional and behavioral underpinnings of the transition in much of the region are weak and that this weakness creates difficult and long-term challenges."[17]

— EBRD, 1999

These broad changes in overall program direction, as well as the specific shifts made in each Strategic Objective, stem from the hard lessons learned from eight years of development experience in the region as documented in evaluations and the assessments of progress, opportunities and constraints in each country. The resulting strategy reflects the considerable differences among these nations and is grounded in the effectiveness of past U.S. assistance. USAID's assistance objectives for each country support the policy priorities of the U.S. Ambassadors. Furthermore, assistance levels set by the U.S. NIS Coordinator, with USAID input, are based on the governments' willingness to undertake reform and the opportunities that exist outside of the government—such as in NGO development. In the two non-reforming countries, Turkmenistan and Uzbekistan, USAID assistance will mitigate authoritarianism and statist policies, and build for the future by providing people and organizations—especially the next generation—with the tools to create change. In Tajikistan, USAID will help a divided society to mend and create a basis for stability and development. In Kazakhstan and Kyrgyzstan, USAID will build on successes by deepening reform where USAID's partners and stakeholders support change. These areas include expanding private enterprise, reforming fiscal management and the health sector, strengthening civil society and local governance, and improving natural resource management.

USAID's goal is to expand opportunities for citizens to improve their governance, livelihoods and quality of life. Building on USAID's recent achievements, and responding to citizens' most critical needs, this goal will be pursued through four core Strategic Objectives in each country. The four objectives are:

- Improved Environment for the Growth of Small and Medium Enterprises in Targeted Areas
- Strengthened Democratic Culture among Citizens and Target Institutions
- Increased Access to Quality Health Care in Select Populations Improved
- Management of Critical Natural Resources including Energy

[16] Joseph E. Stiglitz, "Whither Reform? Ten Years of the Transition," pg. 9, World Bank, Annual Bank Conference on Development Economics, April 28-30, 1999.
[17] EBRD *Transition Report 1999*, pg. 4

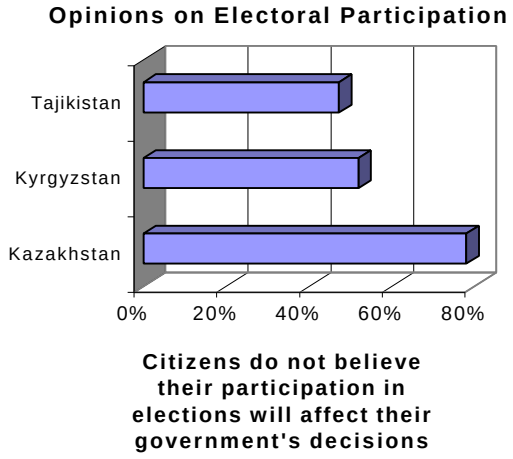
Each reflects the need to foster change which directly benefits citizens. There is also greater realism about what can be achieved within the relatively short period of the strategy and what is within USAID's manageable and measurable interest.

The *Small and Medium Enterprise* objective focuses on economic reform to create a freer marketplace where micro-, small- and medium-sized enterprises can thrive, grow and compete. This critical sector is underdeveloped in Central Asia and held back by a lack of financial sector responsiveness, business knowledge, and an unfavorable legal, regulatory and business environment. This shift in focus is consistent with the recent Europe & Eurasia (E&E) Bureau's Enterprise Development Strategy that notes, "priority is given to micro-, small- and medium-sized businesses because they provide the best solution for job-creation, income generation and economic growth."[19] This objective also contributes to important goals in citizen empowerment and support for reform. Again, as the Enterprise Development Strategy explains, "newly found political freedom can only be sustained as long as common citizens can be assured that they have viable opportunities for employment and investment and the right to private ownership."[20]

"SMEs…are a key source of growth and innovation… By bringing capitalism "close to the people"—into their neighborhoods and homes—they are at the heart of the economic, political and social transition."[18]

— EBRD, 1999

The second objective, *Strengthened Democratic Culture among Citizens and Target Institutions*, reflects the need for USAID to shift from an emphasis on formal systems to the broader issue of building an active constituency for democracy. The governing elite do not wish to change the current political systems, and citizens are generally too passive and cynical to do anything about it. Clearly, establishment of democracy in the region requires fundamental changes. Citizens need to become aware of the possibilities and benefits for change before popular demand for change will grow. Assistance will be directed at sustainable organizations and institutions that promote dialogue between citizens and all levels of government, and empower and inform citizens.



Source: USAID/CAR Public Opinion Poll, Summer 1999

The third objective, *Increased Access to Quality Primary Health Care in Select Populations*, is directed at the deteriorating social conditions in Central Asia and builds upon USAID's successful efforts in the health sector. In Kyrgyzstan, for example, USAID has developed a sustainable approach to providing basic healthcare for families and addressing the serious resurgence of infectious diseases such as tuberculosis and hepatitis in the region. The 1999 Kazakhstan Demographic and Health Survey found that there had been a significant increase in infant mortality rate (IMR) since 1995. The IMR is important because it is a good indicative measure of the overall health of the total population. Since Kazakhstan has the highest standard of living in Central Asia, a sharp increase in the IMR here has serious implications for the whole region. This is consistent with the findings from USAID/CAR's extensive health reviews in 1999. These stressed the importance of bringing modern primary health care to communities and combating the quickly growing threats of major infectious diseases, acute respiratory infections, tuberculosis, HIV/AIDS, and hepatitis.

[18] EBRD, *Transition Report, 1999*, pg. 10
[19] *USAID Enterprise Development Strategy*, USAID, Washington, D.C. Winter 1999, pg. i.
[20] Ibid.

USAID/CAR RESULTS FRAMEWORK

VISION

Stable, pluralistic development in Central Asia.

GOAL

Expand the opportunities for the citizens to improve their governance, livelihoods, and quality of life.

Kazakhstan & Kyrgyzstan

Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Turkmenistan

S.O.2.3. More effective, responsive and accountable local governance **Indicators**: new authorities; public forums;	**S.O.1.2.** Increased soundness of tax & budget policies and administration **Indicators**: tax revenue; expenditure	**S.O.3.2.** Increased access to quality primary health care for select populations. **Indicators:** % of national population with access to	**S.O.1.6.** Improved management of critical natural resources, including energy **Indicators:** successful models adopted	**S.O.1.3**. Improved environment for the growth of small-medium enterprises **Indicators:** inspections; business lending; advocacy groups	**S.O. 2.1.** Strengthened democratic culture among citizens and target institutions **Indicators**: surveys of groups for civic consciousness and

Program Principles:

- Increase knowledge and information
- Link macro-level policy reforms with on-ground demonstrations
- Focus on critical groups, sub-regions and localities
- Foster intra-regional dialogue, exchanges, and networks
- Seek complementarities and sy nergies

Crosscutting Objectives:

- Reducing corrupt practices
- Addressing gender issues
- Mitigating potential fo conflict

The fourth objective, *Improved Management of Critical Natural Resources including Energy*, focuses on demonstrating best practices for the critical water and energy resources of Central Asia. It redresses the severe environmental consequences of misusing these resources over the past 70 years as well as mitigates the potential for conflict over these resources. This objective builds upon USAID's previous successes in national and regional arenas. It will feature practical changes in natural resource management at a local level that will be replicated with other donor support. This provides governments and citizens with demonstrable pragmatic and economic approaches to improve their own lives and protect the environment.

There are two additional Strategic Objectives specific only to Kazakhstan and Kyrgyzstan, where there is a greater commitment to reform and improved governance.

- Increased Soundness of Tax and Budget Policies and Administration in Selected Sectors
- More Effective and Accountable Local Governance in Targeted Areas

Increased Soundness of Tax and Budget Policies builds on achievements in fiscal policy and administration established with USAID, World Bank and IMF assistance that are central to national stability and growth. Further improvements in fiscal policy and management are needed so that national budgets more fully reflect the economic and social priorities of the public. Fiscal mismanagement is exacerbated by the inadequate payment of taxes by citizens and inefficiencies in tax collection and management of revenues. These enable corruption through ineffective controls and monitoring systems.

"The quality of government expenditures is typically more important than quantity."[21]

The second country-specific objective, *More Effective and Accountable Local Governance*, is a high-risk but critical undertaking. Local government is at the heart of implementation of political, economic and social reform. Most of the objectives that USAID supports depend on local government becoming more effective, responsive and accountable. In both Kazakhstan and Kyrgyzstan, initial efforts and the leaderships' policy pronouncements indicate an important opportunity to build real local governance. USAID's track record elsewhere makes this an area of comparative advantage.

These six Strategic Objectives will be supplemented by cross-cutting efforts to reduce three pernicious problems in the region that affects work in all categories: corruption, gender bias and potential for conflict.

"In Central Asia organized crime and official corruption are serious and growing problems. "

— Deputy Assistant Secretary of State Robert Boone, 2000

Recent testimony by Deputy Assistant Secretary of State Robert Boone highlighted the threat posed by corruption. In his statement before the Commission on Security and Cooperation in Europe, he stated that "in Central Asia organized crime and official corruption are serious and growing problems… As is often the case in states in economic and political transition, high-level corruption abets organized criminal activities. Law enforcement officials have had limited success in their efforts to combat organized crime and official corruption. The strength of the criminal organizations in terms of numbers, resources, and political support has overwhelmed the mostly under-funded, under-equipped and poorly motivated law enforcement

[21] *Assessing Aid: A World Bank Policy Research Report*, pg. 75

agencies. Authorities in the five Central Asian nations are still working to develop adequate laws to deal with crime… We consider the promotion of a culture of transparency as a key objective of our bilateral technical assistance programs in the Central Asian states."[22] Three of the countries—Kazakhstan, Kyrgyzstan, and Uzbekistan—were listed among the most corrupt nations in a 1999 Transparency International's study on the prevalence of bribes.[23] Reducing corrupt practices in Central Asia is made more difficult by the lack of support for such change among senior government officials. In work with small businesses and local government, USAID will reduce opportunities for rent-seeking, push to make local and national government regulations transparent, and strengthen planning and monitoring of local public budgets. It is essential that media and civic organizations press for clean government and expose corrupt practices.

In healthcare, USAID has diminished opportunities for corruption by creating physician payment systems based on open enrollment and reimbursement for specific services. These programs are strengthened by the establishment of standards of medical practice, peer oversight and the use of customer satisfaction surveys. USAID will introduce international standards for drug procurement and national management standards. More generally, USAID encourages the governments to hold public hearings and publish regulations and fee schedules. These are all small but important steps in what will surely be a long transformation process to change centuries-old ways of doing business.

In Central Asia, USAID is helping traditional groups and others suffering most from the changes of the last decade. In Bukhara, Uzbekistan, a USAID grant to the local Center for Crafts Development has trained unemployed women in ten different neighborhoods who had lost their jobs in the city's Golden Embroidery Factory. The women have opened small workshops and are making and selling clothing themselves.

Reducing gender bias is important in Central Asia where centuries of Asian and Islamic tradition still hold sway. As USAID focuses its strategy on citizens, greater attention is paid to the inequitable opportunities for men and women to earn income, participate in civil society, protect their health and deal with the consequences of energy and environmental management. Women have benefited significantly from programs such as micro-credit and organizational development. But in-house analysis and studies such as the UNICEF *Women in Transition* report show that Central Asian women bear the brunt of problems in a transition period marred by increasing unemployment, alcoholism, sexually transmitted diseases and domestic violence. The situation for women is made more difficult by a lack of awareness among the general population of political, economic, or social rights. Increased emphasis will be placed on ensuring that information is more available to both women and men, especially information concerning human, health, and economic rights. To guarantee attention to this problem, USAID/CAR established a Gender Issues Team last year, which monitors progress and ensures that full attention is devoted to gender equity issues.

USAID will seek to reduce the potential for conflict at two levels. At the regional level, USAID efforts will fortify the institutions and systems designed to peacefully

[22] Statement of Rob Boone, Deputy Assistant Secretary of State, Bureau for International Narcotics and Law Enforcement Affairs, before the Commission on Security and Cooperation in Europe, March 23, 2000.

[23] In the study, interviewers asked leading exporters how likely it was that companies would pay bribes to senior officials to obtain business. Out of the 99 countries included in the study, Uzbekistan was ranked 94th, Kyrgyzstan 87th and Kazakhstan 84th among those where bribery was perceived to be most common. "1999 Bribe Payers Index" and "1999 Corruption Perception Index," Transparency International.

resolve energy and water disputes. USAID's broad regional training and exchanges fosters dialogue among decision-makers and professionals of the various countries and improves intra-regional and inter-ethnic understanding. At the bilateral level, USAID works with local governments and citizen groups to improve mutual understanding and create channels for dialogue and dissent. And most importantly, USAID focuses on activities which benefit citizens, thus helping to rebuild confidence and hope for the future. The Ferghana Valley, apportioned as it is among three countries, is a particular focus.

Finally, because the potential for natural and manmade disasters is great within the region, USAID is developing an internal crisis contingency team with links to USAID/BHR and Department of Defense to maintain an in-house rapid response capacity to disasters.

To maximize the effectiveness, impact, and relevance of assistance, USAID implementation of its objectives is guided by the following five program principles:

- Increase knowledge and information flows among citizens, especially youth
- Link macro-level policy reforms with on-the-ground demonstrations
- Focus on critical groups, sub-regions and localities
- Foster intra-regional dialogue, exchange and networks among citizenry
- Seek complementarities and synergies with other assistance or investments

"When national policies are in gridlock due to conflicting interests, it might be easier to reach a consensus for reform within a smaller locality."[24]

— Partners in Transition, 1999

One of the greatest challenges in Central Asia is increasing knowledge and making information more available. There is a critical need to continue to support independent sources of information—such as libraries, resource centers and the media—and develop alternative information sources and institutions, in order to foster a plurality of voices. While the greatest need may be in democracy-building, where citizens are unaware of their rights and options, the need is dire across the board. Business people lack information on markets, resources and the commercial legal framework. This makes them easy prey for corrupt officials. Families lack the information they need to make changes in their lifestyles and protect their environment and health. Bringing about change in Central Asia will be a long-term task. It is important to make investments in critical areas such as economic and civic education, especially for youth. Increasingly, USAID's assistance is directed not only at transferring techniques and practices, but also at changing values and attitudes.

Linking macro-level policy reforms with on-the-ground demonstrations has proven very important. Repeatedly, USAID has seen successful models developed and tested at the local level, replicated and repeated on a national or regional basis by host country governments with resources of the host country and other donors. For example, in Kyrgyzstan, successful primary healthcare pilot programs led to the subsequent adoption of this approach nation-wide. Currently, more than 40% of the population of Kyrgyzstan receives better healthcare through the primary healthcare practices. USAID is shifting the balance of assistance from central governments to citizens and other non-governmental organizations—from work at the macro-level to the implementation of reform at the local level. This approach demonstrates that

[24] *Partners In Transition: Lessons for the Next Decade*, October 1999, pg. 35

change can directly benefit individuals, increase their opportunities for income and adequate public services and give citizens a voice in their communities and local governments.

Whenever it is possible to concentrate USAID efforts, and those of other U.S. government and donor organizations, at appropriate localities or regions, USAID will do so; good local partners and sufficient resources make the efforts more effective. Change is more likely whenever citizens and local officials have a shared interest in better services and an improved climate for businesses and the job market. A local focus serves to consolidate resources, discover synergies between programs, apply policies and principles enacted at the national level, all with an eye to concretely improving the lives of citizens. The results of such a concentrated approach have become apparent in Atyrau, Kazakhstan, where USAID has a partnership with U.S. companies and other donors. Regional approaches also make it possible to target programs to meet the needs of residents of "hot spot" locales where the potential for conflict is the greatest—such as the Ferghana Valley.

"Assistance at the local level can achieve tangible, positive results."[25]

—S/NIS Annual Report, January 2000

Intra-regional dialogue is essential among the ethnically diverse and proud new nations of Central Asia. To promote this kind of dialogue, USAID/CAR emphasizes regional training to facilitate the sharing of information across borders and the development of lasting regional professional bonds. These intra-regional dialogues are vital at a time when governments are all too eager to sacrifice regional cooperation and assert their sovereignty. USAID/CAR also made special efforts to ensure that Central Asia was well represented at international fora such as the USAID Lessons in Transition Conference in Warsaw and the White House-initiated Vital Voices conference in Istanbul. These fora provide special opportunities for participants to build networks with their counterparts from Central Asia and other NIS and CEE countries.

Synergies with other U.S. agencies, other development organizations and between Strategic Objectives

USAID/CAR will seek out increasing complementarities and synergies with other U.S. agencies, multilateral and other development organizations and between Strategic Objectives. The new strategy builds upon previous cooperation with Public Diplomacy and Peace Corps, the World Bank, OSCE, EU/TACIS and the UNDP. The World Bank has supported USAID models through loans to replicate successful models to other oblasts or countries. USAID has worked with other donors to achieve common goals and has provided support to take advantage of another organization's expertise or comparative advantage. Throughout the strategy, the complementarities and synergies are discussed. For example, to improve healthcare, local governments must manage their health resources and budgets better. Criteria for the selection of environmental demonstration projects are the promotion of the involvement of non-governmental organizations, and contribution to the livelihoods of local residents.

USAID/CAR has streamlined its assistance strategy by reducing the number of Strategic Objectives from thirty-two to six, while sharpening focus and selectivity within each country, to maximize returns on investments. As a full mission, USAID/CAR will continue to use its full array of operational and technical resources to improve oversight of activities and dialogue with local institutions and partners.

[25] U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union. FY 1999 Annual Report, pg. 3

Local, indigenous organizations have lower costs than international firms. Their use also fosters the development of host country capacities.

The political and economic realities of each country dictate what USAID is able to achieve and what types of USAID's assistance will be most effective. While the similarities among countries on the larger issues of government control, the private sector, and social conditions make it possible to learn regionally and realize gains through regional approaches in training and problem solving, this knowledge must be applied bilaterally to ensure that USAID's assistance always reflects the sociopolitical realities and opportunities in each country. Assistance must build on regional factors, respond to specific country priorities and be flexible enough to respond quickly to new opportunities for effective intervention.

"Financial aid works in a good policy environment."[26]

To ensure compliance with Sections 117/199 of the Foreign Assistance Act, USAID/CAR has undertaken biodiversity baseline studies. Mission actions will be determined by the final report.

Kazakhstan

Kazakhstan, the ninth largest country in the world, has rich reserves of coal, oil and natural gas as well as gold, copper and chromium. Its location makes it key to geopolitics in Central Asia. However, lack of East-West transport routes and relative isolation due to long dominance by Russia and the newness of its nationhood have severely limited Kazakhstan's access to the world and international markets. The nation's relationship with Russia is important because of a lengthy shared border and a large Slavic minority. Its long border with China, which also divides the Uighur ethnic minority, is also important.

The United States has a strong interest in promoting Kazakhstan's sovereignty and independence. The country continues to enjoy a special bilateral relationship with the U.S. because of its record of cooperation on non-proliferation, as well as large U.S. investments and Kazakhstan's environmental initiatives. It has received the greatest share of U.S. assistance in the region. Unfortunately, there was a setback in the relationship in 1999, due to the government's control of elections and military sales to a rogue state. Nevertheless, Kazakhstan's leadership has demonstrated commitment to an open economy, financial reforms, civil society, health reform and environmental policy. The December 1999 Joint Commission meetings with U.S. Vice President Gore resolved important foreign policy issues and led to agreements on increased joint efforts to mitigate global climate change, protect the Caspian Sea, control infectious diseases and promote small business development. The visit in April 2000 by Secretary of State Albright will further the bilateral relationship.

"If a society is to achieve its highest possible income, the incentives must not only be clear but must induce firms and individuals in the economy to interact in a socially efficient way."[27]

- Mancur Olson, 1999

Kazakhstan has taken significant steps in economic restructuring since independence. Good monetary and fiscal policy has resulted in fully convertible currency and a growing economy despite the setbacks of the Russian and Asian economic crises. The government has successfully privatized small and medium-sized firms and most large-scale industries. It is advancing well in infrastructure privatization, and has a

[26] *Assessing Aid: A World Bank Policy Research Report*, pg. 2
[27] Mancur Olson, *Power and Prosperity*, pg. 1.

lively and growing stock market. By reducing public spending, wage and pension arrears, and its budget deficit, the government was able to obtain IMF approval for a $453 million Extended Fund Facility in December 1999, although at some cost to the social sector. Pension reforms have made a successful start: individual contributions have already reached US $350 million. The share of private investment funds progressively increased to approximately 30% by mid-1999.

The greatest economic challenges facing Kazakhstan are extensive corruption and lack of businesses other than extractive industries that can compete both domestically and internationally. While the mineral sector is important, it will never be sufficient to sustain the current population at a reasonable standard of living. Kazakhstan also needs to further privatize large enterprises and improve its treatment of investors, as foreign and domestic investments are needed for a vibrant economy.

While there have been considerable gains over the long-term in the growth of civil society and citizen participation, political and electoral reform remains a serious problem. The January 1999 Presidential election fell far short of commitments to OSCE. While the October 1999 parliamentary elections were judged to be an improvement, they also did not fully meet Kazakhstan's OSCE commitments. Political competition is limited and no one can challenge the leadership.

"A society built around information tends to produce more of the two things people value most in a modern democracy —freedom and equality."[28]

— Francis Fukuyama, 1999

Since 1992, the U.S. has provided approximately $650 million in assistance, $290 million, was through USAID. The greatest share of USAID's assistance has been directed at economic reform, successfully encouraging privatization, improving fiscal policy, strengthening the banking sector, creating a stock market and more generally leading to regulatory reform. USAID has helped Kazakhstan reform commercial law and move toward World Trade Organization (WTO) accession. USAID helped create a private pension system, which has had greater first year returns and participation than that of comparable Latin American systems. With USAID's help, Kazakhstan leads NIS countries in accounting reform. USAID is now providing substantial support for micro-enterprise development; many of the participants are women traders.

USAID democracy programs, while including legislation and electoral reform, have focused on citizen participation. USAID assistance has helped to build a strong NGO movement where none existed at independence. Assistance to citizen groups has concentrated on building organizations, but now will shift to public policy advocacy and social partnerships between NGOs, government mass media and private business. Citizen groups have become increasingly vocal on critical social issues such as payment of arrears and land privatization, and participate more in the legislative process. Independent electronic media have received support, although this continues to be a troublesome area. In 1998, USAID initiated a new program to make local governments more effective, responsive and accountable. The central government increasingly delegates responsibility for service delivery to local governments, without allotting the requisite resources, authorities and training.

Healthcare has been an important and successful area of assistance and partnership. USAID helped pilot family group practices and privatize the state-owned pharmaceutical distribution and retail system. USAID has contributed significantly

[28] Francis Fukuyama, "The Great Disruption", *Atlantic Monthly*, May 1999.

to women's health by making modern methods of contraception an alternative to abortion. The USAID-financed 1999 Demographic and Health Survey showed a substantial decline in the general abortion rate from 1995 as use of voluntary family planning increased. The face of basic healthcare has begun to transform, as USAID introduced the family group practice structure, which provides an affordable alternative to Soviet institutional healthcare. Families can go to a single clinic or physician for their entire basic healthcare needs, rather than a series of specialty-based hospitals and clinics. Open enrollment provides patients with a choice in healthcare, and benefits those physicians who provide high-quality patient care. USAID partners work closely with the government and other donors to address the resurgence of serious infectious diseases such as tuberculosis (TB) and hepatitis. International aid and partnerships have enabled the government to improve TB prevention and treatment and strengthen laboratory diagnosis.

"People have this notion that you can wall off your borders from germs….You can't."[29]

— Kraig Klaudt, World Health Organization, 2000

The U.S. also provides significant assistance in energy and water management, including greenhouse gas emissions, climate, and the regulation of oil and gas resources. The new strategy gives highest priority for assistance to enterprise growth; civil society and information dissemination; improved healthcare; and environmental management. Secondary objectives are local government and fiscal reform. For enterprise growth, the focus will be on improving the business environment and business-related education, tax and budgetary reform, and financial mechanisms such as insurance, mortgages and micro-credit. In civil society programs, there will be greater emphasis on the sustainability of civic organizations while continuing to strengthen citizen advocacy. As part of the new emphasis on democratic culture, more attention will be paid to information dissemination and civic education, especially for youth. USAID will continue to help make basic healthcare better, more widely available, and financially viable. A special effort will be made to increase the knowledge of health providers and patients, particularly about preventive healthcare, infectious diseases and reproductive health.

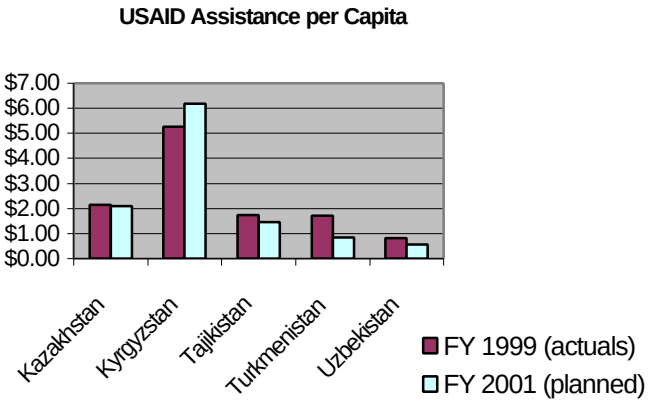
Environmental efforts will be directed at increasing citizen participation in key decisions, building the capacity of local governments to manage environmental issues and improving the national policy framework. Energy efficiency, regional concerns such as the Syr Darya river, and the impacts of oil and gas development on the Caspian Sea are also assistance areas. There will be more effort concentrated on specific localities such as Atyrau and Southern Kazakhstan. USAID generally will not provide assistance to manipulative national-level electoral and anticorruption efforts, and will phase out assistance for legal reform, central banking, the stock market, privatization of the energy and agricultural sectors, and state-controlled institutions.

Kyrgyzstan

Kyrgyzstan, although small and remote, borders China and three of the other new nations of Central Asia. It has control of critical water and hydroelectric resources for the region. Its mountainous land area covers much of the upper watershed of Central Asia, providing water to Kazakhstan and Uzbekistan. Aside from Tajikistan, it is the poorest country in the region. It has an overwhelming foreign debt burden and few industrial or commercial resources. Mountains divide

[29] "Resisting Drugs, TB Spreads Fast in the West," *New York Times*, March 24, 2000.

the country geographically into two isolated halves. The southern half has a majority Uzbek population.



Source: USAID/CAR budgets and 1998 World Bank Development Report, population figures

Kyrgyzstan is unique in Central Asia in its pursuit of both political and economic reform in tandem. In late 1998, Kyrgyzstan became the first NIS country to join the WTO. It continues to maintain one of the most liberal trade regimes in the region and has a convertible currency. Despite negative impacts from the Asian-Russian financial crisis, the economy still managed to grow in 1999. The Fiscal Year 2000 Foreign Assistance Appropriations Act called for special attention and support to Kyrgyzstan for its progress in reform. At the Lessons in Transition conference in Warsaw in 1999, Kyrgyz health reforms were recognized as the most outstanding social sector reform of the decade in Eastern Europe and Eurasia, and were presented with an award by the First Lady, Hillary Clinton. Kyrgyzstan receives higher assistance per capita than any country in the region. U.S. assistance since 1992 has totaled $448 million, including $158 million in USAID assistance. The visit in April 2000 by Secretary of State Albright will further the bilateral relationship.

USAID's democracy assistance has increased citizen participation in the political process. It has contributed to the electoral reforms in the October 1999 local elections. The March 2000 parliamentary elections were disappointing and not in compliance with international and OSCE election standards. Although there was intense political competition, early tolerance for opposition candidates was reversed through central government intervention. Nevertheless, Kyrgyzstan's new NGOs united and participated actively, with many domestic observers and a spate of political protests following the elections.

"The differences in the depth of the post-communist economic collapse and the differences in the pace of recovery have much to do with the strength of the state and how the state uses its power."[30]

— Mancur Olson, 1999

Two of Kyrgyzstan's greatest handicaps are a weak, corrupt government and lack of a strong economic base and markets. Corruption dramatically undermines the ability of the weak government to implement economic reforms that can stimulate business and export growth. The bigger challenge may be time and citizens' patience. Kyrgyzstan is beginning from such a low economic base, with so little natural resources and market access, that it is unlikely to develop a reasonably strong economy for several decades. The danger is that the public will become disenchanted, and undo the many fledgling reforms already initiated. Yet, without solid changes such as implementation of commercial law, streamlined regulatory requirements, and privatization of energy, the economy has few prospects for preventing the standard of living from falling further. Additionally, ethnic tensions in the south between Kyrgyz and Uzbeks over access to land and water threaten both national and regional security.

USAID assistance has been broad. It has included help with fiscal reform, private enterprise, the financial sector, legal reform, elections and civil society, local government and health. The new strategy will continue to give priority to economic

[30] Mancur Olson, *Power and Prosperity*, pg. ix.

development and democratic reform. Assistance will be more focused on direct impact on people and communities, particularly in the south. Economic assistance, for example, will devote less attention to macro-economic reform management and more to enterprise development, business training, and land privatization, which immediately benefit citizens.

Democracy assistance will concentrate on the Presidential election scheduled for later this year, civic advocacy, local government and increased information dissemination, especially regarding corruption. Healthcare efforts remain important, with a continuing emphasis on infectious disease control and replication of the successful primary healthcare model pioneered with USAID assistance. Kyrgyzstan's leadership in health reform has benefited the whole region through dialogue, exchange, and training. Equally important is USAID assistance in regional water and energy resource management. During the strategy period, USAID will phase out assistance to the stock exchange, WTO accession, banking, and pension reform.

Uzbekistan

Uzbekistan is situated in the geographic heart of Central Asia, bordered by the four other Central Asian countries, as well as Afghanistan. It is the region's most populous, economically endowed and militarily powerful country. Uzbekistan gained economically from the Soviet Union and inherited a domestic economy and infrastructure minimally affected by its collapse—much less so than Kazakhstan and Kyrgyzstan.

"In difficult environments, effective assistance is more about ideas than money or projects."[31]

Nevertheless, each year since independence the economy and infrastructure has declined and will continue to do so for the foreseeable future without economic reform and new investment. Its authoritarian politics and state-controlled economy have stymied any transition, contributed to human rights violations and limited foreign investment. Despite significant agricultural, manufacturing, energy and mineral resources and potential, economic growth is held back by state ownership and extraction through excessive currency trade and business controls. Trade and foreign exchange restrictions shelter corruption and non-competitive industry and discourage enterprise and foreign investment. Social benefits from the state remain substantial. The repression of dissent and Islamic organizations and potential ethnic rivalries, combined with the lack of viable channels of expression and an absence of economic growth, could prove explosive.

U.S. assistance since 1992 has totaled $193 million; this includes $103 million through USAID. In the past strategic period, USAID concentrated assistance on fiscal and capital market reform, private enterprise and banking, citizen participation and health. The continued failure of the government to embrace macro-economic reforms and move toward a convertible currency, combined with overall reductions in USAID funding, has led to phasing out of almost all assistance for economic restructuring. Support for health will remain substantial due to host country commitment and direct benefits to citizens. Assistance to expand civil society and micro-enterprise will increase. The visit in April 2000 by Secretary of State Albright will further the bilateral relationship.

[31] *Assessing Aid: A World Bank Policy Research Report*, pg. 104

The new strategy gives highest priority to primary healthcare, economics and business training and micro-credit, civic education and civil society, and water resources management. Assistance will primarily concentrate in two selected subregions, Ferghana Valley and Karakalpakstan, where the political environment is more receptive to change, and financial needs and potential for conflict greatest. Health efforts will feature decentralization, quality of primary care, informed communities, allocation of healthcare resources and legislative policies. To expand opportunities for income, USAID assistance will help create employment through increased access to and use of credit, including micro-credit, reduced constraints on businesses, and the empowerment of women. The emphasis in civil society will be on information dissemination, civic education, and more active and sustainable citizen groups. In water resources management, priority will be given to efficiency, rational allocation, access to accurate data and regional agreements. USAID will not provide assistance for economic and financial reform, energy restructuring, elections or any state-controlled institutions unless Uzbekistan changes its current macropolicies.

Tajikistan

Political stability is critical for reform and economic growth. Tajikistan is ready to move forward economically once its chronic security problems are ameliorated.

Tajikistan is the poorest and most disadvantaged of the new states of Central Asian states and the most affected by Afghanistan. Ethnic, economic and ideological strains led to five years of destructive civil war and major population displacements. The 1997 Peace Accord and its successful if halting implementation opened a new phase in Tajikistan's short history. Nevertheless, the nation remains isolated and vulnerable as a transit point for radicalism, narcotics, arms, and international organized crime due to corruption and lack of rule of law.

Security and political stability is critical for economic reform and growth. Tajikistan's leadership appears willing to move forward economically, but it must resolve its chronic political and security problems. National leaders are committed to economic reforms and are ready to make the most of the country's limited resource base and geographically disadvantageous location. Although there has been a post-conflict burst of economic activity, the economy will take decades to reach sustained robust growth.

Stabilization has improved real incomes but poverty remains severe. An estimated 85% of the predominantly rural population lives below the poverty line and can not purchase basic food supplies. Although flawed, the February 1999 parliamentary elections resulted in increased representation of opposition parties and independents. Parliament is now a potentially viable institution for public debate and warrants support.

U.S. assistance since 1992 has totaled $253 million, mostly humanitarian, and included $58 million in USAID assistance. For the past several years, the ongoing conflict and insecurity has limited the types of assistance USAID could provide. While the Embassy and USAID offices remain open with local (FSN) staff, all official Americans including the Ambassador reside in Almaty, Kazakhstan. USAID's small development grants have paid off, with support to almost a quarter of a million Tajiks and more than 300 community groups, helping community,

reintegrating former combatants and improving livelihoods. Through this effort the U.S. contributed substantially to the peace process, reconciliation and national rebuilding.

USAID will now shift from humanitarian assistance towards longer-term efforts to support enterprise growth, civil society, improved healthcare, and civics and economics education. Donor collaboration is excellent. USAID will continue important partnerships with UN Agencies and other grantees such as the Aga Khan Foundation, Eurasia Foundation, Mercy Corps International, United Methodist Committee on Relief and Soros Foundation, who have the flexibility to work within the country. As it becomes feasible, USAID may increase support in primary health care, economic and business education, and commercial law, although technical assistance will remain limited.

Turkmenistan

Turkmenistan possesses large natural gas resources as well as important oil reserves. The country's borders with Iran, Afghanistan, and the Caspian Sea play a critical role in its development and resources. Turkmenistan lies far from major hard currency markets for oil and gas. Russia's control of northern oil and gas export routes threatens Turkmenistan's independence and the ability in the longer term to benefit from its resources. Similarly, its southern neighbors could either increase Islamic influence in the region or the potential for chaos that afflicts Afghanistan and Pakistan.

"Aid agencies need to find alternative approaches to helping highly distorted countries since traditional methods have failed."[32]

Turkmenistan's one-man leadership exercises firm control over a highly centralized government and economic structure, with no freedom of the press and no tolerance for opposition political parties. There is little hope for growth without any willingness to adopt economic or political reform. Natural gas exports will not be enough to save a dysfunctional economic system, though they may allow the current leadership to continue in power.

Eight years after independence, most Turkmen face worsening hardships caused in large part by the current national policies. Turkmenistan is one of the few newly independent nations where state control has not been reduced since the breakup of the former Soviet Union. There has been little willingness to liberalize prices or free domestic markets. State subsidies and price controls remain on a number of essential goods, justified by the government as needed to maintain the public standard of living. The state continues its monopoly position on the major agricultural crops, cotton and wheat, subsidizing production inputs and paying farmers minimum returns, well below world market levels. State enterprises still dominate the economy, especially in energy, agriculture, transportation and communications. Efforts to privatize or even commercialize state-owned enterprises are frequently reversed or otherwise discredited. The banking sector remains firmly state-controlled; the practice of directed credits weakens the banking system. Lack of access to foreign exchange continues to hinder the development of trade, foreign investment and private Turkmen enterprises. The state-controlled economic structures are not sustainable. Keeping the current system in place has led to mounting foreign debt. The increasing amount of investment in non-productive

[32] *Assessing Aid: A World Bank Policy Research Report*, pg. 6

ventures—such as presidential monuments and other questionable endeavors—adds to an already precarious financial situation.

The degree of state control in political and social spheres of life continues to grow. No political opposition is allowed and the political processes that do occur are tightly controlled, aimed at consolidating the position of the ruling elite. Civic or community organizations, which form the base of a dynamic civil society, are discouraged. State-run health and educational services continue to deteriorate, largely because of minimal budgetary support. While there is no reliable national data, general agreement by international observers is that the quality of life for Turkmen citizens has continued to deteriorate since independence.

"As the foregoing reasoning suggests, the only societies where individual rights to property and contract are confidently expected to last across generations are the securely democratic societies."[33]

- Mancur Olson, 1999

Nonetheless, some local groups and associations are increasingly willing to mobilize their own scare resources to obtain vital services for their communities. Unable to find remunerative public sector employment, citizens are increasingly seeking private employment in small businesses. At regional and local levels, the government has fewer resources to maintain social and economic controls, alongside greater willingness to encourage families and communities to be responsible for their well-being.

U.S. assistance to Turkmenistan since 1992, most of it humanitarian aid, has totaled $176 million, which includes $44 million through USAID. USAID provided support in health, privatization, fiscal reform, trade, and citizen participation. Because of the government's unwillingness to make basic economic and democratic reforms, USAID assistance for economic restructuring is being phased out. USAID will continue some assistance in the oil and gas regulation, small business and law, increase assistance in health, and strengthen and support citizens' organizations wherever feasible. The latter will focus on "non-political" community mobilization such as water user groups, social partnerships and professional associations. Health efforts will feature clinical training, education in infectious disease control and family practices. Business support and development will include continuing business credit (CAAEF and micro-credits) and business education and training. USAID efforts will concentrate on two locations: Dashowguz and Turkmenbashi.

"Foreign aid is as much about knowledge as it is about money."[34]

Customers

For the past year, USAID/CAR has carried out an extensive participatory review and evaluation process to develop a new assistance approach. This was guided by two principles: (1) ensure participation and feedback from as wide a range of USAID stakeholders, customers and partners as possible, and (2) draw on recent experience, views of the Ambassadors and other knowledgeable specialists, and current analyses of Eurasia and Central Asia to capture lessons learned. The development of the Assistance Strategy involved three phases: Analysis, Diagnosis, and Presentation.

In the analytic phase, development customers and partners participated in the evaluation of past programs, assessment of the current situation and examination of proposals for future directions in each sector. Customers and partners participated in

[33] Mancur Olson, *Power and Prosperity*, pg. 42.
[34] *Assessing Aid: A World Bank Policy Research Report*, pg. ix

or were consulted by assessment teams. USAID carried out more than 20 assessments and evaluations, covering all programs. National and local governments, citizens and their organizations, national professionals in relevant fields, international development organizations, PVOs and NGOs (both grantees and others), and private investors were involved. Key stakeholders such as the U.S. Ambassadors and colleagues from the Global and Regional Bureaus were involved in assessments. A sample of the citizens of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, the ultimate customers, were surveyed about their views and participation in the social, political and economic transition in their countries[35]. Clients' opinions and ideas were solicited directly in numerous open fora. Thirty-five leaders and reformers from Central Asia were identified and sent to the Lessons in Transition Conference in Warsaw. Partner and customer views played an integral role in the development of the strategic framework underlying this plan.

"The U.S. Government… is taking a "bottom-up" approach to change. In doing so, U.S. Government-funded assistance is steadily promoting the expansion of lasting constituencies for reform."[36]

—S/NIS Annual Report, January 2000

In the diagnostic phase, the partners and stakeholders were consulted about the assessments, findings, the overarching strategic principles and the proposed overall and sectoral strategies. USAID verified diagnoses with selected FSN staff, government and non-governmental partners. Members of the National Security Council, State NIS Coordinator's Office and U.S. Congressional staff were consulted. Relevant decisions from the U.S. Joint Commissions of Uzbekistan and Kazakhstan were also incorporated.

In the final presentation phase, a concept paper, draft results' frameworks and the proposed principal performance indicators were shared and discussed with partners and stakeholders.

This new assistance strategy has greater focus on the individual. Customer Service Plans are now required in all new grant and contract documents to provide information on how ultimate customers evaluate service.

Graduation

In Central Asia, as in several other republics of the former Soviet Union, initial expectations about the pace and extent of change were unrealistically optimistic and. The dysfunction and corruption of the economic and political systems due to nearly a century of domination and Sovietization was hugely underestimated. Worse, the new nations of Central Asian lack the social and human capital necessary to quickly transform their political and economic systems. As the GAO report on Central Asia commented, "the goal of reaching a market-oriented democracy in each of the five republics is decades away."[37] Other external and academic analyses confirm this reality.

[35] Public opinion poll performed in July-August 1999 with a sample of 4,120 people in 15 cities.
[36] U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union. FY 1999 Annual Report, pg. 1
[37] *U.S. Economic and Democratic Assistance to the Central Asian Republics*, GAO/NSIAD-99-20, pg. 3.

Thus, USAID's new assistance strategy involves important changes in direction and emphasis, with greater realism about what is necessary to bring about change—and how long it will take. This longer term plan stresses fundamentals: focusing on basic sociopolitical issues; building a constituency for reform; and seeking ways to bring all countries and their citizens into the world economy. It will take decades to create a constituency for these reforms and decades after that to fully implement them. While gains are likely to occur most rapidly in Kazakhstan and in each nations' health sector, even there graduation will not occur soon. This strategy builds the necessary foundation in the citizenry and their institutions for sustainable partnerships and eventual graduation from U.S. assistance.

"And one of the main conclusions ...is that getting countries like Kyrgyzstan… to fully join the global economy will take a lot longer than we had originally thought."[38]

— Don Pressley, 2000

Civil Order

The international kidnappings and insurgencies last summer in southern Kyrgyzstan provide a clear example of how the convergence of external and internal tensions can lead to conflict and instability. It is not at all surprising that this conflict occurred in the volatile Ferghana Valley area, which falls within the borders of Kyrgyzstan, Tajikistan and Uzbekistan. These Uzbek and Tajik insurgents—some radicalized by Uzbekistan's oppressive policies—occupied a remote, indigent district of southern Kyrgyzstan and moved freely in and out of Tajikistan. The militants reportedly included radicals who had trained with the Taliban as well as opponents of the secular regimes in Uzbekistan and Tajikistan. Dissatisfied local villagers and youth who receive little benefit from the current governments passively supported the group. It is probable that the insurgency will recontinue once the spring thaws open the mountain passes and permit travel.

There are a number of factors that contribute to potential regional disorder. Among the most important are the lack of legitimate channels of dissent, the suppression of religious freedom, as well as corruption of the rule of the law in some states. This grants a particular urgency to civil society endeavors. USAID efforts support NGOs and advocacy groups, strengthen Parliaments, and push national and local governments to create opportunities such as public hearings for citizens to voice their opinions and concerns. Assistance in civic education is particularly directed at creating a constituency for peaceful reform, as also is the case with small projects to rebuild conflict-torn communities in Tajikistan.

"Democratic reforms… in Eurasia are the best measures to avert conditions that could foster ethnic violence and regional conflict… Together with our…partners we are helping these nations build civil societies."[39]

— President Clinton, 1999

The Soviets deliberately created republics whose geographic borders did not respect ethnicity or economics. This makes each country vulnerable to divisiveness and external threat. With a substantial Russian population, Kazakhstan can not ignore Russia's new nationalism. Similarly, the division of the Ferghana Valley among three countries left an Uzbek majority in southern Kyrgyzstan, making Kyrgyzstan vulnerable to Uzbek militarism and ethnic chauvinism. Proximity to Afghanistan makes Tajikistan and Uzbekistan particularly at risk from Islamic radicals and those who traffic in drugs and arms.

The social costs of transition were severely underestimated. Reduced quality of life, substantial poverty and income inequity all contribute to a populace which does not

[38] Don Pressley, OMB Presentation, February 10, 2000
[39] President Bill Clinton on a National Security Strategy for a New Century, December 1999.

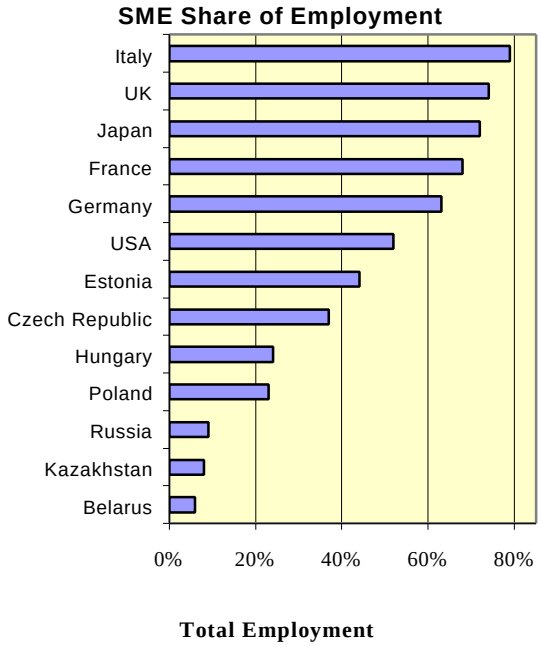
have a stake in civil order and enjoys few benefits of reforms. The Soviet "social contract," however unsustainable, has been shred in the transition. Improvements in healthcare help provide tangible benefits to individuals and families in a critical area. A Kyrgyz provincial health director noted that "while others may talk of reform, we do it." Improving the environment for the growth of small- and medium-sized enterprises provides new, legitimate opportunities for citizens to increase their livelihood, and reduces the temptation of crime and corruption. Participatory mechanisms whether in government budget preparation, public services, or environmental regulation rebuilds citizens' stakes in stable government. The United States, through the U.S. Embassies, monitors opposition groups and is vocal about political and human rights violations.

The sections that follow on each Strategic Objective offer a more complete discussion of the challenges, prospects and planned USAID assistance to Central Asia from 2001 to 2005. Together, these objectives will further U.S. foreign policy interests and contribute to pluralism and stability among the people and institutions of the new nations of Central Asia.

Strategic Objective 1.3 – Improved Environment for the Growth of Small and Medium Enterprises

Problem Analysis

Throughout the world, small- and medium-sized enterprises (SMEs) are a major contributor to economic growth and key to generating income and employment opportunities. Employment trends in the emerging economies of Eastern Europe serve as an excellent example of the importance of the SME sector in creating jobs. SMEs account for 58% of employment in Georgia, 37% in the Czech Republic, 24% in Hungary, and 23% in Poland[40]. With such vibrant small business sectors, these countries have enjoyed much healthier economic growth over the past decade than Central Asia. In contrast, the contribution of SMEs to economic growth and the creation of jobs in Central Asia is disappointingly low.[41] The SME sector thus represents great potential for economic expansion. But before this sector can grow, the business environment in Central Asia must change.



Source: EU-TACIS Donor Report on SME Issues in Kazakhstan, May 1998

Stifling bureaucratic procedures and corruption are major constraints to growth of the SME sector. USAID has had some successes in proposing national legal, regulatory and institutional reforms throughout the region. Even in Uzbekistan and Turkmenistan, where there has been negligible economic reform, some small enterprise efforts have succeeded. Nevertheless, small- and medium-sized enterprises are suffocated by irrational bureaucratic procedures at the regional and local level. Licensing, inspections, registrations, customs, import/export procedures, property acquisition, the hiring of employees, and other administrative business tasks can require upwards of 50 forms and bureaucratic requirements[43]. Taken individually, many of these demands seem like mere nuisances. However, a recent survey of problems for SMEs in the Atyrau region of Kazakhstan[44] has shown that, cumulatively, these hindrances deter new entrepreneurs, significantly raise costs for established businesses, and destroy SMEs. Moreover, such procedures create a bureaucratic environment ripe for corruption.

"Market-augmenting governance."[42]

— Mancur Olson, 1999

All nations, including those of Central Asia, need strong and responsive financial systems to foster SME growth. SMEs have extremely limited access to capital because of weak commercial banks and a lack of other financial intermediaries such as mortgage banks, insurance companies, or a sustainable private pension system. With the exception of Kazakhstan, the countries have very weak financial sectors. With USAID assistance, substantial progress has been made in Kazakhstan on the development of the banking system and establishment of a nascent securities market.

[40] EU-TACIS Donor Report on SME Issues in Kazakhstan, May 1998.
[41] For example, the EBRD estimated that SMEs accounted for only 8% of Kazakhstan's GDP in 1998.
[42] Mancur Olson, Power & Prosperity, pg. 10.
[43] The Services Group "Investor Roadmap for South Kazakhstan Oblast," January 2000.
[44] Booz-Allen & Hamilton, "Atyrau SME Constraint Analysis," January 2000.

Yet even in Kazakhstan, the near absence of an insurance industry and a residential mortgage sector seriously impede continued economic growth.

Likewise, SME growth requires a relevant human resource and knowledge base. Institutes of higher education have not shifted their business and economics curricula to meet the needs of a market economy. A recent USAID/CAR assessment notes that "When hopes for a quick Central Asian transition to advanced, industrial-nation living standards were stronger, there was an argument for low priority to higher education. The populations were literate. Independence and deregulation would unleash new entrepreneurial energy. Dynamic new economies would emerge which would, in turn, generate pressure for new educational programs to meet new market needs. With such hopes now in remission, the case grows stronger for aid to higher education in applied economics. The rising generation needs to understand what a market economy entails, which will broaden the support for thorough reform. The economy needs the entrepreneurial attitudes and technical skills to make it work, so that reform can be exploited to the maximum."[45]

Just as academics lack an understanding of free market economies, operators of small businesses do not have basic business education, the ability to identify market niches, or the knowledge to seek new strategies or cultivate new markets. Government officials responsible for economic reform are equally lacking in basic business education. The result is an insufficient comprehension, region-wide, of the reforms and inputs required for small business growth.

HELPING A SAUSAGE COMPANY GET ON ITS FEET. Thanks to a strong partnership formed with a USAID funded U.S. volunteer executive, a new Kazakhstani sausage company (Shangereev) has managed to nearly triple production and become competitive with the finest on the market in 1999. USAID's technical advice helped this micro-enterprise expand their staff from 4 to 14 and increase production to over a ton per day. With USAID funding, a volunteer that had spent a lifetime in the sausage industry visited Kazakhstan twice to work directly with Shangereev. The volunteer shared his technical knowledge and encouraged them to use creativity to adapt basic recipes to the materials and demand in Kazakhstan. The volunteer's suggestions lengthened the shelf life and increased the quality of the company's sausage. The USAID funded volunteer also helped the company to apply and receive a loan for $30,000 for new equipment, which will allow them to expand production further. In December 1999 they received the first installment and will receive the second installment in April 2000. Not only did this partnership better the financial viability of this emerging family business, but they also formed important personal ties that continue beyond the life of the project. The visible impact on this company is an example of how USAID is improving private business, in particular small and medium sized enterprises.

[45] I.M. (Mac) Destler , "Education In Applied Economics in Central Asia: Problems and Opportunities", Draft, March 2000.

Proposed Program

An improved environment for the growth of small- and medium-sized enterprises represents the greatest opportunity for job creation, economic growth, improved quality of life and greater participation for the citizens of Central Asia. Furthermore, by creating employment and expanding economic opportunities, USAID programs can ameliorate political and economic crises.

USAID support will be contingent on a better policy environment and economic reform.

This Strategic Objective will be implemented in each of the five countries of Central Asia to the extent possible. The primary focus will be Kyrgyzstan and Kazakhstan, where key economic reform measures have already been adopted.

USAID's previous three-year strategy focused on developing the legal and regulatory framework and the institutional infrastructure of a free market economy. It emphasized macroeconomic reforms. The new strategy is a natural evolution of this earlier work. While national policy issues will continue to be addressed as needed, there will be greater emphasis on reforms at the microeconomic level. One key step will be to educate the citizens of Central Asia about existing national policies and infrastructure. For example, USAID has worked to build an infrastructure for transparent financial markets through appropriate regulation; now USAID will assist SMEs to access these markets to finance their businesses.

In Uzbekistan and Turkmenistan, where the governments have failed to embrace reform or adopt many of the prerequisite laws, regulations and institutions, support to governments for macro-economic reform will not be continued until the governments address key issues such as currency convertibility.[47] Instead, USAID assistance will be directed at improving the environment for SMEs over the longer-term, through small loans and business training and education in targeted areas, including Karakalpakstan and the Ferghana Valley of Uzbekistan, and in selected areas of Turkmenistan. Broader USAID technical support will be contingent on a better policy environment and economic reform.

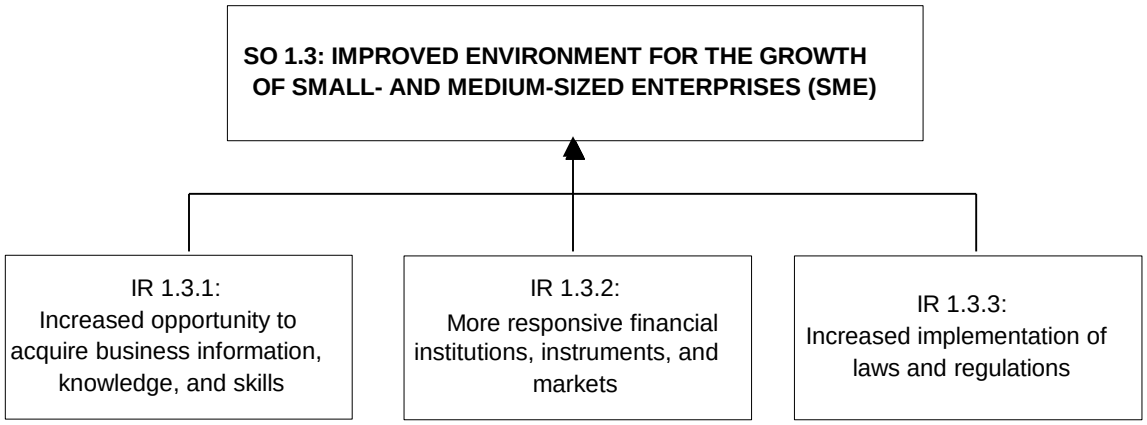
"An effective strategy to promote SMEs in the region must simultaneously tackle the three "pillars" of finance, improvements in the business environment, and strengthening of SME networks"[46]

Tajikistan's government has demonstrated its commitment to economic reform. Unfortunately, security concerns limit USAID's ability to provide technical assistance. Under these circumstances, USAID will support micro-lending and business education, and will provide limited technical assistance, in commercial law reform, where conditions permit.

Three intermediate results are necessary to achieve this Strategic Objective:

- Increased opportunity to acquire business information, knowledge and skills.
- Increased implementation of laws and regulations critical to small- and medium-sized enterprises.
- Financial institutions, instruments and markets more responsive to small- and medium-sized enterprises.

[46] EBRD Transition Report 1999, pg. 10
[47] Robert Singletary & Charles Twyman , "Turkmenistan Financial Market Assessment," February 1999.



Increased Opportunity to Acquire Business Information, Knowledge and Skills

The critical issue in the work of this Strategic Objective "is not to produce a few economists with world-class capabilities... but to create a large number of people with basic understanding of economic principles and the capacity to apply them to local circumstances."[48] Several assessments have found that the majority of Central Asian citizens lack basic business education and the managerial skills required to operate a business. To address this problem, USAID plans to provide young entrepreneurs, SME managers, and public officials with the opportunity to study the basics of business practices; this education is an important step in the transition to a market economy.

USAID will work in close collaboration with the Peace Corps and the Eurasia Foundation to deliver business education courses throughout Central Asia. These short courses will cover such topics as marketing, management, accounting, finance, strategic planning, the development of business plans, and policy advocacy. The Eurasia Foundation supports economic education and private enterprise development programs in all five countries.

In conjunction with the short business courses, USAID assistance will strengthen business education curricula and increase the training capabilities of institutions of higher education. Possible approaches include: direct support to selected institutions of higher learning; the creation of a regional repository and clearinghouse of educational information, textbooks, curriculum models, syllabi, training plans and other material; partnering with the World Bank Institute to implement distance learning programs; and academic fellowships.

A wide variety of businesses will receive direct technical assistance and consulting through USAID. This support will be concentrated in high priority regions, including Atyrau, Kazakhstan, and the Ferghana Valley in Kyrgyzstan, Uzbekistan and Tajikistan. Business advisors will offer counsel on market principles and help

[48] James Fox, "USAID Economic Strategy in Central Asia" Draft, November 10, 1999, p. 7.

business reach local, regional and international markets. Individual advisors will determine specific training and technical assistance needs for each organization.

USAID plans to continue its successful efforts to increase the professional level of small business accountants. Accounting education courses support female employees of SMEs in particular, as women traditionally dominated the accounting field in the Soviet era and continue to do so today. Out of 3,100 accountants trained in Kyrgyzstan so far, over 86% (2,656) has been women. This activity will be expanded into Tajikistan and Uzbekistan.

"…establishing the appropriate laws and regulations is not sufficient. They must be embodied in the social norms, practices and behaviours of both the government and the private sector."[49]

The successful USAID-initiated work organizing accountant associations in Kazakhstan and Kyrgyzstan will be expanded to include the development of general business associations. These associations will assist business owners to protect and advocate for their interests and provide networking opportunities for new businesses. In addition, businesses that wish to export will be able to work through a central, representative body for help establishing international contacts.

Increased Implementation of Laws and Regulations Critical to Small- and Medium-Sized Enterprises

For SMEs to flourish in Central Asia, they require a legal environment that supports rather than curtails small business growth. USAID advisors will help clarify existing laws and regulations governing SMEs. However, government officials need to better understand their role in administering laws. The public needs to learn their rights and be trained how to exercise those rights, both as individuals and as advocacy groups. A broader understanding of commercial legislation will serve to increase transparency and thus reduce opportunity for corruption. The Atyrau Regional Initiative in Kazakhstan is a good example of how USAID is influencing local officials to improve the environment for SMEs.

In Kyrgyzstan, a system of commercial laws has largely been adopted. The country acceded to the World Trade Organization (WTO) and enacted the constitutional and legal bases for private land ownership. At present, continued assistance is necessary to maintain progress. USAID's new emphasis will be the institutional development and the removal of regulatory constraints for SMEs.[50] Within five years, Kyrgyzstan should have a substantially improved business regulatory environment.

In Kazakhstan the national government has assumed responsibility for the development of commercial laws and the training of judges, under sponsorship of a World Bank legal reform loan. Since the country no longer needs USAID assistance in these areas, new efforts will support liberalization of trade and investment policies to prepare Kazakhstan for WTO accession and provide support after accession. The removal of international trade barriers should improve the lives of most citizens and stimulate the growth and operation of SMEs.[51]

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[49] EBRD Transition Report, 1999, pg. 9
[50] Anders Aslund, "A Vision for Kyrgyzstan: From Budget Crisis to Sustained Economic Growth and Welfare," Carnegie Endowment for International Peace, December, 1999.
[51] "Commercial Legal and Institutional Reform Assessment," USAID/ENI/PER, June 1999.

In Tajikistan, USAID will continue to support enactment of basic legal systems and strengthen government institutions, particularly the courts and parliament. In addition, business training and credit will be provided to some targeted groups of SMEs. The need for this support will certainly extend beyond the current strategy period.

In Uzbekistan and Turkmenistan, private commercial activity is so limited that the possibility for development and enforcement of modern business laws and regulations appears minimal. Consequently, USAID will not provide such types of business support until conditions change.

Financial Institutions, Instruments And Markets More Responsive To Small- And Medium-Sized Enterprises

Financial institutions, instruments and markets supply and distribute the capital needed to finance SMEs. The lack of capital is a significant obstacle to SME growth; with stronger financial institutions, more capital will be accumulated and available for loans to SMEs.[52] The greater the quantity and variety of financial instruments available, the more likely it is that SMEs gain access to credit. USAID's strategy is specifically tailored to the degree of financial institution development and legal/regulatory reform present in each country.

"Kazakhstan's banking system stands as a relative oasis in the arid desert of the CIS' parched and stunted banking system."

Standard & Poor's, Bank Industry Analysis: Kazakhstan, August 1999

Banking Sector: The banking sectors of the five countries of Central Asia are at vastly different stages of development. "Kazakhstan's banking system stands as a relative oasis in the arid desert of the Commonwealth of Independent States' parched and stunted banking system."[53] The systems in the other four countries, meanwhile, are far less developed.

To ensure that the banks will serve the SME sector, a "parallel effort must be undertaken to strengthen banking supervision and the banking sector. Failure to support parallel efforts could lead to crises similar to that of Asia during 1997-98."[54] USAID will help teach bank supervisors to evaluate a bank's ability to minimize risk while maximizing profits, and help bankers to improve their ability to evaluate the credit-worthiness of borrowers.[55] In Kyrgyzstan, training efforts will also improve the regulation of the central banks and provide central bankers with lessons in analytical techniques based on international standards. In two years, it is anticipated that the bank regulatory authorities in Kazakhstan will be sufficiently advanced to carry forward without donor assistance. As a cost-saving measure, USAID will support existing bank training centers and universities in the training of commercial bankers in basic banking.[56]

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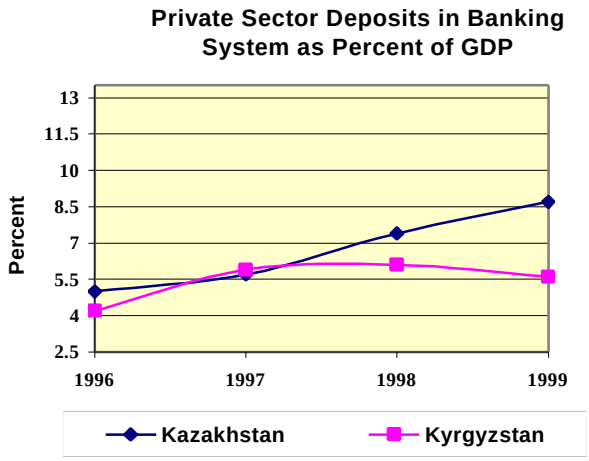
[52] June P. Shelp, "Insurance Industry Technology" in Bernard Wasow and Raymond D. Hill (eds.), The Insurance Industry in Economic Development, New York University Press, 1986, p. 63.
[53] Standard and Poor's, Bank Industry Analysis: Kazakhstan, August 1999.
[54] Recommendation of Rebecca Richards, E&E/MT Banking Specialist, Memorandum dated February 8, 2000.
[55] Recommendation of Rebecca Richards, E&E/MT Banking Specialist, Memorandum dated February 8, 2000.
[56] Recommendation of Rebecca Richards, E&E/MT Banking Specialist, Memorandum dated February 8, 2000.

In general, both citizens and companies distrust the banks throughout Central Asia. This hampers the ability of banks to gather deposits; a lack of deposits is a key reason why banks are poor financial intermediaries.[57] Strengthening banks requires that households and firms develop trust in these institutions. In Kazakhstan, the central bank recently initiated the first steps of a deposit insurance program to build domestic and foreign confidence in the banking system. This insurance program will be implemented with help of USAID technical advisors. Assistance to the National Bank of the Republic of Kazakhstan (NBRK) on deposit insurance will be completed by the end of 2001. The deposit insurance program will be evaluated for possible application to Kyrgyzstan.



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To induce banks to lend to SMEs in Kazakhstan and Kyrgyzstan, USAID is evaluating the use of the Loan Guarantee Program (LGP) for banks. This program has successfully mobilized credit for small businesses in Poland, Hungary and other Central and Eastern European (CEE) countries. This low cost, risk-sharing loan program, combined with capital provided to local banks by the EBRD, should create a greater incentive for financial institutions to lend to small- and medium-sized enterprises.

To assist the older generation of citizens in Kazakhstan, USAID is evaluating the viability of a special category of mortgages called "reverse mortgages." This would allow pensioners to sell their apartments and continue to live in them while receiving monthly "reverse mortgage" payments for the rest of their lives. "Not only will these reverse mortgages provide a vulnerable sector of society—pensioners—with additional income, but these mortgages can be securitized and traded among banks or bought by pension investors, thus increasing the investment alternatives in the pension system."[58]

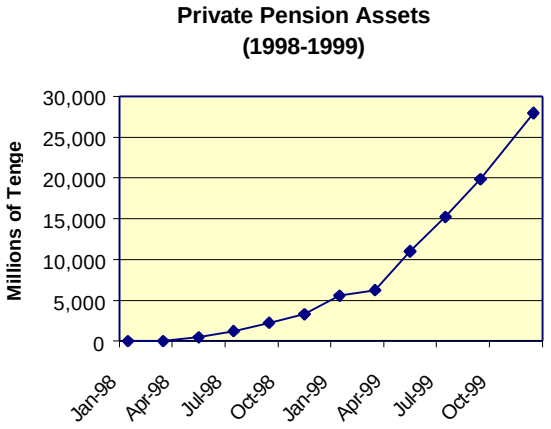
Non-bank Financial Institutions Non-bank financial institutions, such as credit unions and postal savings banks, may be able to accumulate more deposits than banks and provide smaller savers with new avenues for loans. For example, the creation of a law for non-bank financial institutions in Kazakhstan has enabled one of the USAID-supported micro-credit programs—the Kazakhstan Community Loan Fund—to blossom into a financially sustainable institution with a client base of primarily female entrepreneurs in two of the poorest cities of Kazakhstan. USAID is also encouraging the Central Asian-American Enterprise Fund (CAAEF) to continue

[57] A second reason is a dearth of viable enterprises. According to Standard and Poor's, in Kazakhstan the client base available to the banks is weak and further progress needs to be made to strengthen Kazakhstani enterprises, thus allowing banks to play a more active role in financial intermediation.

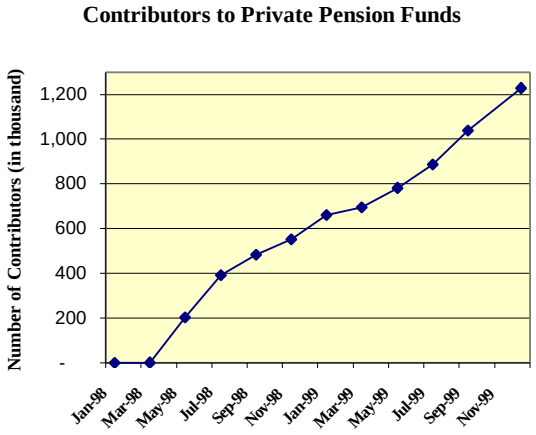
[58] Recommendation of Rebecca Richards, E&E/MT Banking Specialist, Memorandum dated February 8, 2000.

financing small business lending. In Kyrgyzstan, USAID supports the creation of a similar law, which should help to ensure the success of USAID-supported micro-credit programs, including the MCI program funded through CAAEF and FINCA, as well as an EBRD micro-credit program. CAAEF will continue to conduct SME lending and equity funding through USAID funding in Kazakhstan, Kyrgyzstan, Uzbekistan and Turkmenistan over the entire strategy period.

In Kazakhstan, in addition to CAAEF and micro-credit programs USAID plans to create another source of capital for SMEs and simultaneously address public needs for social protection through the development of a life insurance industry. Capital will be accumulated through premiums collected, then channeled to SMEs through the financial markets. Transparency and oversight are key to the successful formation of this industry. Consumers will be reluctant to pay premiums on plans that do not have adequate disclosure and have a low probability of paying legitimate claims. To increase transparency and improve oversight in the insurance industry, USAID will help develop a modern insurance law and strengthen the new Department of Insurance Supervision.



Pensions systems, mandatory and voluntary, have the ability to channel significant capital to SMEs through their investment in financial instruments. Since the new "accumulation" pension system was launched in Kazakhstan in January 1998, employees have contributed $438 million to the pension funds. At the current rate of growth, private pension funds will accumulate $1.7 billion by 2003. At present, USAID will continue to provide limited technical support to the private accumulation pension system. This assistance will focus on unifying and strengthening the regulatory bodies. USAID will also help to create stakeholder advocacy groups to closely monitor the pension system. These activities will ensure maximum transparency of the system and minimum opportunity for corruption.



Source: USAID Pension Reform Project

Furthermore, USAID will promote and assist development of a mortgage-lending program both to accumulate capital for the SME sector and to allow younger Central Asians to buy their own homes. Mortgage banks will make loans as collateral to borrow from the private pension funds. The banks will then use the funds received from the pensions to make loans to SMEs and to offer additional mortgage loans.

Stock exchanges are organized markets that facilitate the purchase and sale of financial instruments. Among the benefits of an exchange is that once fully developed, it greatly broadens the pool of potential financiers for a company seeking funds. Moreover, since adequate disclosure is a requirement for companies wishing to be listed, those seeking financing are required to publicly report information that investors would consider critical to the investment decision.

In Kazakhstan, USAID played a key role in creating an effective stock exchange, central depository, registrars, and broker dealer network.[59] The sustainability of this securities market is demonstrated by the $20 million volume of bonds and stocks traded on the Kazakhstan Stock Exchange in 1999—a volume sufficient to cover the operating costs of the exchange. USAID will graduate its Capital Markets Development project in Kazakhstan in 2000. In Kyrgyzstan, the Kyrgyz Stock Exchange also set a new record for trading volume in 1999. Nonetheless, the volume of trade generated on the exchange is not yet sufficient to cover operating costs.[60] USAID therefore intends to continue supporting the Kyrgyz exchange through small grants until it reaches financial viability, expected by the end of 2001.

Investors Re-gain Confidence in Kazakhstan after Russia Crisis

Estimated Difference in Risk between 5-year bonds in Kazakhstan and the U.S.

Source: USAID Securities Market Development Project

Of the five Central Asian republics, only Kazakhstan has financial institutions, which are developed enough to support financial instruments originating from the private sector. USAID will continue to support efforts to introduce corporate bonds, mortgage bonds, municipal bonds and other investment vehicles. Parallel USAID support for an adequate regulatory framework will be essential.

The financial institutions in Uzbekistan, Turkmenistan and Tajikistan are stilled owned and firmly controlled by their respective governments. USAID will only consider assisting these institutions after appropriate reforms are made and independent financial institutions are allowed to operate.

Critical Assumptions

Primary critical assumptions in each country for this Strategic are:. The security conditions need to remain stable; government commitments to SME growth must be maintained or expanded; and no global or regional economic crises occur. Furthermore, provided there is an increase in economic opportunities, the people of Central Asia will need to have a commensurate increase of trust in the market economy. Finally, other donors will have to maintain their respective levels of support for small- and medium-sized enterprises.

Other Donor Support

USAID works in conjunction with a variety of implementers and other international donor organizations, especially through donor roundtables and working groups with international donors such as the EBRD, EU/TACIS, UNDP, the Swiss International Development Agency (SIDA), the German bank for reconstruction and development (KFW) and the German Agency for Technical

[59] Dennis Earle and Margaret Koonz, "Depository Trust Corporation assessment of Kyrgyzstan Securities Market," March 1999.
[60] Dennis Earle and Margaret Koonz, " Depository Trust Corporation assessment of Kyrgyzstan Securities Market," March 1999.

Cooperation (GTZ) to improve the environment for SMEs. The EBRD and KFW provide significant lines of credit, while other donors including the World Bank, EU/TACIS, and ADB provide legal and regulatory assistance in trade and investment. USAID/Washington-supported CAAEF and Eurasia Foundation are key partners.

Expected Results

The expected changes in the SME environment fall into three broad categories: 1) a more positive relationship between the various governments and SMEs; 2) increased access to basic business services, credit and information; and 3) more Central Asians with an understanding of Western business practices and economics. At the local level, expected changes would include a reduction in government interference and harassment of business owners. This will be evidenced in changes such as fewer inspections, streamlined licensing regimes, more transparent tax systems, and a perception that the environment for SMEs is improving. There will also be increased recognition by enlightened national and regional leaders of the importance of business growth and the need to curb government excesses and rent-seeking behavior. A new business services industry will provide business owners with increased information, training and advice on modern business, practices and the marketplace. More accessible financial institutions will allow SMEs to secure financing. Finally, increased access to training and formal education in western business practices and economics will produce better informed entrepreneurs and a new generation of Central Asians with a basic understanding of economics and business principles. Progress will be greatest in Kazakhstan and Kyrgyzstan, where the commitment to improve the environment for SMEs is greatest.

Linkages

This Strategic Objective directly contributes to the E&E Bureau objective to *Foster the Emergence of a Competitive, Market-Oriented Economy in which the Majority of Economic Resources is Privately Owned and Managed*. This Strategic Objective links most closely with the aim of *Accelerated Growth and Development of Private Enterprises* (E&E SO 1.3). It supports Agency Goal 1, *Broad-Based Economic Growth & Agricultural Development*, and the more specific aims to accomplish *Critical Private Markets Expanded and Strengthened*, (SO 1.1) and *Access to Economic Opportunity for The Rural and Urban Poor Expanded and Made More Equitable* (SO 1.3). Aspects of this Strategic Objective also support USAID goal 3, *Human Capacity Built Through Education and Training* and in particular the objective of *Contributions of Host-Country Institutions of Higher Education to Sustainable Development Increased* (SO 3.2). Finally, portions of this Strategic Objective support the E&E SO 2.2, *Legal Systems that Better Support Democratic Processes and Market Reforms*, as well as *More Effective, Responsive And Accountable Local Governance*, (SO 2.3).

This Strategic Objective directly complements the democracy program goal of *Strengthened Democratic Culture* (SO 2.1), by assisting in the growth and sustainability of democratization through broad-based growth of small enterprise and entrepreneurs. Political freedom can only be sustained as long as citizens are assured of viable opportunities for employment and the unfettered right to own and operate

their own businesses. The countries of Central Asia will be more stable and democratic with a growing, prosperous business class, which generates income and employment and advocates less state control and openness in political processes. This objective will also contribute to the social sector though sound pension and insurance systems. It will facilitate private ownership of houses and apartments through the creation of a mortgage market.

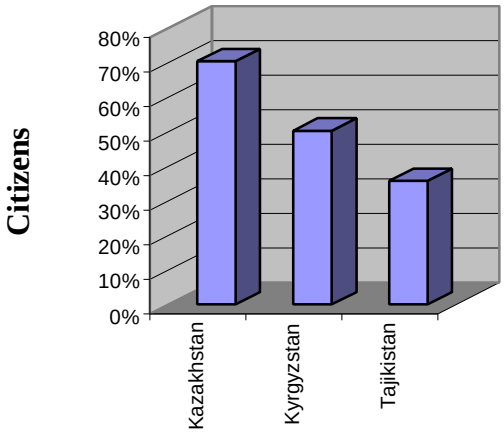
Strategic Objective 2.1: Strengthened Democratic Culture Among Citizens and Target Institutions

Problem Analysis

Democratization in Central Asia has been halting at best, and stillborn in some nations at worst. With few indigenous democratic traditions, the leaders of all five countries tend towards autocratic and authoritarian methods of governance—with little understanding of citizen participation. The recent series of severely flawed elections across the region reflect this behavior. Nevertheless, since USAID's 1997 Strategic Assistance Plan, Central Asia has made notable progress in the development of civil society. Both civil society and the non-governmental sector have taken root, and information is becoming more widely available to the public. Non-governmental non-profit organizations (hereinafter called "civic organizations"), be they primarily community, youth, professional, or even political, are now accepted as growing elements of the social and political climate of Central Asia; some citizen activism by such organizations is accepted by the governments of every country except Turkmenistan.

Some countries in the region, most notably Kyrgyzstan, have made modest progress in establishing independent media. USAID support is improving the quality and quantity of news coverage by independent TV stations in the region. Government structures have become more accountable and accessible. With the exception of Turkmenistan, the Central Asian countries' Parliaments have become more open to input from civic organizations, public hearings, town hall meetings, and candidate debates.

Many citizens say that non-state media are not free to criticize the government.



Source: USAID/CAR Opinion Poll, August 1999

Despite this progress, major reforms to guarantee freedom of speech and association, or transparent and democratic processes, remain absent. Overtly political civic organizations, political parties, and labor unions all continue to face strong resistance and even periodic repression from most Central Asian governments. In Turkmenistan, all independent civic organizations are watched with suspicion. Non-governmental television and radio stations still face significant degrees of state control and interference—except in Turkmenistan, where no such media exist.

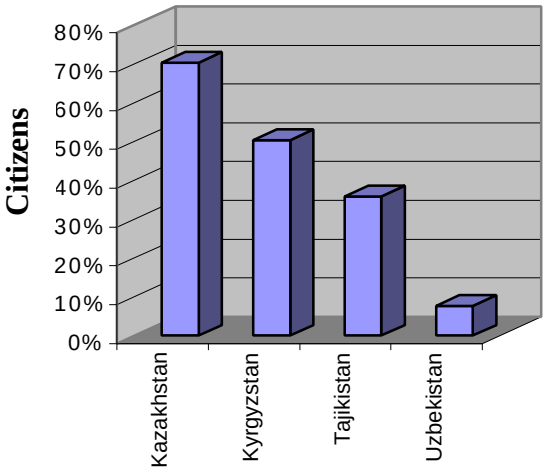
The Central Asian governments have all claimed that they are dedicated to democratic elections. However, successive parliamentary and presidential elections in each country have been neither free nor fair, clearly lacking compliance with international standards.[61] The legislative branches of each country remain highly dependent upon the nations' executive branches. Only Tajikistan shows promise for the development of an independent legislature. While a substantially strong and independent Parliament had developed in Kyrgyzstan with USAID assistance, state

[61] OSCE reports on Kazakhstan's presidential and parliamentary elections, Tajikistan's presidential elections, and Turkmenistan's parliamentary elections, 1999. See bibliography for details. The presidential elections in Kyrgyzstan will take place in fall 2000.

interference in the recent parliamentary elections raises questions about its future independence. All of these setbacks are exacerbated by widespread corruption in the region, which significantly retards implementation of rule of law.[62]

These setbacks demonstrate a significant absence of political will among governing elite to change their political systems. This fact has not entirely escaped the people of Central Asia, whose reaction often appears to be disgruntled resignation to the status quo. According to public opinion polls taken last year, 78.1% of citizens polled in Kazakhstan, 52% in Kyrgyzstan, 47.3% in Tajikistan, and 39.4% in Uzbekistan did not believe that their participation in elections would affect their country's policies. The same poll reported that among Kazakhstani respondents, 86.9% had never participated in an action or organization to protect their interests, and 58.2% did not believe such actions would be heard or would make a difference. Across the region, those polled gave similar negative responses: 80.9% of Kyrgyz, 87.7% of Tajiks and 85.2% of Uzbeks had never protested or lobbied. Approximately forty percent (42.6%, 46.3%, and 38% respectively) thought that their participation would not matter. Focus group discussions with citizens in each country further verified these findings: while the public was often in disagreement with government policies, few felt empowered to do anything about it.

Many citizens are not satisfied with governance in their countries



Source: USAID/CAR Opinion Poll, August 1999

Democratic transition in Central Asia diverges from changes in Eastern Europe, where there is evident commitment to reform among both citizens and governing elite. In Central Asia, there has been no such consensus. The former Soviet republics of Central Asia had independence dropped in their lap—suddenly and unwillingly. In contrast to the other European and Eurasian states formerly under the Soviet Union, independence did not emerge from a popular movement for change nor from a cadre of enlightened reformist politicians. Used to following centrally dictated policies set by Moscow, Central Asian civilians and governments alike had very little experience with modern democratic practices. The few indigenous democratic movements in the region were small and short-lived; their leaders were all liquidated during the Russian revolution and the Stalinist purges of the 1930s.

A different approach to democracy assistance is required in Central Asia than that provided to Eastern Europe and even other Eurasian newly independent states. Democracy building requires more than facilitating simple political transition that replaces forcibly supplanted authoritarianism with earlier held values. More is required than providing tools to progressive reformers committed to change. Central Asia requires more fundamental attitudinal changes. Democracy efforts must first make people aware of the possibilities available to them, and increase popular demand for change by fostering political will and commitment for reform. The

[62] 1999 Transparency International Corruption Perception Index, in which Uzbekistan, Kazakhstan and Kyrgyzstan all ranked among the 14 most corrupt of 99 countries, for which data was available. No data was available for Turkmenistan or Tajikistan.

challenge is not merely to facilitate political transition but to *strengthen democratic culture*.

In 1999, USAID conducted assessments, commissioned opinion polls, and organized roundtable discussions with democracy experts and key local and international partners, in order to identify obstacles to the development of democratic societies in the region. These assessments and stocktaking activities identified three pressing problems impeding the development of democracy in the region: a lack of citizen empowerment; a lack of information about alternatives; and mutual distrust between citizens and government. These problems reflect the dearth of strong, sustainable civic organizations, the lack of information about modern civics, political and individual rights and domestic public issues, and an absence of meaningful opportunities for citizens to participate in the governance of their countries.

"The countries… face a broad range of constraints and challenges that render progress toward market-led democracy more complex than originally anticipated."[63]

Proposed Program

USAID and its partners have a long-standing relationship with civic organizations and independent media in the region. It is at the forefront of democratization efforts—promoting candidate debates, citizen input on legislation, open hearings, and town meetings. This track record puts USAID in a prime position to continue pushing Central Asia up the path of gradual but sustained democratic development.

To provide the most effective assistance, USAID has had to change its strategic objective for democracy and shift from a focus on formal systems of political and public decision-making to broader consideration of general political development. Changes are required in fundamental aspects of Central Asian society before these countries can become more open and democratic. This Strategic Objective addresses that need by concentrating on the basic components of a democratic polity at the grassroots level. After all, attitudes and values themselves are an integral part of democracy—how people think, how they relate to one another, their aspirations—these all play a role in decision-making.

…A shift to a broader consideration of political development…

The new Strategic Objective, *strengthening democratic culture among citizens and target institutions*, is based on the belief that "the consolidation of democracy depends on the acceptance by both citizens and political elite of a shared system of democratic norms and values. These include tolerance of political diversity, interpersonal trust, and a sense of political efficacy on the part of individuals."[64] The introduction of a stronger democratic culture, politically and socially, is a prerequisite for reform of political processes. Only once a commitment to democratic norms and values are in place may the people of Central Asia undertake the structural changes needed in governance and rule of law to make their countries more democratic.

…promotion of dialogue between citizens and government…

Accordingly, this Strategic Objective relies upon the establishment of sustainable alternative institutions dedicated to promoting dialogue between citizens and all levels of government, rather than immediate democratic changes within the government. To promote free, democratic societies, these institutions—be they civic organizations, independent media, libraries, or schools—must reach out to a broader

[63] USAID Europe and Eurasia Strategy, Draft November 1999, pg. 9
[64] Global Center for Democracy and Governance, "Handbook of Democracy and Governance Program Indicators," p. 120.

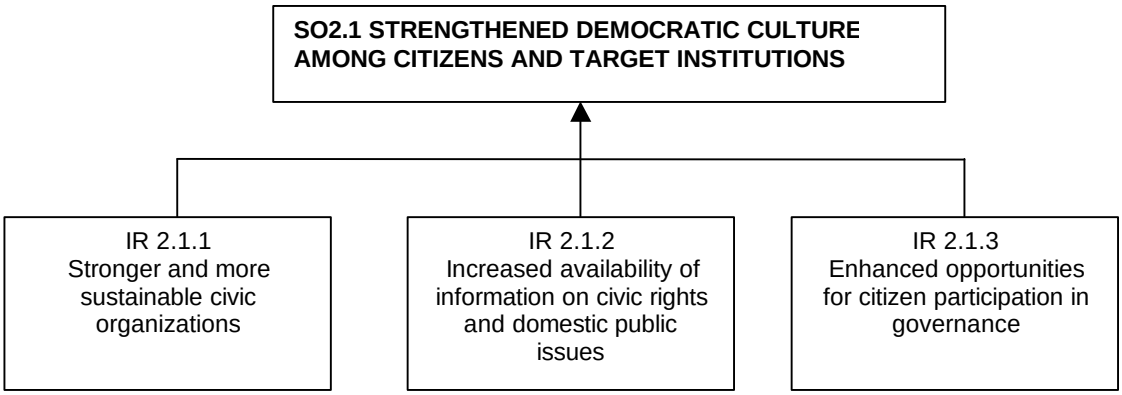
range of citizens, empower and inform citizens them while simultaneously building mutual trust with the government.

It is vital that these institutions be sustainable, so that they will outlive foreign assistance and enable citizens to lead their own reforms. Local community structures such as the *makhalla* neighborhood organizations in Uzbekistan will be engaged in this effort. The overall intention is to decrease donor dependence and promote self-reliance and self-governance.

Changing people's attitudes is clearly a long-term endeavor. Thus, these efforts will emphasize grassroots organizations and youth, where democratic ideas must take root to allow incremental but consistent progress towards democracy in Central Asia.

Three intermediate results are critical to the achievement of the objective:

- Stronger and more sustainable civic organizations
- Increased availability of information on civic rights and domestic public issues
- Enhanced opportunities for citizen participation in governance



Stronger and More Sustainable Civic Organizations

Civic organizations are crucial to the establishment of a democratic political culture in the region. Stronger, more effective and more sustainable civic organizations support pluralistic governance and enable the public to find peaceful and effective means to advocate their interests.

The number of citizens' groups has grown dramatically since independence, to nearly 3,000.[65] USAID helped many of these groups, some to become more effective in advocating their interests to policymakers. Numbers alone do not measure citizen empowerment. Civic organizations must be strong enough to bring about change in the attitudes and actions of citizens and government. These organizations need to be clear in their mission, their institutional structure, and their constituency. Those that address concrete local problems are most likely to speak to the needs of citizens and government and engage popular support, awareness, and commitment.

[65] USAID grantee Counterpart Consortium's database.

At present, most civic organizations have limited organizational capacity or ability to reach out to the public. Most of them are driven by dominant personalities with little or no membership base, and are wary of instituting democratic forms of governance. Many operate as if their constituency was the donor community rather than the local population. Their projects often reflect the priorities of the donor community more than a political passion or the needs of a specific community of citizens.[67]

"USAID's efforts to develop the CAR's NGO sector has achieved measurable results."[66]

In Russia, where similar problems have been noted, it has been suggested that USAID concern itself "less with the explicit goals and values NGOs profess and more with the procedures they follow."[68] A similar approach will be adopted in Central Asia to help civic organizations become sustainable. First priority will be given to those organizations that demonstrate willingness to undertake democratic reforms in their own organizational structure. Assistance will be aimed at widening organizations' client base among those whom they represent, plus increasing their capacity to operate and find resources. To accomplish these goals, a concerted effort will be made to engage civic organizations in community development projects that affect people's daily lives.

One critical element is the development of a network of "resource centers," or intermediate support organizations (ISOs), in each country to support and sustain the NGO sector as well as to help civic organizations more effectively engage local communities. USAID will seek collaboration with other sources of support for similar centers. These centers will provide information, training, space for organizational and community meetings, a clearinghouse for volunteers, and access to computers and the Internet. They will serve as intermediaries, facilitating policy discussions among civic organizations, local communities, and government. Through their work, the resource center staff will be living examples to the public of how to become more involved in the governance of their countries. The centers will also manage a grant program for community-based civic organizations that work on issues of interest to a clear constituency. In Kazakhstan, Kyrgyzstan, and Uzbekistan, the network of resource centers is also expected to contribute to the formation of coalitions of civic organizations interested in national advocacy campaigns. These campaigns will target other sectoral and cross-cutting issues in this assistance strategy, including local government reform, curtailing corruption, and the protection of women's rights.

"Stimulating debate in civil society about policy is one way for development assistance to influence policy reform."[69]

In each country, USAID will also concentrate on strengthening the institutional, financial and representative capacity of a limited number of leading civic organizations, particularly in specially targeted localities such as Atyrau or the Ferghana Valley. They will receive support on democratic governance, membership and constituency outreach, financial management, and advocacy. To address growing

[66] General Accounting Office Report to the Chairman, Committee on International Relations, House of Representatives on U.S. Economic and Democratic Assistance to the Central Asian Republics, August 1999, pg. 28

[67] See: Gleason, "Civic Sector Development in Central Asia," December 1999, p. 18 (Section IIC: The Relationship Between Donors and Civic Organizations)

[68] James Richter. "Promoting a Strong Civil Society: US Foreign Assistance and Russian NGOs." Program on New Approaches to Russian Security Policy Memo Series, Memo No. 13. October, 1997. P. 4.

[69] Assessing Aid, A World Bank Policy Research Report, pg. 57

concerns about ethnic conflict and regional tensions over religious extremism, USAID will concentrate attention on the activities of ethnic and religion-based NGOs and promote public dialogue on tolerance.

Increased Availability of Information on Civic Rights and Public Issues

One of the greatest challenges in Central Asia is making information more available to the public. Over the past three years, Central Asian governments have tightened their control over electronic media. During elections in the past year, a number of non-governmental newspapers and television stations in Kazakhstan, Uzbekistan, and Kyrgyzstan were harassed by the respective national governments. Some were shut down on fabricated charges. With the possible exception of Kyrgyzstan and Tajikistan, governments and media oligarchies further consolidated their holdings on outlets of mass communication, including attempts to control access to the Internet. Because of these developments, USAID will look for additional avenues beyond ongoing work with electronic media to increase the availability of information. USAID will collaborate closely with the State Department's Public Diplomacy, the Eurasia and SOROS Foundations, and others to coordinate programs and seek alternative options to increasing the availability of information.

"The international community… must continue to play an important role in defending journalists' and media rights, because of the public and economic pressure they can exert on governments."[70]

In the past, media programs primarily centered on the electronic media, since this is where the most people get their news. The new focus will be on alternate information outlets and fostering a plurality of voices. USAID will continue to strengthen technical and management capacities of non-state media; increase advocacy for media rights; focus on rights and civic education, particularly for women and youth; and disseminate information through civic organizations and non-state media. To increase the availability of information in Turkmenistan, assistance will be limited to support for civic organizations and law libraries.

A 1999 report of the U.S. General Accounting Office notes that in Central Asia "USAID assistance has helped strengthen over 100 independent news and broadcasting stations and has provided citizens with an alternative to state-controlled media."[71] This assistance will continue. However, more emphasis will be placed on promoting the longevity of independent media via legal assistance and support to media and journalist's organizations[72]. USAID will also help build ties between media organizations and international advocacy groups.

[70] David H. Mould's report on *Association-Building for Journalists in Central Asia*, August 1999, pg. 45
[71] General Accounting Office Report to the Chairman, Committee on International Relations, House of Representatives on U.S. Economic and Democratic Assistance to the Central Asian Republics, August 1999, pg. 29
[72] David H. Mould's report on *Association-Building for Journalists in Central Asia*, August 1999.

During recent focus groups, the public's lack of knowledge of their rights and absence of civic education were often cited as limiting citizen participation, particularly for women and children.[74] National laws governing women's rights adhere to international standards and prohibit discrimination and abuse on the basis of gender. However, intermittent implementation and ignorance of the law often constrain women's full participation in society. This is particularly apparent with employment, access to resources, and gender-based violence. Similarly, children are negatively affected by outdated pedagogical approaches that do not teach democratic principles and participatory skills. While youth are most receptive to democratic notions, they are also most skeptical of government—and therefore least likely to participate in democratic activities. Unless today's children acquire an appetite for a democratic political culture, there is little hope that democratic reform will occur in Central Asia.

"Bolstering the participation of women in the economic and political life will deepen the transition process."[73]

USAID will expand efforts to educate populations about their civic rights through a variety of awareness campaigns. Further support will be provided for broader, more innovative civic education for youth. In Kazakhstan and Uzbekistan, USAID remains committed to a women's legal rights initiative aimed at increasing public awareness of issues such as domestic violence, employment discrimination, sexual harassment, and trafficking in women. Special attention will be placed on selected rural areas such as the Ferghana Valley in Uzbekistan.

Building on successful civic education and advocacy programs elsewhere in Eurasia, USAID will support an Environmental Public Advocacy Center in Uzbekistan. This center will provide environmental legal education to inform the public about the grave ecological issues facing the region, contributing also to USAID's natural resource strategic objective 1.6.

Information dissemination is a theme throughout the entire democracy strategy. Mechanisms for constituency-building and public outreach—newsletters, websites, bulletins, and community meetings—will be initiated within civic organizations, media outlets, and targeted government institutions. This multi-faceted approach should allow citizens greater access to information and create stronger constituencies for democratic reforms.

With USAID funding, the International Foundation for Electoral Systems held two forums for political parties, voters, and the mass media in Dushanbe and Kurgan-Tyube, once a hotbed during the Tajikistan civil war. These were part of a program to increase awareness of the February parliamentary elections. All incumbent and registered political parties participated. A lively debate among candidates and party representatives took place.

Each party presented printed versions of its platform and engaged the spokesman for the Central Election Commission in a spirited exchange on problems of registration and campaign finance. One representative of the local government remarked that this was the first event of its kind ever held in his province.

[73] From Transition to Partnership, A Strategic Framework for USAID Programs in Europe and Eurasia, Draft November 1999, pg. iv

[74] Arnold, *Gender-Related Activities in the Central Asian Republics*, June/July 1999; UNICEF MONEE Report, *Women In Transition*, 1999.

Enhanced opportunities for citizen participation in governance

Democratization requires progress on two parallel endeavors: increasing popular demand for reform, as discussed above, and increasing opportunities for citizen participation. During the previous strategy period, the progress on strengthening participation was very uneven. Parliaments have become more open to input from civic organizations, and public hearings, town hall meetings and candidate debates have taken place. However, pervasive corruption, weak judiciaries and parliaments, and unfair elections continue to constrain democratic progress.

Although specific activities will vary greatly from country to country, USAID assistance aims to improve legislation affecting civic organizations, and to support social partnerships between NGOs and local governments in each country. More opportunities for positive interaction between citizens and government (whether through social partnerships, public hearings or town hall meetings) will gradually increase trust between the two and foster willingness for reform.

In Kyrgyzstan, USAID will have several targets. Over the past two years, the Parliament has fought to maintain its independence. The Central Election Commission (CEC) demonstrated an interest in administering elections more effectively. Nascent political parties have gained attention, but struggle to contend as opposition. Building on the success of the parliamentary program, USAID assistance will encourage the institution of democratic parliamentary processes and assist with structural reforms. Special emphasis will be given to outreach, drafting legislation, and instituting public discussion of draft legislation.

The current election cycle in Kyrgyzstan rigorously tested the CEC's ability to administer elections in accordance with international standards. The new election code, rules and regulations are a significant improvement over previous legislation, as it incorporates transparency and accountability. In practice, however, the CEC interpreted the new laws to suit a government agenda. Particularly distressing was the government's refusal to allow most opposition parties to participate in the elections. USAID continues to closely monitor three criminal cases against leading opposition candidates. The government used widespread intimidation tactics prior to and after the parliamentary elections. For these and other reasons, OSCE determined that the parliamentary elections failed to comply with OSCE commitments.

The upcoming presidential elections in late 2000 will be yet another test of Kyrgyzstan's commitment to democratic reform. If there is improvement in the conduct of the presidential elections, USAID will likely provide further assistance to the CEC to strengthen its institutional independence and administrative capacities. Political party-building efforts will continue and attention will be given to women's participation, organizational development, platform development, and constituency building.

In Kazakhstan, chances to improve citizen participation are more limited. While the Parliament remains weak vis-à-vis the executive branch, it has shown enough receptivity to USAID and UNDP to warrant limited assistance in developing its new legislative drafting center. Public participation in the legislative process will be reinforced with inclusion of civic groups. Efforts to work with the judiciary have

proven unsuccessful, therefore, USAID will focus on lawyers associations to augment their professionalism and independence. While election assistance is not anticipated, if local elections are held (elections of akims have been announced in 2000 for three districts, including Almaty) and conditions warrant, USAID may assist election officials, electoral law reform, and domestic monitoring.

In Uzbekistan, USAID will target opportunities in the legal sector, withholding any election assistance until the government takes positive steps towards democratic reform. Similarly, because Parliament has shown little receptivity, USAID assistance will be scaled back or terminated. Clear opportunities exist with the judiciary; USAID's judicial assistance has made strides and will be expanded to include more training for judges and regional branches of the judges'. The judges association has been very active and has successfully lobbied for certain judicial reforms. Commercial law, human rights law with a specific emphasis on women's rights, and constitutional adjudication will be added to continuing legal education. Lawyer and law student associations will get help to raise the level of skills, stature and professionalism and to sponsor professional dialogue among lawyers and judges. Environmental Public Advocacy Centers will be established to facilitate legal advocacy and interaction between local governments and civic groups on environmental issues.

"Transition requires profound changes, both in individual's attitudes and behavior and in institutional capacity; in some countries, assistance should focus upon selected, long-term constraints to transition."[75]

A number of opportunities exist in Tajikistan. More help will be provided to the Tajikistan Parliament to increase its ability to institute a transparent parliamentary process and structural reforms, and to serve as an effective institution of mediation. Since the presidential and parliamentary elections were flawed, USAID does not intend to provide any significant assistance to the Central Election Commission. Political parties are an important vehicle for citizens to settle their differences politically rather than through violence. Hence, continued political party assistance seems warranted, especially in the disaffected north. If these parties become legitimate actors in the political scene, they can reduce the potential for crisis. In addition, USAID will provide assistance for legal and judicial reform through the active judicial and women's bar associations.

In Turkmenistan, opportunities for citizen participation are limited to improving NGO legislation and supporting social partnerships between NGOs and local governments.

Critical Assumptions

There are three critical assumptions: Civic organizations will be allowed to operate without significantly increased government interference; likewise, independent media will be allowed to operate without any significant crackdown (except in Turkmenistan); and in Tajikistan, peace and reconciliation will continue without serious disruption. A major disaster, conflict or change in national leadership will influence the achievement of this objective.

[75] From Transition to Partnership, A Strategic Framework for USAID Programs in Europe and Eurasia, Draft November 1999, pg. iv

Other Donors Support

Strengthening democracy is a broad multi-donor effort. Important U.S. assistance is also provided through the State Department Public Diplomacy, INL, and DRL, as well as the Peace Corps. The UNDP has founded centers for the promotion of NGOs and organized seminars to bring together donors and NGOs. In Kazakhstan and Kyrgyzstan, UNDP supports USAID efforts to encourage the Parliaments to adopt improved NGO legislation and to establish legislative drafting centers. The Soros and Eurasia Foundations support NGOs through their grant programs. The UN High Commissioner for Refugees helps co-finance NGO resource centers, law libraries, and other programs with USAID implementing partners. The Soros Foundation and UNDP support media associations and periodically finance media conferences. The Soros Foundation has also made grants to publish textbooks for journalists and for legal libraries, and promotes civic education through its debates program. Election assistance is coordinated with the Organization for Security and Cooperation in Europe (OSCE), UNDP, Soros, the Conrad Adenaur Foundation, and EU TACIS, as well as the Embassies of the United States and other countries. Coordination and collaboration are critical elements in this objective.

Strengthening democracy is a multi-donor effort.

Expected Results

By 2005, there will be increased political will for democratic reform among the citizens and within governments. While there generally will not be substantial changes in the structures of government or rule of law, there will be a constituency for reform and some movement towards change. Most importantly, there will be a more active and informed polity that can take ownership over their development process and can lead themselves on a path of progressive political change.

A core group of civic organizations and a network of resource centers in each country will have taken significant steps towards sustainability. They will have increased their ability to represent a specific constituency in dialogues with local and national governments on public issues, and will be capable of affecting change and spurring citizens to action. More will be accomplished in Kazakhstan, Kyrgyzstan, and perhaps Uzbekistan. In these countries, USAID expects to provide direct funding to an indigenous network of resource centers and some select local civic organizations. In Turkmenistan and Tajikistan, progress will be significantly more modest. Overall, civic organizations will be a significantly stronger social and political force, better anchored in local communities, and better equipped to find the resources needed to sustain their work.

USAID expects there will be more opportunities for citizen participation at the local and national levels in each of the five countries. Public hearings and town hall meetings will become an institutionalized part of the parliamentary process in Kyrgyzstan, and possibly in Kazakhstan and Tajikistan. USAID also expects that the judicial system will be more transparent in Uzbekistan, Kyrgyzstan, and Tajikistan. Moreover, USAID expects that the increased interaction and dialogue between citizens and government will build trust and set the foundation for further democratic reforms.

Linkages

USAID/CAR chose to change the language of this Strategic Objective, to emphasize democratic political culture, the present stage of reform in Central Asia, and realistic expectations for short-term and long-term change. This Strategic Objective directly supports the E&E Bureau Objective SO 2.1 *Increased, Better Informed Citizens' Participation in Political and Economic Decision-making*, and supports the USAID agency-wide goal *Increased Development of a Politically Active Civil Society* (SO 2.3). It also contributes to the E&E Bureau objective SO 2.3 *More Effective, Responsive, and Accountable Local Government*, and the Agency objectives SO 2.1 *Strengthened Rule of Law and Respect for Human Rights*, SO 2.2 *More Genuine and Competitive Political Processes*, and SO 2.4 *More Transparent and Accountable Government Institutions.* This strategic objective also underpins all of the assistance strategy's other strategic objectives.

Strategic Objective 3.2: Increased Access to Quality Primary Health Care in Select Populations

Problem Analysis

The human costs of transition are most evident in the deteriorating health conditions for the people of Central Asia. The average life span has decreased, particularly for adult men. Infant and child mortality rates are rising. There has been a resurgence of serious, life-threatening infectious diseases, a global concern. Access to voluntary family planning remains limited and high rates of abortion continue.

The human costs of transition are most evident in the deteriorating health conditions.

While the Soviet health care system addressed the needs of the whole population, it did so in a fragmented and costly manner that relied on specialized facilities with large staffs and prolonged hospitalizations. If a family needed health services, the mother went to a women's hospital for her reproductive health needs, the children to a children's polyclinic or hospital, and the father to a general hospital or clinic. If there was a possibility of a specific infectious disease, the family was referred to other facilities. No single doctor or facility had a clear sense of any patient's overall health needs or their health records; a family often needed to visit more than half a dozen doctors and hospitals for routine needs. In Central Asia, health services were mandated, managed and subsidized from Moscow. Since needed drugs were free only in hospitals, there was considerable pressure on doctors to admit patients. Health care was supposedly free, although families often had to pay for medicines and priority care as well as make multiple visits to multiple facilities for basic health care. This was an overweight, costly, and unsustainable system in the best of circumstances.

After independence, the health system collapsed with a breakdown in the availability and quality of health services: doctors are not paid regularly, and essential drugs and equipment are not available. These problems — combined with increased poverty, social stress and environmental hazards — has led to significant growth in chronic and infectious diseases, and mortality.

Recently reported preliminary results from the 1999 Kazakhstan Demographic and Health Survey suggest that infant mortality (IMR) may have increased between 1995 and 1999.[76] Since Kazakhstan has a much higher GNP per capita than the other Central Asian nations, the situation in the other countries is likely to be equally bad, or worse. Changes in the IMR are important because this indicator is generally accepted as the best overall measure of health conditions in a country.[77] Regionally,

[76] Kazakhstan Preliminary Demographic Health Survey, 1999. Kazakhstan is the first of the E&E countries to perform two successive DHSs and thus have two comparable data points from which to calculate change.

[77] P.9, James W. Fox, " USAID Economic Strategy in Central Asia", November 10, 1999. Obviously, well-being is a multi-dimensional characteristic, and no single measure is likely to capture it for a single individual, let alone for a whole society…for developing countries, the closest one can come to such an indicator is the infant mortality rate (IMR), because it comes closer than anything else to capturing the basic living conditions in a country.

the primary infectious disease causes of illness and death among infants and children are childhood diarrheal diseases (CDD) and acute respiratory infections (ARI). Turkmenistan, for example, attributes 45 to 55% of infant deaths to ARI and 25 to 28% to CDD.[78] Both figures are believed to be underreported. The change in the IMR reflects the deterioration of health care and the worsening plight of many families as poverty and malnutrition become more common.

Anemia Rates[79]

	Women	Children
Kazakhstan, Aral Sea Region, 1999	**59%**	**81%**
Uzbekistan, Ferghana Valley, 1996	**78%**	**79%**

The resurgence of serious life-threatening infectious diseases across the region is a national and growing global concern. Tuberculosis (TB) and hepatitis now account for 5% of mortality in Kazakhstan and Kyrgyzstan, the two countries where data is available.[80] The rate in Kazakhstan has more than doubled since independence. There is every reason to believe the situation is similar elsewhere in the region. Also of grave concern is the increase in multi-drug resistant TB, which is both difficult and very expensive to treat[81]. However, in Kazakhstan, USAID's efforts to make the WHO-recommended DOTS program for TB more widely available contributed to a 25% decline in the TB mortality rate from 1998 to 1999.

"Tuberculosis has become an even deadlier disease because many strains have developed resistance to most or all of the available drug treatments."

Gordon W. Perkin, M.D., Gates Foundation

While the number of cases is still small, the potential exists for an HIV/AIDS epidemic in Central Asia. A USAID assessment found a potential HIV/AIDS epicenter in Temirtau, Kazakhstan.[82] Drug trafficking, intravenous drug abuse, and increasing numbers of commercial sex workers there create conditions ripe for the spread of HIV. Sexually transmitted infection (STI) rates are also very high. The identification of syphilis cases in Central Asia multiplied almost a hundredfold.

Kazakhstan Case Identification[83]

	1991	1999
TB	**54.4**	**140.2**
Syphilis	**2.1**	**189**

This deteriorating health situation reflects, in part, the sharp reduction in support for health programs. Since 1991, regional funding for health has declined markedly, from about 7% of gross domestic product (GDP) to a range of approximately 1.2 to 3.3% of a decreased region-wide GDP.[84] At the same time, large, inefficient hospitals have continued to receive 70 to 80% of the health funds. Thankfully, decision-makers have begun to recognize that larger, more focused investments in basic health care are needed to improve the health of the people. There is growing recognition of the need to address basic health care needs with an integrated, community-based approach. In cooperation with other donors, USAID has

[78] Central Asian Infectious Disease Assessment, July 5 – 23, 1999.
[79] 1999 Kazakhstan Demographic Health Survey and 1996 Uzbekistan Demographic Health Survey
[80] In 1999, the rate in Kyrgyzstan was 131.6 cases per 100,000 population and in Kazakhstan, 140.2, National Research Laboratory, Ministry of Health, Kyrgyzstan and National TB Center, Agency of Health, Kazakhstan.
[81] Experts estimate that it can cost as high as $250,000, one hundred times the cost of standard TB treatment, according to the New York Times article, *Resisting Drugs, TB Spreads Fast in the West*, March 24, 2000. Multi-drug treatment is successful in approximately half of the cases.
[82] In July 1999 there were 733 reported cases in a population of 180,000, Central Asian Infectious Disease Assessment, July 5-23, 1999.
[83] Central Asian Infectious Disease Assessment, July 5 – 23, 1999.
[84] Health Program Review: Central Asia, September-November 1999, USAID.

successfully developed such a method and adapted it for the particular needs and circumstances of three of the five countries in Central Asia.

The primary health care approach is based on an award-winning model developed in Kyrgyzstan[85] that has improved families' access to health care services. At the heart of this program are the family doctors — general practitioners, but with modern medical skills and knowledge. In Kyrgyzstan (and Kazakhstan) these physicians work together in primary health care practices (PHCPs). These PHCPs are revolutionary in Central Asia for several reasons. First, the doctors can choose with whom to practice, rather than getting assigned to a particular hospital or clinic. Secondly, patients decide where to receive health care. Since physicians are paid on the basis of the number of families enrolled in their practices, there are real incentives to provide quality, client-centered care. The new family doctor brings quality health care closer to patients, as practices are located in residential areas, often in apartment buildings or near schools.

"The idea of family medicine was brought to us by life itself…seeing fathers and children with their wives and mothers who could not receive care because we were limited to caring for women."

Dr. Alma Makenbaeva, Zhezkazgan Association of Family Group Practices

This new patient/provider relationship is much stronger than under the Soviet system. Family doctors often take calls from their patients at home after hours, and both doctors and nurses make home visits when needed. The doctors have been given initial training and basic equipment necessary for increasingly comprehensive health care, such as basic lab tests, family planning services and health education. Practices often rent space to dentists and pharmacists for convenient one-stop services.[86] Providers and clients have begun to recognize the benefits of primary health care. In one 1999 survey,[87] 77% of respondents felt it important to be able to choose their family doctors. Patient choices—and the resulting market forces—are proving to be powerful incentives for change. The approach is built on participation and enterprise.

Funding from the World Bank and the Asian Development Bank will be used to replicate and expand the PHCP model nationwide in Kyrgyzstan. Approximately 40% of the Kyrgyzstani population now receives improved health care through PHCPs. The model has been adapted and is under testing in two Kazakhstani provinces with a combined population of 2.9 million.[88] The government of Kazakhstan has announced USAID's approach as the national model for health care. More recently in Uzbekistan, primary health care practices were established in Uzbekistan in three districts of the densely populated Ferghana Oblast, a volatile area of potential conflict.

"Many talk about reform, we are implementing reform."

Issyk-Kul Oblast Health Department

In Turkmenistan, new family physicians will be prepared through a health partnership. Turkmenistan's health system is undergoing radical change. To reduce government expenditures on tertiary (hospital) care, Turkmenistan has closed 260 hospitals, and laid off more than 1,000 doctors and 3,000 administrative personnel. In their place, over 2,500 houses of health (the entry level for health services) have been

[85] Kyrgyzstan received the social sector Lessons in Transition Award from USAID in October 1999 for initiating a comprehensive health reform program. This was 1 of 3 awards given for all of Europe and Eurasia.
[86] Health Program Review-Kazakhstan, 1999, USAID.
[87] Survey Report on Awareness of Population About Changes in Health Sector and Preferences When Seeking Medical Aid-Semipalatinsk, Kazakhstan, 1999.
[88] National Statistics Agency, Government of Kazakhstan, 1999.

created and about 2,500 doctors transferred from hospitals to staff them,[89] potentially offering accessible, quality primary health care services if properly developed. Unfortunately, opportunities for collaboration have remained limited to date.

"Without improved laboratory support, both curative and preventive services will continue to be hampered by insufficient and inaccurate diagnostic information."[90]

Although considerable progress has been made in developing a model for high quality health care that meets national needs, much more remains to be done to make the system sustainable. Slow economic growth has meant that health budgets have not grown, while failure to make tough choices to shut down excess hospitals and specialty facilities means that needed savings within the system have not been realized. This jeopardizes the great progress already made in Kyrgyzstan. In Kazakhstan, the government's very limited expenditure of the World Bank loan has impeded progress. Continued adherence to rigid spending categories limits providers' ability to operate in the most cost-effective manner. The policy and regulatory environment remains unpredictable; decisions about mandatory health insurance and privatization of health facilities could either enhance or threaten sustainability of the primary health care system.

In addition to the new training provided to specialist doctors and family doctors in up-to-date diagnostics and treatment of infectious disease, USAID provides support for the improvement of laboratories and relevant retraining of staff. There is a great need to improve diagnostic accuracy and strengthen the informational and surveillance systems that track epidemiological patterns. For example, in each country, up-to-date treatment protocols are not used for many infectious diseases, and systems to monitor quality of care are inadequate. Disease specialists resist the idea of family doctors providing infectious disease care, as this would reduce revenues to specialist centers. Many family doctors have yet to receive the required clinical training.

"TB can circle the world at the speed of a jet…and be transmitted by a single cough."[91]

The Central Asian Ministries of Health have begun improving their national TB control programs. Kyrgyzstan was first to implement the World Health Organization (WHO) DOTS (Directly Observed Treatment Short Course) TB treatment with the help of a World Bank loan. After an encouraging start, TB mortality rates have remained static for several years, and increased slightly from 1998 to 1999. USAID is helping strengthen diagnosis through the provision of laboratory equipment and training for technicians in TB and hepatitis diagnosis.

USAID and WHO fund nationwide DOTS implementation in Kazakhstan. Initial results have been positive, with TB death rates declining by 27.6% from 1998 to 1999[92]. The level of multi-drug resistant (MDR) TB in the country is an unpredictable variable. The levels of MDR TB in prison populations are believed to be high; prisoners currently receive nearly zero health care. Since they are often released in an infectious state, they represent a health hazard to the entire community.

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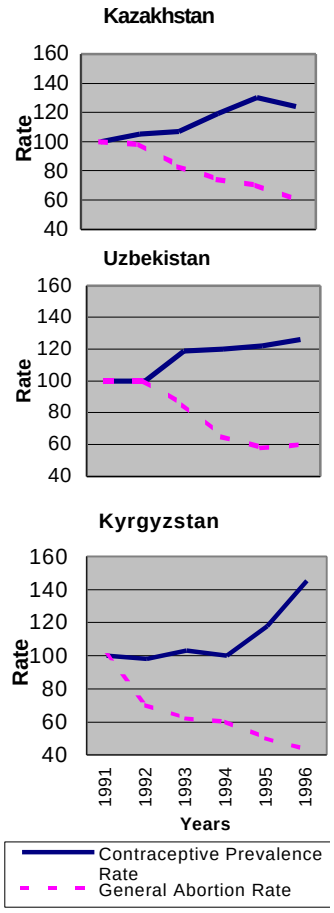
[89] Health Program Review-Turkmenistan, 1999, USAID.
[90] Central Asian Infectious Diseases Assessment, July 5-23, 1999.
[91] New York Times article, *Resisting Drugs, TB Spreads Fast in the West*, March 24, 2000.
[92] Agency of Health Care, Republic of Kazakhstan.

Uzbekistan invests more resources in health than any other Central Asian country. Yet because the Uzbek currency is not convertible, there are real problems in assuring reliable supplies of drugs and other medical necessities. USAID's assistance to Tajikistan is limited by security problems. It has been possible to channel some health assistance through NGOs and the international organizations that maintain a presence there. In terms of infectious disease, one particular concern is the increased prevalence of malaria since national efforts to control the disease stopped during the civil war.

Reproductive health remains a concern in all five countries. Kyrgyzstan has made the greatest progress in making reproductive health services available, with 425 of the newly formed primary health care practices — virtually 100 percent of these clinics — providing such services. In Uzbekistan, reproductive health care has also been incorporated into primary health care practices. USAID and other donors have supported public, social marketing of contraceptives. Increased use of family planning has resulted in substantial declines in the general abortion rate. In Uzbekistan, the number decreased from 20 abortions per 1000 women in 1995 to 9.92 in 1999[94]. In Turkmenistan, USAID has provided limited assistance to non-governmental organizations (NGOs) promoting reproductive health, but the government's refusal to register some of these NGOs and voluntary organizations impedes this work. In Kazakhstan, the leading cause of maternal mortality is abortion. Since 1995, abortion rates have declined and use of modern contraceptives increased. However, abortion rates reported by the Demographic and Health Survey (DHS) in 1999 are considerably higher than those reported in 1998 by the Agency of Health Care (47 per 1000 compared with 40.9). Maternal and infant mortality are of grave concern and will require careful monitoring.

As Voluntary Family Planning Increases, Abortions Decline [93]



Proposed Program

This new Strategic Objective, *Increased Access to Quality Primary Health Care for Select Populations*, consolidates earlier objectives and builds upon USAID comparative advantages and successes in the most critical aspect of the social sector in Central Asia. Previous efforts have focused on meeting basic health needs at the community level. USAID has developed sustainable systems which reward providers for delivering quality primary health care, and addressed issues of infectious disease, reproductive health and healthy lifestyles. The new objective combines two earlier objectives*: Improved Sustainability of Social Services* and *Special Initiatives: Preventive Care Services Made Available*. The quality primary health care approach integrates historically vertical programs, such as maternal and child health and infectious diseases, into one comprehensive health care system at the community level. "Select populations" refers both to those residing in priority target regions of each country, and to certain critical high-risk groups. Particular attention has been devoted to populations deemed vulnerable to TB, hepatitis, HIV/AIDS and sexually transmitted infections.

[93] Kazakhstan Demographic Health Survey, 1995; Uzbekistan Demographic Health Survey, 1996; Kyrgyzstan Demographic Health Survey, 1997. Kazakhstan Preliminary Demographic Health Survey, 1999, showed that this trend continues.
[94] Ministry of Health, Government of Uzbekistan.

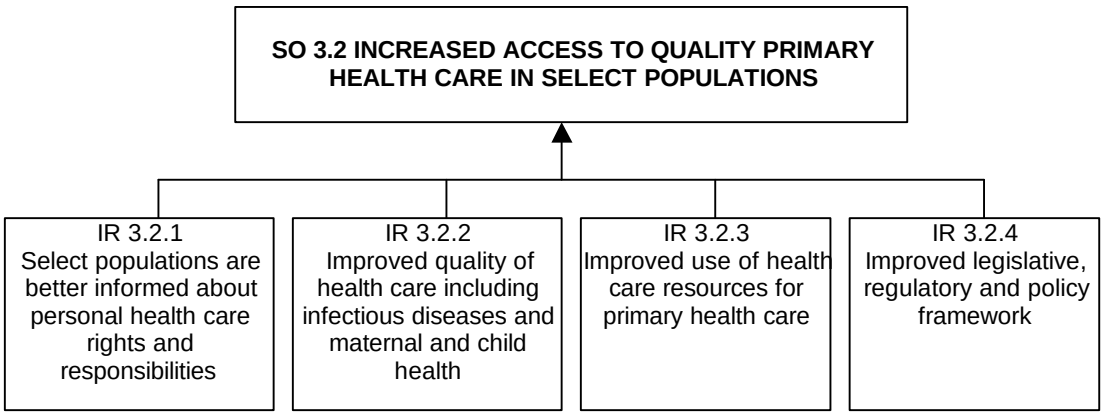
The consolidated objective reflects findings from a series of evaluations, assessments and roundtables and subsequent discussions with key partners in the donor community, host country governments and health specialists. These evaluations and discussions have underscored the importance of USAID's on-the-ground technical health expertise and leadership at both the grass roots and policy levels. Partnerships with other U.S. agencies such as the Centers for Disease Control and Prevention, the Peace Corps, as well as U.S. medical institutions, e.g., the American International Health Alliance (AIHA), have made U.S. technical expertise broadly available through the assistance of highly skilled epidemiological, laboratory, and health specialists and dedicated volunteers.

"By improving access of people to quality health services - in particular, primary health care services - it is possible to touch people at the point closest to their homes and places of work."[95]

This objective supports and draws upon the work performed under other Strategic Objectives, in fiscal reform, responsive local government and democratic culture. Better national management of health resources through new provider payment systems and performance-based budgeting is essential. These, plus improved information management systems, provide governments with the basis for a cost-effective allocation of funds. A more transparent and equitable health financing system also helps deter previously common "under the table" payments. Throughout the region, corruption in the health sector remains an entrenched problem. It stems in large measure from Soviet-style health systems that provided few financial incentives to discourage corrupt practices.

Greater citizens' participation in health care decisions is one of the cornerstones of the new community-based health care. This includes the opportunity for citizens to choose their family doctor through open enrollment, and provides health information and services which are easily available, so that individuals can make informed choices about their own health care. Four intermediate results that are critical to the achievement of this objective are:

- Select populations are better informed about personal health care rights and responsibilities
- Improved quality of health care including infectious diseases and maternal and child health
- Improved use of health care resources for primary health care
- Improved legislative, regulatory and policy framework



[95] Health Program Review-Uzbekistan, USAID, 1999.

Select populations are better informed about personal health care rights and responsibilities

Citizens need information to make decisions about their own health. Community programs offer the best way to promote awareness and involvement due to the costs, controls, and bureaucracy of national programs. Prior Soviet systems were heavily top-down and doctor-dictated; the patient was merely a recipient in his or her health care, never a participant. Now citizens are urged to take responsibility for their own state of health. In conjunction with health promotion campaigns and outreach programs, primary health care providers are expected to disseminate health information and help clients make informed choices about important lifestyle issues, such as smoking, alcohol use, diet and sexual practices.

Crosscutting efforts will promote citizen empowerment within the health sector, encourage outreach to community representatives such as educators and journalists, and strengthen health-related NGOs.

Improved quality of health care including infectious diseases and maternal and child health

Improved clinical practices and quality services are essential components of a cost-effective, integrated primary health care package. Infectious diseases such as multi-drug resistant TB are a serious health threat, not only to the citizens of Central Asia but also to those of the U.S. In Kazakhstan, Kyrgyzstan, Uzbekistan, and Turkmenistan, USAID assistance will help primary health care providers to care for an increasingly broad spectrum of patients. Intensive training will enable doctors to provide a wide range of services, including immunization, hygiene, healthy lifestyles, modern contraception, HIV/AIDS/STIs, TB, ARI, CDD, prenatal care, some emergency care, plus appropriate counseling on all alternatives. USAID will educate PHCP providers to practice according to evidence-based clinical protocols and to employ quality assurance methods to assess their own work. Greater attention must be paid to the management of laboratories, surveillance systems and pharmaceutical supplies. In particular, there is the need for a cadre of laboratory professionals to be developed who can accurately diagnose infectious diseases according to WHO protocols and who will assist with the establishment of dependable health information systems. In Turkmenistan and Uzbekistan, USAID will lay the foundation for improved diagnosis and treatment of infectious disease by establishing reference laboratories for TB and hepatitis diagnosis. In all five Central Asian countries, health partnerships are central to the development of sustainable health training centers and institutions. USAID will also continue to promote safe modern contraceptive use and decreased dependence on abortion as a birth control method, in line with the global effort to implement the Cairo Program of Action.

"Improvements in clinical care-in particular, care by general practice physicians - should result in earlier diagnosis and treatment of common conditions that effect the ability of adults to work and children to stay in school."[96]

Improved use of health care resources for primary health care

In Kazakhstan, Kyrgyzstan, and Uzbekistan, USAID will stress policy dialogue and help develop informed citizens and organizational advocates for increased

[96] Health Program Review-Uzbekistan, USAID, 1999.

allocations of health care funds to primary health care. The emphasis will be on matching health care resources with health needs, promoting the implementation of new service-based payment mechanisms for providers, and developing more reliable management information systems to make resource decisions. In particular, USAID will support the partial fund-holding pilots in Kazakhstan and the pooling of all health funds through the Mandatory Insurance Fund in Issy-Kul, Kyrgyzstan, as these changes will divert funds away from underutilized hospitals and polyclinics and to primary health care organizations. The situation in Turkmenistan and Tajikistan will be monitored to identify opportunities for policy dialogue on the use of health care resources. Representatives from those countries will be included in regional conferences and other training events. Sound national and local budget policies and sensible administration are essential to improve public access to quality primary health care. There is close collaboration between USAID policy dialogue and specialized assistance in related objectives in fiscal reform and local government.

Improved legislative, regulatory and policy framework

The legal and regulatory framework left over from the Soviet health system has been a barrier to the development of integrated primary health care systems. Recent country assessments found that through USAID assistance, a legal base for increased access to primary health care has been created in Kyrgyzstan, Kazakhstan, and Uzbekistan. Generally, this new legal framework has not yet been implemented. The greatest progress has been made in Kyrgyzstan. However, even in Issyk-Kyl oblast, where reforms have been in place the longest, the role and resources for primary health care practices versus hospitals still need further clarification. Nevertheless, in the coming five years, it will be possible to institutionalize reforms in Kyrgyzstan.

"We are pleased to work with USAID. Your efforts have been very useful."

Dr. Asadov, First Deputy Minister of Health, Uzbekistan

USAID's approach to health reform will be flexible to respond differently to evolving circumstances in each nation. High-level policy dialogue will be essential. Such a measured approach, which takes advantage of opportunities and openness to reform where and when it occurs, has worked well for USAID in the past. Senior officials and health advocates — such as NGOs, primary health care providers, and local government officials — will be encouraged to actively inform national decision-makers about positive results in demonstration sites and the policy changes needed to replicate the models nationwide. Policymakers will have access to more reliable information, and their capacity to analyze and apply it will increase.

In Tajikistan, health officials have expressed interest in the primary health care models under development elsewhere. USAID will include Tajik officials and health leaders in the regional training opportunities and on-site technical assistance to the extent security allows. USAID will seek opportunities to provide increased assistance through NGOs and those international organizations, which maintain an in-country presence.

Critical Assumptions

A critical assumption common to all Central Asian countries is that implementation will not be unduly disrupted by frequent changes in Ministry of Health leadership and in government policies affecting health sector development. In

Kazakhstan, Kyrgyzstan, and Uzbekistan, USAID assumes that the respective Ministries of Health (Agency of Health, in Kazakhstan), World Bank, and Asian Development Bank will deliver necessary clinical equipment, supplies and facility improvements expected in a timely and effective manner. In Southern Kyrgyzstan, Eastern Uzbekistan, and Tajikistan, security conditions must be such as to allow implementation to continue. In Turkmenistan, progress cannot be achieved unless the government relaxes exit visa protocols and NGO/PVO registration enough to allow partnership possibilities. Also, implementation of healthcare reforms and improvements in a selected area would be limited by a major disaster or conflict.

Other Donor Support

USAID's efforts to introduce the comprehensive primary health care model provide an important foundation for other donors, especially the World Bank. The World Bank, an important player in the health sector since 1996, and USAID have joined in a unified approach to promote the primary health care model in the region. USAID's technical assistance has shaped the design of World Bank loans in Kyrgyzstan and Kazakhstan, and worked jointly with the Bank in Uzbekistan. These loans are valued at $34 million, $162.5 million and $30 million respectively. Today, these loans are an important contribution to the development of primary health care infrastructure in the region. Another important partner, the World Health Organization (WHO), has joined USAID in lobbying for national guidelines on TB treatment using the DOTS (Directly Observed Treatment Short-course) approach. DOTS is a method that decreases hospitalization and treatment time and returns people to their communities more quickly than older treatment approaches. DOTS has been officially adopted by the Governments of Kazakhstan and Kyrgyzstan and is under discussion and implementation in pilot sites in Turkmenistan and Uzbekistan.

"Let me assure you that we appreciate the excellent collaboration we enjoy with USAID in the health sector."[97]

Expected Results

By the end of 2005, primary health care will include services in such critical areas as infectious disease control, maternal and child health and education to promote healthy lifestyles habits. Primary health care providers will provide important health information to guide citizens in making informed health choices. Laboratory professionals will be able to diagnose infectious diseases reliably and a health information system will be established. Health care resources will be more appropriately allocated. In Kyrgyzstan, the primary health care system will be sustainable. Overall, there should be some abatement in the increase of infectious diseases.

Better primary health services and the promotion of healthy lifestyles.

Linkages

This strategic objective contributes to the E&E Bureau objective, Increased promotion of good health and access to quality health care, and to the Agency goal, World's population stabilized and human health protected in a sustainable fashion. As described earlier, it is mutually supportive of several other Mission objectives: enterprise, democracy, local governance, and fiscal reform.

[97] Kazakhstan Program Team Leader, Human Development Unit, Europe and Central Asian Region, November 1998.

Strategic Objective 1.6: Improved Management of Critical Natural Resources, Including Energy

Problem Analysis

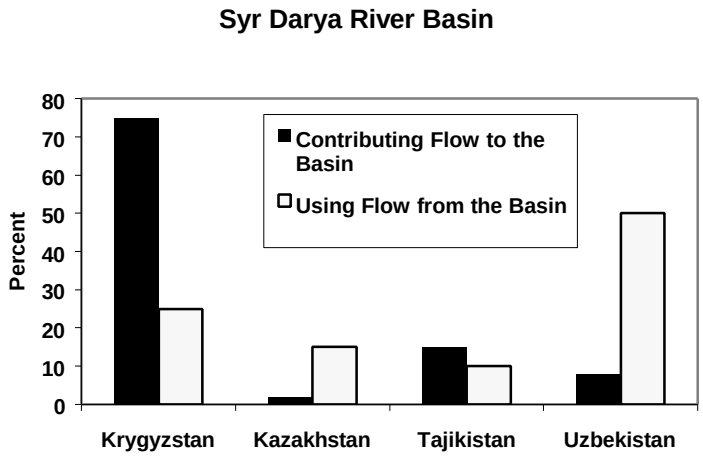
For the new nations of Central Asia to attain long-term, sustainable growth, their ample, but abused natural resources must be managed wisely in an integrated manner. Integrated natural resource management must become the basis for both policy and local use decision making. In the past, the use of natural resources focused on short-term economic development; these decisions contributed to serious environmental disasters that continue to impact current economic growth. Central planners did not understand—or chose to ignore—the "cause and effect" and trade-off of many of their decisions.

"The transition countries face enormous challenges"[98]

The most acute environmental issues facing Central Asia are regional in nature. These transboundary issues are an ever-present source of political tension and economic rivalry among the Central Asian nations, and defy resolution at the national level. Since international political boundaries do not coincide with ecological boundaries, cooperative solutions are necessary.

In Central Asia, the are critical problems common to the management of water, energy, and land.[99] These problems include: allocation and use of these resources, deficiencies in education at the technical implementation and policy generation levels, lack of credible data, inefficient utilization of resources, and lack of public commitment.

Water and energy are both internationally shared resources. Competing demands among neighboring nations can cause conflict and significantly impact economic development. For example, Kyrgyzstan relies on power generated by hydroelectric facilities; the schedule of water releases at times conflicts with the downriver irrigation needs of Uzbekistan and Kazakhstan. Similarly, an oil spill in the Caspian Sea has the potential of impacting five different countries.



Efficient water use within the Aral Sea basin is vital to the economies of all five nations, as they compete for water for hydroelectricity, irrigation, industrial and urban use. An inequitable allocation of water could significantly disadvantage the economic position of one or more of these countries. After the breakup of the Soviet Union, the new nations attempted to cooperatively allocate water and manage a system of dams and reservoirs without effective

[98] Partners in Transition: Lessons for the Next Decade, October 1999, pg. 36

[99] *An Assessment of Water Management in Central Asia and Recommendations for Future USAID/CAR Technical Assistance*, USAID; *CAR Energy Sector Assessment*, USAID; and *Feasibility Assessment: Supporting Increased Energy Efficiency in Kazakhstan*, Bechtel Consulting.

regulatory policies in place. With USAID assistance, the 1998 Energy and Water Use Agreement has provided a framework for negotiated annual water allocations among the countries for the Syr Darya basin.

Sustainable development and management of oil and gas energy resources has great potential to provide economic opportunities for the citizens of Kazakhstan, Uzbekistan and Turkmenistan. In the past, oil and gas was produced with little attention to environmental concerns. With USAID assistance, policies and regulatory frameworks have been created that support cost-effective development of oil and gas reserves, while mitigating adverse impacts on the environment. Kazakhstan has adopted internationally accepted regulations for offshore and onshore oil and gas exploration and production. Even Turkmenistan recently adopted comprehensive regulations for the oil and gas industry that will facilitate future international investment. Implementation of these policies will ensure that the population of the region realizes continuing economic benefits from their oil and gas reserves, rather than most of the income only going to elites and the social costs to the poor.

"USAID supports…best practices adopted by industrial and public sectors… and increased participation of NGOs and citizens in environmental decision-making."[100]

System losses within the electrical power sector throughout Central Asia are very high—probably approaching 40%. If the power sector is to become viable, there must be substantial improvements in system efficiencies and tariff reform. Improved efficiency would lower power costs and improve the profit margin of the industry. With USAID assistance, Kyrgyzstan drafted and passed a new electricity law, and established a separate Energy Regulatory Authority.

Previously, USAID assumed that widespread privatization would occur quickly and result in increased efficiency and reduced corruption. This has not occurred. Significant privatization has only occurred in Kazakhstan, and its contribution to economic growth has been questionable. Some analysts believe that privatization has only transformed the nature of corruption.

Kazakhstan is the largest emitter of greenhouse gases in Central Asia. With USAID's help, it has already established itself as a regional leader in climate control issues, and recognizes the potential rewards to both its economy and environment of joining Annex I of the United Nations Framework Convention on Climate Change (UNFCCC). It is currently conducting the requisite economic and energy sector analyses.

Recently, there have been a number of achievements in improving the policy and regulatory framework for natural resources management throughout the region. However, the implementation of these new policies and regulations has been disappointing. Across the region, there have been very few practical applications of a new integrated approach to resource management. For example, within days of the United States-Kazakhstan Joint Commission meeting in Washington reaffirming the Kazakhstan government's commitment to free export of oil, Kazakhstan adopted a resolution restricting oil exports. The stated purpose was to protect the domestic market. Demonstrations of the actual application of environmental management policies are needed to test the effectiveness of the policies and to introduce new technologies.

[100] From Transition to Partnership: A Strategic Framework for USAID Programs in Europe and Eurasia, Draft November 1999, pg. 44

During the transition from centrally-planned to market economies, the populace of Central Asia has experienced declining real incomes, deterioration of public services, and a growing loss of confidence in their public institutions. These factors combine to quell public support for continued economic and social reform. New endeavors in the energy and environment sector must seek ways both to alleviate the often transitory and even detrimental impacts of policy reform on citizens, and to create a constituency for sustainable reform and development. There is increasing conflict, for instance, between consumers and newly privatized suppliers of electricity and other services, due to rising prices which consumers associate with the unjustified enrichment of corrupt officials and private investors.

Regional cooperation for water and energy supplies is important to U.S. strategic security and commercial interests. Equitable use of water resources in the region is critical for the economic growth of each nation and the maintenance of harmonious relationships among them, particularly between poorly-endowed upstream providers and better-endowed downstream users. The U.S. is committed to helping Central Asia become a significant energy supplier which would contribute to diversification of global energy supply and would allow U.S. commercial interests to profit from the development of oil and gas fields.

The U.S. also has a stake in helping the new nations of Central Asia to manage their natural resources in a sustainable way that will contribute to economic growth while preventing future environmental disasters. This is critical for the achievement of the overall goal of USAID assistance, to expand the opportunities for the citizens to improve their governance, livelihoods, and quality of life.

"We are grateful to USAID, the only donor organization in the region who provided real on-the-ground help in the water and energy sectors."[101]

Proposed Program

This objective, *Improved Management of Critical Natural Resources, Including Energy*, reflects the important role of natural resources in the development of a broad-based, market-oriented economy. USAID assistance will be consolidated to focus on the introduction of an integrated management approaches for water and energy resources, combining activities formerly carried out under two separate environment and energy objectives. Assistance will be both regional and national, the specific situation will determine the strategy in each case.

The design and implementation of this objective builds on previous USAID assistance for the environment and energy. There has been significant progress towards the twin objectives of establishing a region-wide energy system and managing transboundary water issues. USAID has established productive partnerships with national and regional host country institutions and other organizations. Strengthening these existing partnerships and building new ones will be crucial to continued success in the upcoming strategy period. USAID's comparative advantage in the energy and water sectors is well recognized by regional host countries, the World Bank and other donors as its full-time resident specialists

[101] Bazarbai Mambetov, Deputy Chairman, Executive Committee of the Central Asian Economic Community in a meeting with USAID officials.

have proven, appropriate technical skills and USAID is the only donor working regionally as well as in all five countries.

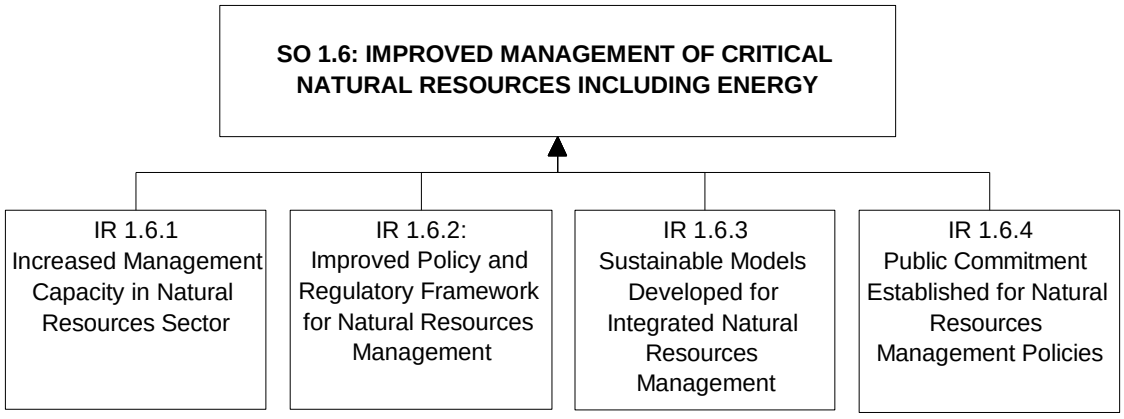
USAID is shifting from policy design to policy implementation

Nonetheless, successes in drafting policy regulations and modeling have not been matched by successful implementation. For this reason, the focus of USAID efforts will balance work at national policy levels with demonstrating and testing the impacts of new policies and regulations. Developing replicable models of integrated resource management will be a strong emphasis, including field demonstration and the requisite training of natural resource managers at all levels. These models will validate new policies and regulations, and create a positive effect on the lives of local citizens. The pilot programs will be sited in locales of particular environmental or social concern, such as the Atyrau region.

Specific attention will be paid to the involvement of citizens in key decisions that affect their day-to-day lives. USAID will work with regulatory agencies to institutionalize public hearings, and will support the independence and transparency of these agencies. This will help build public support for improved resource management and contribute to long-term efforts to reduce corrupt practices. A regional training program will foster intra-regional exchanges and dialogues.

Four intermediate results are critical to the achievement of the objective:

- Increased management capacity in natural resources sector
- Improved policy and regulatory framework for natural resources management
- Sustainable models developed for integrated natural resources management
- Public commitment established for natural resources management policies



Increased Management Capacity in Natural Resources Sector

New information, knowledge and skills in the integrated management of natural resources is critical to success. Demonstration activities and training will be linked, and targeted at individuals in senior management or policy positions, rather than institutions. Additional support will be devoted to strengthening the training capacity of institutions across Central Asia. Partnerships with U.S. policy specialists will continue to strengthen the capabilities of senior policy planners. USAID will work with Canadian International Development Agency (CIDA) to piggy-back on to

its water management training program developed in conjunction with the International Fund for the Aral Sea (IFAS).

Policymakers and managers need reliable data for decisions. Unfortunately, such data is not always available. For example, after USAID contributed to the development of a water basin model for the management of the Syr Darya River, reliable data needed to operate the model could not be found. Future efforts will concentrate on simpler management models, and will collaborate on collection and analysis of necessary data. Help will also be provided in establishing a database for global climate change, with a focus on data related to water management. USAID will work with the World Bank and other donors to coordinate assistance to IFAS in developing and maintaining a database for water resource management.

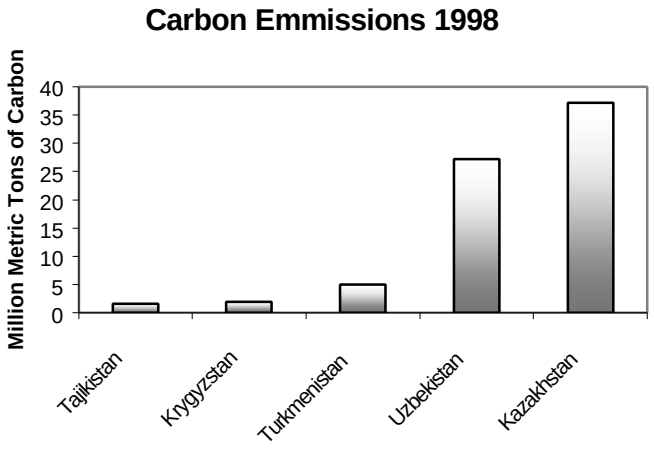
Improved Policy and Regulatory Framework for Natural Resources Management

USAID has experienced successes in helping develop policy and regulatory frameworks in one major river basin, in oil and gas in Kazakhstan and Turkmenistan, and in greenhouse gas emission. This IR builds on those successes with a shift in emphasis towards implementation. USAID is the principal facilitator for regional discussions of transboundary water issues in the Syr Darya river basin. Unfortunately, its role as a facilitator has been constrained by less than fully effective working relationship with the Interstate Coordination Water Commission (ICWC) of IFAS. To implement this Strategic Objective, new ways must be found to support both of the two primary legitimate transboundary organizations, the ICWC and the Central Asian Economic Community (CAEC), as they establish commonly defined goals. This support will include assistance with data collection systems and rehabilitation of the systems, which control water flow, as well as policy forums and formulation.

Global Climate Change efforts are needed most in Kazakhstan and Uzbekistan

There has been general recognition of the need for a regulatory framework that supports oil and gas development, and with USAID assistance, a number of policies have been adopted in Kazakhstan and Turkmenistan. The challenge now is to work with the governments, industry, and communities, put the policies in motion, and begin actual implementation.

In addition to being the largest greenhouse gas emitters in the region, Kazakhstan and Uzbekistan have demonstrated interest in participating in international conventions related to these carbon emissions. Kazakhstan is on the verge of establishing a greenhouse gas emissions target, after which USAID will provide technical support for Kazakhstan to participate in international conventions. Particular attention will be devoted to marketing and implementing "joint implementation" projects that will result in actual emissions reductions in the Kazakhstan. Since Uzbekistan has unfortunately not yet made the market reforms necessary for participation in global climate change activities, minimal USAID assistance is planned.



Source : International Energy Database

Sustainable Models Developed for Integrated Natural Resources Management

Due to the large national and economic interests at stake, as well as the numbers of actors at many levels, policy and regulatory reform in natural resources management is a difficult and unpredictable process throughout Central Asia. To succeed, reforms needs to popularized with demonstrations of their positive effect of reform on the lives of average citizens. Therefore, international donor efforts are turning from a prior exclusive emphasis on high-level government policy dialogue and technical advice to a broader approach that is more action-oriented and people-oriented. The value of the policies and regulations adopted by national and regional institutions will be demonstrated through their application in real-world situations. Demonstration projects also serve as real-world tests, helping to identify policy and institutional shortcomings that impede effective environmental management, as well as demonstrating benefits of reform. Such insights can then be used in a bottom-up approach to influence adoption of new practices and policy dialogue and reform at the national level.

"For reform to take root requires a demonstration that it actually works."[102]

USAID will support the development and testing of a limited number of these models to implement improved national policies and regulations. Eight criteria will be used to select demonstration sites: relevance to key policy change; potential for replication by other donors, local governments, NGOs, or the private sector; promotion of NGO involvement; contribution to the livelihoods of local residents; location within a geographic priority area; significant ties among the three major natural resource sectors; links to a regional training program; and how well a project complements other donor activities. Some examples of proposed model projects are listed below.

In the Atyrau region of Kazakhstan, there is a planned pilot activity to retrofit residential heating systems to demonstrate technology that provides enough savings to cover investments within three years. This technology would improve heat efficiency, countering the impact of rising energy costs to building occupants and owners of central heating systems.

A second proposed pilot project is an oil field clean up which will ensure future clean performance by local industry and improve the environmental performance of existing oil operations. The cooperation of local oil and gas firms, the international oil and gas industry, environmental NGOs, and government regulators will be enlisted to demonstrate environmental clean-up technologies in oil fields along the Caspian Sea in Kazakhstan and Turkmenistan.

In Kyrgyzstan, a small community hydro-generation and/or distribution enterprise is proposed to enable a community to establish a rural electric cooperative independent of the state-run utility, Kyrgyz Energo. The model will used to teach such concepts as responsible management, fiscal control, structuring tariffs to recover full costs, and customer service—all of which are lacking in the national electrical system.

[102] Assessing Aid, A World Bank Policy Research Report, pg. 25

One or more integrated wetlands livelihood projects are proposed to demonstrate how integrated management principles can support economic growth in an environmentally and socially sound manner. The wetland pilots, in the economically depressed wetland areas of Caspian and Aral Seas, will be designed to improve the livelihoods of area residents.

Public Commitment Established for Natural Resources Management Policies

To build public interest and commitment for reform, USAID will take a two-pronged approach: education on why reforms are in the long-term interest of the public, and simultaneous practical assistance efforts, such as subsidized weatherization of homes and other energy efficiency activities to reduce consumer energy costs. This citizen-based approach to reform takes into account the upheaval that many Central Asians have experienced since the break-up of the Soviet Union—recognizing that the public will most readily accept changes that offer them direct economic benefits. This work will build upon previous efforts with regulatory agencies to improve public participation and awareness regarding policy issues. New efforts will concentrate more on the local level than in the past. USAID will also encourage environmental NGOs to promote public awareness of policies related to the management of critical environmental resources.

A compassionate approach to reform

As part of a smooth transition from the previous strategy to this new strategy, USAID will continue to strengthen energy regulatory authorities both in Kazakhstan and Kyrgyzstan during the initial phase of the strategy period. USAID will emphasize the adoption of policies and administrative procedures that address corruption and promote transparency in government. If requested, USAID will be prepared to help the government and the oil industry rectify structural and market-related problems in the distribution of domestic petroleum products in Kazakhstan.

Through an energy consumers effort, USAID assistance will ensure that tariff structures in the energy sector provide short-term assistance –- an energy social safety net -- to financially disadvantaged consumers as the energy sector moves towards more market based tariffs. NGOs are expected to aid disadvantaged consumers to reduce their energy costs by helping them to weatherproof their homes.

In a cross-cutting effort, SO 1.6 and SO 2.3 will address corruption in government and promote public involvement in decision-making by introducing public hearing and administration procedures at the local level on issues related to natural resource management. Similarly, SO 1.6 will share findings with SO 2.3 on corruption gleaned from various studies commissioned in the natural resources management sector.

Critical Assumptions

There are two closely-related critical assumptions on which the success of this strategic objective depends. The first is that governments, companies and other donors will assist in financing the replication of successful demonstration activities. Certainly within the immediate vicinity of the Aral Sea, there is strong donor interest to fund improvements in the living conditions of the local population. The second

assumption is that local service providers can be induced to finance the replication of successful energy efficiency activities, based upon the potential for cost savings. One international firm involved in the sector is already poised to finance energy efficiency activities, in part due to its long-term commitment to the region. Whether state-operated entities can be convinced to make similar investments for the future has yet to be determined. When selecting demonstration activities, consideration will be given to their potential for replication.

Other Donors

CIDA's water management training program complements USAID's training and partnerships to strengthen the capabilities of senior policy planners. We will also work with the World Bank to coordinate assistance to IFAS to develop and maintain a database for water resource management.

Expected Results

The complete introduction of integrated management principles will take many years to accomplish region-wide. However, USAID anticipates that a number of important management principles can be successfully demonstrated locally and replicated on a small-scale.

Public and Private Partnerships and donor collaboration are very important

USAID will collaborate with other donors to improve data collection and analysis within the Syr Darya river watershed and—if there are sufficient resources—on water management issues in the Amu Darya basin. This should result in the establishment of a sustainable monitoring system, to collect basic data, support reasoned management decisions and rehabilitate systems to manage water flow on the major rivers. A sustainable framework for regional cooperation should be strengthened and institutionalized within the strategy period. The World Bank and other donors have already launched significant activities with USAID facilitation and support.

USAID assistance will concentrate primarily on improving operation of electric power and heat systems, and graduate out of ongoing privatization efforts as other donors and IFIs are now involved (often facilitated by USAID technical advisors). Thus, with privatization in Kazakhstan and Kyrgyzstan, USAID will have demonstrated privatized management practices at the local level. It is important that USAID remain engaged in global climate change to support expansion of international participation in actions to reduce greenhouse gas emissions. Kazakhstan did not succeed in becoming a member of Annex I at the Fifth Conference of Parties (COP-5) due to the opposition of several members. This opposition, coupled with the unrealistic economic growth rates Kazakhstan has used to establish its emissions target, may make participation in Annex I difficult within the near future.

Selected demonstrations of oil field clean-ups with a range of partners will illustrate how public and private companies can both operate effectively under the new regulations in partnership with regulatory authorities, oil and gas industry associations, and the NGO community. USAID is confident that these demonstrations will be replicated by oil and gas companies across Kazakhstan and Turkmenistan, and potentially in other countries around the Caspian Sea. Expansion

of integrated wetlands demonstrations is also likely, due to the interest of the communities, and other donors coupled with the influence of NGO partners.

The results of these demonstrations is to "open the door" for public participation for sustainable management of their natural resources. USAID-supported models will demonstrate the viability of policies and new practices and technologies combined with public awareness campaigns and increased NGO involvement. Though region-wide endorsement of integrated natural resource management is not expected within this strategy period, public commitment can be established within several important target locales, for policies related to specific, critical environmental issues.

Linkages

Recognizing the importance of natural resources in fostering the growth of a market-oriented economy, this Strategic Objective supports the E&E Bureau Strategic Objectives of *Increased Environmental Management Capacity to Support Sustainable Economic Growth* (SO 1.6) and *A More Economically Sound and Environmentally Sustainable Energy System* (SO 1.5). In implementing this strategic objective, the Mission will emphasize expanding benefits to a greater portion of the population and will contribute to the achievement of other Mission Strategic Objectives for enterprise growth and democratic culture. It may also have linkages with Strategic Objectives in health and local government.

Strategic Objective 1.2: Increased Soundness of Tax and Budget Policies and Administration

Problem Analysis

Prior to independence, the Soviet Union subsidized the economies of Central Asia. Under the old revenue system, prices for products and services were determined according to *Gosplan*, the Soviet Union's economic master plan. The taxes collected were simply the difference between producer prices and retail prices — both of which were controlled by the state. Employees paid no taxes, but were implicitly taxed through their low wages. When expenses exceeded revenues, the national government supplied a republic with grants. Even in the comparatively resource-rich Republic of Kazakhstan, for example, grants from the national government equaled 11.9% of the republic's GDP in 1990.[103]

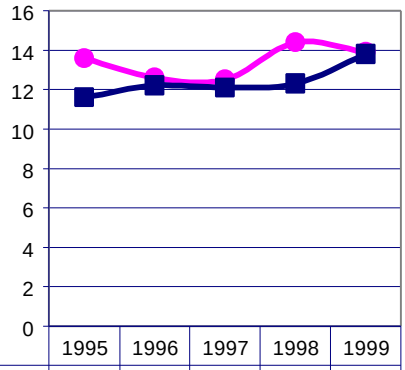
Following independence, the subsidies ended. Simultaneously, these new nations were compelled to immediately develop systems for tax collection that depended on the voluntary compliance of individuals and newly created private enterprises. The consequence: a sharp drop in revenues to support government expenditures. Social sector spending in Kazakhstan and Kyrgyzstan has declined as a percentage of GDP since 1995.[104] Due to limited resources and government mismanagement, many public services are far worse than they were during the Soviet period.

More revenue from taxes with USAID assistance

The inadequacies of many social and public services can therefore be attributed to unworkable tax and budget policies in both Kyrgyzstan and Kazakhstan. Like the old system of raising revenues, production (economic output) plans and social services were centrally controlled and consisted of executing the *Gosplan*. The present challenge for these economies is to set spending priorities within the context of revenue constraints.

In recent years, USAID has devoted considerable effort to helping the countries of Central Asia develop their tax and budget systems. Accomplishments have consisted of the passage of tax codes in Kazakhstan, Kyrgyzstan and Uzbekistan, laws detailing the budget process in Kazakhstan and Kyrgyzstan, improved revenue collection in Kazakhstan, Kyrgyzstan and Uzbekistan, and the use of program budgeting techniques in Kazakhstan and Kyrgyzstan. These policy reforms have contributed significantly to improved economic conditions.[105] Moreover, assistance to Kazakhstan and Kyrgyzstan

Tax Revenues (% of GDP)



	1995	1996	1997	1998	1999
Kyr	13.6	12.6	12.5	14.4	13.9
Kaz	11.6	12.2	12.1	12.3	13.8

Source: USAID Fiscal Reform Project

[103] Shane, P., *Transition and Transformation: Fiscal Sector Issues in Kazakhstan*, in Transition to Market: Studies in Fiscal Reform, Tanzi V. ed., IMF 1993.
[104] *EBRD Transition Report, 1999.*
[105] Faced with a lack of revenues in the early 1990s, these countries financed expenditures with inflationary central bank credits (virtual printing of money). For example, in Kazakhstan, inflation was 246% in 1995. By 1999 it was just 17.5% (Kazakhstan Economic Trends, July-September 1999). This dramatic reduction was largely due to tighter fiscal management.

has enabled both countries to secure agreements with the IMF.[106] USAID-supported tax and budget advisors also inform high level IMF and World Bank policy dialogue with these two governments.

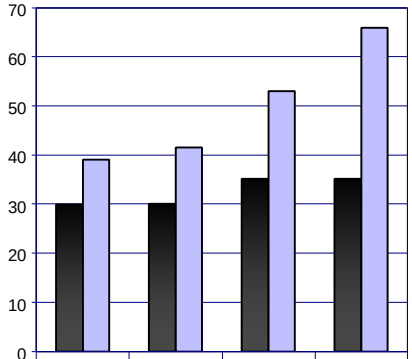
Despite four years of assistance provided by USAID, Uzbekistan has not yet made fundamental budget reforms. Likewise, Turkmenistan has made little substantive progress in reforming its fiscal management. Security concerns in Tajikistan make it impossible to provide assistance for fiscal reform at present. Thus, continued effort will be concentrated in only Kazakhstan and Kyrgyzstan.

Over the past several years in Kazakhstan and Kyrgyzstan USAID assistance has successfully helped create the institutions and mechanisms for devising budgets and collecting taxes. However, these fledgling institutions will require time and human expertise before they develop the ability to allocate scarce public resources in a market environment. Kazakhstan and Kyrgyzstan need more technical assistance to ensure long-term economic stability. Improved tax and budget policies and administration would help the governments to raise more revenue, identify priorities for expenditures and better control spending.

External debt is high

Poor tax and budget policies have led to high internal and external debt. External debt was 35.1% of GDP in Kazakhstan and 65.9% of GDP in Kyrgyzstan in 1998[107]. In Kyrgyzstan, the government budgeted over 40% of government spending for the year 2000 to debt servicing. At the end of 1999, arrears totaled 3% of GDP. In contrast, for Kazakhstan, debt servicing is estimated at 8.9% of the 2000 budget. While Kazakhstan did have significant arrears during 1999, there were no arrears at year-end. Sound fiscal policies and management are fundamental to governance and economic stability and growth of these new nations.

External Debt (% of GDP)



	1995	1996	1997	1998
Kaz	29.9	30.0	35.1	35.1
Kyr	39.1	41.5	53.0	65.9

Source: EBRD Transition Report 1999

Poor tax policies and an inefficient system of tax administration limit the ability of governments to collect revenues — resulting in lower funding for high priority areas such as education[108] and health. This has a particularly negative effect on high-risk groups, such as low-income women and children. In addition, poor spending policies can destabilize the economy, leading to inflation, high deficits, high interest rates, and exchange rate instability. Finally, the arrears and poor management of government resources lead both to corruption and to a decrease in the quality of government services.

To improve fiscal management, there is a significant need to improve the budget development capacity at the central government level and in the oblasts. Budget analysts and government officials need to be trained in modern budget development

[106] Kazakhstan and Kyrgyzstan currently have IMF agreements valued at $443 million and $128 million, respectively. Dollar values are based on SDR/dollar exchange rate as of March 31, 2000.

[107] 1998 EBRD estimates. For 1999, USAID estimates that Kazakhstan is 21% of GDP and Kyrgyzstan is 92.3% of GDP. These estimates, however, may use a different methodology than the EBRD.

[108] Education was identified as a high priority area by Kazakhstan in 1999. *See Kazakhstan: Selected Issues and Statistical Appendix, IMF,* September 1999.

and budget execution techniques. The current government budgets reflect only national agendas, rather than the local economic and social priorities of citizens. The mechanisms used to allocate revenues at the local level are based on outdated formulas. As a result, needed services are delivered neither efficiently nor cost-effectively.

Fiscal mismanagement is exacerbated by the inadequate payment of taxes by citizens who perceive the tax systems as unfair, rife with corruption and lacking due process. This perception contributes to the growth of the informal sector and a high degree of tax evasion by businesses within the formal sector. In both Kazakhstan and Kyrgyzstan the informal sector has been estimated at 50% of the economy. Both the tax codes and the institutions charged with implementing the codes need to be improved in both countries.[109]

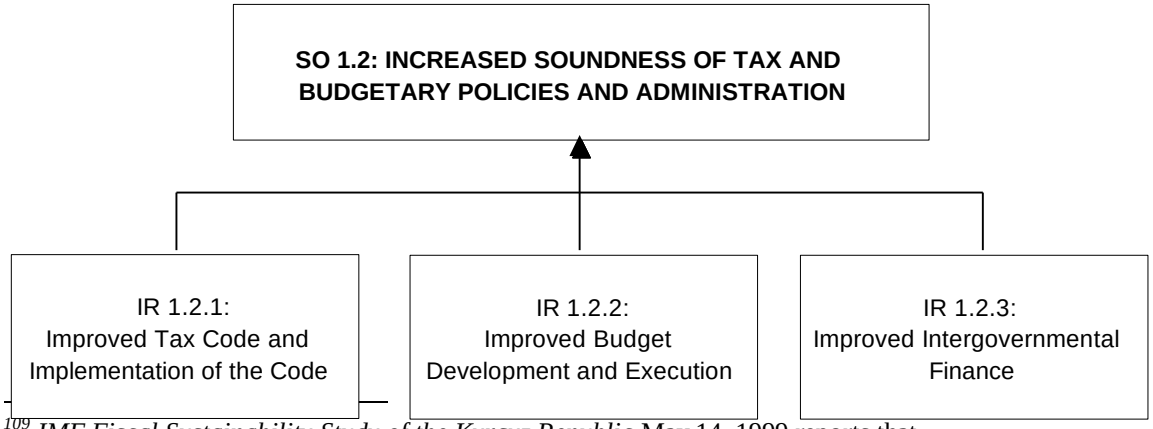
Inefficient tax administration hinders tax collection, and allows corruption through ineffective controls and monitoring systems. There is a need in both countries to develop a well-trained cadre of tax administrators and for USAID to continue assistance in key areas of tax administration, including computerization.

Proposed Program

Increased soundness of tax and budget policies and administration will enable Central Asian nations to make the transition from command economies to economies driven by market forces. This objective will only be pursued in Kyrgyzstan and Kazakhstan; both countries have the necessary political commitment to budget reforms and have already undertaken basic reforms in budget and tax policy. These countries have the requisite framework of budget systems laws, tax codes and treasury systems laws.

Progress on the following three intermediate results will result in progress on the objective:

- Improved Tax Code and Implementation of the Code
- Improved Budget Development and Execution
- Improved Intergovernmental Finance



[109] *IMF Fiscal Sustainability Study of the Kyrgyz Republic*, May 14, 1999 reports that implementation of the tax code must be a major focus.

Improved Tax Codes and Implementation of the Codes

An effective tax system should raise the revenue needed by the public sector with a minimal burden on the taxpayer. It should be equitable, simple and stable. A tax system with these features would not be a burden on the private sector, and would create an environment that fosters voluntary compliance.

Kazakhstan and Kyrgyzstan have comprehensive tax codes developed with assistance from USAID and other donors. However, since both countries began implementation, they have passed many amendments that have reduced the simplicity and fairness of the tax codes, especially for SMEs and individual taxpayers. USAID's strategy is to assist these businesses and individuals, by helping the governments to review and simplify the tax codes, and by developing within the respective governments and legislative bodies the capacity to choose sound tax policies.[110]

The goal is an equitable, simple and stable tax system

Fiscal analysis units in key government agencies and in the legislature will be created to enhance decision-making capacity for sound tax policies. These fiscal analysis units will determine how changes in government policies affect revenues and expenditures. Establishing these units contributes to more sensible policies, as the government and the legislature then have access to modern analysis and forecasting techniques. Moreover, because such units conduct independent analyses of proposed policy changes, they can provide some oversight to the amendment process, increase transparency and reduce favoritism

In Kyrgyzstan, a fiscal analysis unit has already been set up in the parliament. During 2000, further effort will be devoted to developing the tax policy analysis ability of the Ministry of Finance. The amount of USAID-funded assistance will be reduced by the end of the strategy period, although it is not realistic to expect the fiscal analysis unit to be fully self-sufficient by that time. In Kazakhstan, a parliamentary fiscal analysis unit will be operative by mid-2000 and work will continue to develop the fiscal analysis capacity of the Ministry of State Revenues. By the close of the strategy period, Kazakhstani and Kyrgyzstani officials should have the ability to train new staff and to apply a consistent methodology in analyzing the impact of proposed policy changes on the budget.

Improving the implementation of the tax code by strengthening tax administration increases efficiency and transparency, reduces corruption and introduces fairness and consistency in the treatment of taxpayers. USAID will continue to help the governments reorganize their tax inspectorates. This will limit the duties of tax inspectors to a single function, such as audit or collections, to reduce opportunities to abuse the tax system. In addition, it will develop a modern system of appeals to empower individuals to seek redress when they believe a tax inspector has made an unfair decision.

[110] A World Bank *Aide Memoire*, September 17, 1999 found that Kazakhstan's growth prospects could be improved by widening the tax base. The report also concluded that tax code revision should be conducted with a view to eliminate distortions and rent-seeking.

Tax administrators—the majority of whom are female—will be trained in key areas such as computerization and internal auditing. To improve the quality of inspections, USAID will assist both countries to implement certification programs for tax inspectors in auditing, assessment and collections. The certification program designed for these countries will be the first in the CIS. The training programs will serve as a cost-effective method of developing a sustainable training program, by training future trainers. The implementation of modern certification programs for all key functions is anticipated by 2003.

In Kazakhstan, an important focus during the coming year will be tax treaty administration. Kazakhstan has attracted a significant number of foreign companies, and the home countries of many of these investors, including the U.S., have signed tax treaties to avoid double taxation. Unfortunately, understaffing and a lack of experience have resulted in a large backlog of tax treaty claims. The government has agreed to incrementally increase staff up to USAID-recommended levels. The staff responsible for adjudicating claims has received training in tax treaty administration, sponsored jointly by USAID and the Organization for Economic Cooperation and Development. This training will continue for new staff during 2000 and 2001, run cooperatively to cut costs for both organizations.

In 1998, Kazakhstan began its computerization implementation plan, developed with technical assistance from USAID advisors. Hardware and software will be provided through a World Bank loan. These computerization efforts will continue until implementation is completed at the end of 2002.

In Kyrgyzstan, the central taxpayer database has been completed and pilot rayon tax offices can link to the system to upload and download information. The pilot offices served as demonstration projects for teaching the process to the Kyrgyz. As a consequence, minimal assistance will be required to link more of the rayon tax offices with the central system in Kyrgyzstan during 2000.

Government budgets should reflect the priorities of the government and be a tool to effectively deliver services at the lowest cost.

Finally, drafting new tax codes in the two countries will result in publication of new instructions and guidelines. This will provide an excellent opportunity to assist the governments to simplify tax forms and improve guidelines and instructions. For taxpayers, this will increase the accessibility of the code, a goal compatible with SO 1.3, an *Improved Environment for the Growth of Small- and Medium-sized Enterprises.*

Improved Budget Development and Execution

Kazakhstan and Kyrgyzstan have recently demonstrated major progress in budget development. Both countries partially used program budgeting techniques to develop their national budgets for 2000. During 1999, Kazakhstan's actual revenues equaled those projected in the budget. In Kyrgyzstan, during the last half of 1999, actual revenues equaled revised projections in the budget. However, without further budget reform, governments will continue to produce unrealistic budgets that undermine the credibility of the budget process.[111]

[111] *USAID Fiscal Assessment* (August 1998)

Any government budget, when properly developed, reflects the economic and social priorities of the government and can be used as a tool to ensure effective delivery of services at the lowest cost. Consequently, there will be benefits for the government and the average citizen if the budget process is improved. In addition to better services, benefits to citizens and the private sector include increased information about government priorities and performance. Better information about government priorities can be a stimulus to collective action, thereby increasing social capital.

USAID's strategy for budget development over the coming years will be to improve the capacity of the central government and selected oblasts. There will be projects to train budget analysts and government officials in modern budget development and execution techniques. This training will be provided through classroom instruction and participation of USAID advisors in the budget development process. In Atyrau oblast, training in capital budgeting and budget development will continue.

A focus on health and education budgets

A key target of USAID budget assistance at both the national and local levels will be health and education. These two sectors have a major impact on the present and future quality of life for citizens. Such targeted assistance is expected to continue through the end of the current strategy period.

Proper execution of a budget requires that appropriate financial management systems be in place. Improved financial management systems increase the ability of the government to reduce fraud and abuse, and also enhance its ability to control spending. During 2000, USAID anticipates beginning government accounting reform in Kyrgyzstan. The public-sector accounting standards currently in use in Kyrgyzstan are a mixture of Soviet and non-Soviet accounting standards. In addition, computerization is minimal, making information storage and retrieval extremely inefficient.[112]

The Government of Kazakhstan uses a unified treasury controlled through a single accounting system based on Generally Accepted Accounting Principles to track and control expenditures. The Treasury Modernization Project of the World Bank is currently developing an information management system for the treasury system. However, there are still several aspects of its accounting system that need to be improved. USAID anticipates commencing assistance on government accounting in 2001.

Improved Intergovernmental Finance

Assistance seeks to improve the allocation of resources at the local level

Intergovernmental finance refers to the mechanisms governments use to allocate revenues to the local level. For both countries, the system of allocations is based on obsolete formulas that do not take into account changing economic conditions. In addition, the allocations do not fully reflect the economic priorities of local governments.

USAID assistance is designed to improve the allocation of resources to the local level. USAID will help design allocation mechanisms that are sensitive to changes in

[112] National Association of State Auditors, Comptrollers and Treasurers, *Assessment of Public Sector Accounting Needs in the Kyrgyz Republic*, May 1999.

economic conditions and better support local development initiatives. Ideally, each level of government should have the ability to raise revenue commensurate with the level of services that the residents desire. Only if a local government has revenues sufficient to meet its needs can it be effective in delivering services. Local government revenues have been increasing for Kazakhstan since 1995. However, in Kyrgyzstan, there has been a drastic reduction. A system of allocation should be designed and in place by 2001.

Sound budget development is key

Budget development is a key component of intergovernmental finance. With improved budgeting techniques, local governments would be in a better position to assess needs, plan priorities and seek an appropriate amount of funding. Work with selected oblasts will continue through the project period. As this is a long-term process, full implementation will take longer than the timeframe of this strategy.

During the period of the strategic plan, the Eurasia Foundation will continue work with universities, NGOs and other donors to strengthen decentralization efforts and improve intergovernmental finance in Kazakhstan and Kyrgyzstan.

Critical Assumptions

To achieve success in this Strategic Objective, the security conditions must remain stable, government commitments to reform must be maintained or expanded, and no global or regional economic crises occur. Provided there is an increase in economic opportunities, the people of Central Asia will need to have a commensurate increase of trust in the market economy. Other donors, particularly the World Bank and IMF, will have to maintain their respective levels of support for structural reforms.

Other Donors

The achievement of this Strategic Objective depends on coordination with other donors. In Kazakhstan, the World Bank provides technical assistance in treasury modernization—improving the government's ability to track and control spending. The World Bank has also funded computerization efforts in Kazakhstan by providing a 17.5 million-dollar loan. USAID developed the computerization project implementation plan for the government.

The U.S. Treasury Department and USAID will work closely on debt management issues for both Kazakhstan and Kyrgyzstan. These are instrumental to success of this objective, since debt service is a significant portion of the budget of both countries. In Kazakhstan, EU-TACIS intends to provide limited technical assistance in tax administration from 2000 to 2002. Finally, the IMF has provided assistance in tax policy to Kyrgyzstan. USAID has worked closely with the IMF to improve the tax code of Kyrgyzstan, and to provide advice against distortion-causing amendments.

Expected Results

At the end of the strategy period, ministries will develop their budgets using more modern budget development techniques, including performance measures. The governments will develop realistic annual budgets and will have implemented new government accounting systems. USAID also anticipates that by the end of the strategy period, tax revenues, as a percentage of GDP, will range from 15-20% in both Kazakhstan and Kyrgyzstan. An improved system for allocating resources to local governments should be in place by the end of the strategy period.

Linkages

This strategic objective supports Agency-wide Goal 1, *Broad-based Economic Growth Achieved*, by contributing to a stable economic environment. This bolsters U.S. interests in Central Asia, as good governance (especially adequately funded public services) and economic stability, reduces the potential for conflict in the region by reducing the likelihood of social unrest and political instability. Likewise, USAID Agency Goal 2, *Sustainable Democracies Built*, is addressed through the increased transparency of the budget process. This Strategic Objective directly supports the goal of *Improved Environment for the Growth of Small- and Medium-sized Enterprise*, (SO 1.3) by creating a fair tax code and an efficient tax administration. SMEs will have the opportunity to develop without the heavy burden of a misguided tax system. The aims of a *More Effective and Accountable Local Governance in Target Areas* (SO 2.3) are expanded through budget development and execution at the local level. *Increased Access to Quality Primary Health Care for Select Populations* (SO 3.2) will be enhanced through targeted budget assistance to the ministries of health.

Strategic Objective 2.3: More Effective, Responsive and Accountable Local Governance

Problem Analysis

Local governments play a pivotal role in current political, economic and social developments in Central Asia. Increasingly, local governments[113] are responsible for the delivery of all essential services. It is at this level where government, social, and business interests most often intersect, and where reform is most vital for economic growth.

"Democratic local governance is in its infancy."[114]

However, local governments are often cited as the greatest barrier to growth of private enterprise.[115] Intractable corruption and ineffectiveness hamper progress. Power is top-down, with locally elected councils fated to merely carry out orders from above. Processes are not transparent, and decision-making is not participatory. National laws fail to get implemented while local regulations are obstructionist.

The national leaders in Kazakhstan and Kyrgyzstan has begun to recognize the need to strengthen local government and are experimenting with ways to make local governments more effective and accountable. Since the national leadership in Turkmenistan and Uzbekistan do not support local government change, USAID will not pursue this objective in those countries. In Tajikistan, security issues prevent USAID from working directly with local governments; therefore, USAID involvement will likely be limited to Eurasia Foundation grants.

In each local jurisdiction in Kazakhstan and Kyrgyzstan, there is an administrative branch of the central government as well as a locally elected council. In both countries, the president appoints the governors of the *oblasts* (regions), who in turn appoint the mayors of the cities and *rayons* (similar to counties). The appointees range from talented technocrats to corrupt insiders. Since they serve at the whim of the president, receive relatively low pay, and have until recently had little direct authority, the appointments are often considered opportunities for graft, not for achievement. The appointment system is characterized by frequent, sudden personnel changes.[116] The law favors the appointed administrators over the elected regional and city councils. These councils are one of the few institutionalized channels communities have to present their interests. Yet neither the councils nor citizens are particularly adept at asserting themselves.

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[113] In Kazakhstan, local government consists of the three levels below the national government: *oblasts* (regions), *rayons* (counties), and municipalities or villages. In Kyrgyzstan there is an additional level, self-governing cities.

[114] From Transition to Partnership, A Strategic Framework for USAID Programs in Europe and Eurasia, Draft November 1999, pg. 23

[115] Licensing, inspections, registrations, customs, import/export procedures, property acquisition, hiring of employees, and other business processes can require upwards of 50 forms and bureaucratic processes. Taken individually, many of these constraints seem like mere nuisances. Taken as a whole, however, these constraints can frustrate and deter new entrepreneurs, significantly raise the costs for established businesses, and suffocate SMEs.

[116] Sharon Hekman, "Perspectives on Local Government Changes," USAID-funded Local Government Strategy Review, p.3.

Funding is a critical issue, with the cash-strapped national governments starving local budgets. The lack of resources is exacerbated by local administrations' inability to husband their meager resources effectively—to track expenditures, cut costs or set priorities.

Local government officials are not empowered to advocate changes openly: there are no official channels for communication between local governments and national officials. Municipal associations, which have led decentralization movements elsewhere, do not exist in Central Asia. Local government officials must use informal channels and personal connections to lobby the national government for change. Nevertheless, significant legal and political changes have taken place through this opaque process, many of them improvements.

In Kazakhstan, administrative functions have been decentralized from the national to the oblast level. Local governments — both oblasts and rayons — have been given increased responsibility for education and health sectors. Recently, the government decreed that regional budget and finance officers are no longer part of the Finance Ministry's vertical structure, but instead will answer to regional governors.[118] These are decisive blows to the old system of dual subordination, where local authorities could not act without approval from national and oblast officials.

The 1999 Budget System Law in Kazakhstan "more clearly defines the relationships between budgets at the local and national levels."[117]

The new civil service law of 1999 creates a unified civil service. It requires competitive recruitment and limits the number of political appointees at both the local and the national level. This should rein in patronage as well as staff turnover, thus strengthening the sustainability of reforms such as USAID's investments in training and technical assistance.[119] Recent presidential pronouncements have convinced *akims* (mayors) that their offices will eventually be elected or will be answerable to the elected councils.[120] This realization has led akims to take greater interest in involving the councils and the public.

In Kyrgyzstan, a 1998 local self-government law added a fifth level of government by creating self-governing cities and towns. Yet another level of government is deplorable in such a small country, but government officials claim that one level will be eliminated.[121] The self-governing cities and towns will have a mayor from among the elected council members. This increases the likelihood that mayors will be from the area they represent.

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[117] Sharon Hekman, The Local Government Initiative in Kazakhstan Assessment Report, January 2000

[118] Dr. James Wooster, Intergovernmental Fiscal Reform in Kazakhstan: Progress to Date and Recommendations for the Future, 1999, pp.11-12.

[119] Sharon Hekman, "Perspectives of Local Government Changes", p.3.

[120] Draft Local Self-Government Law, Article 7, Paragraph 4 calls for the head of a self-governing body to be elected by the council members. Draft Local Administration Law, Article 34, calls for the election or appointment of rayon city akims, in a procedure to be defined by the President.

[121] Head of the Department of Organizational Control, Presidential Administration, November 18, 1999, local government assessment.

The national government is presently transferring property and utilities to the self-governing cities. Although this should increase opportunities for revenue generation, it has made self-governing municipalities fiscally responsible for debt-ridden utilities. Draft legislation on civil service, asset management, and local government budgets, which will be presented in the new parliament in 2000, will affect the viability and authority of local governments. The asset management law will regulate issues such as whether local governments have the authority to sell or lease the assets they inherit from the national government. The local government tax law may increase the number of viable taxes which local governments could employ to raise revenues.

Proposed Program

Creating *More Effective, Responsive and Accountable Local Governance* is critical for achievement of the goals of USAID's assistance strategy in Kazakhstan and Kyrgyzstan. It is particularly important in work with non-governmental advocacy groups, small and medium-sized enterprises, and fiscal reform. Assistance to local governments is an area where USAID has a comparative advantage, with a solid record of achievement elsewhere in Europe and Eurasia. At present, USAID proposes to work on local government only in Kazakhstan and Kyrgyzstan, where the enabling environment is more promising.

"Not only are local government officials open to new ideas and mechanisms, they are asking for assistance"[122]

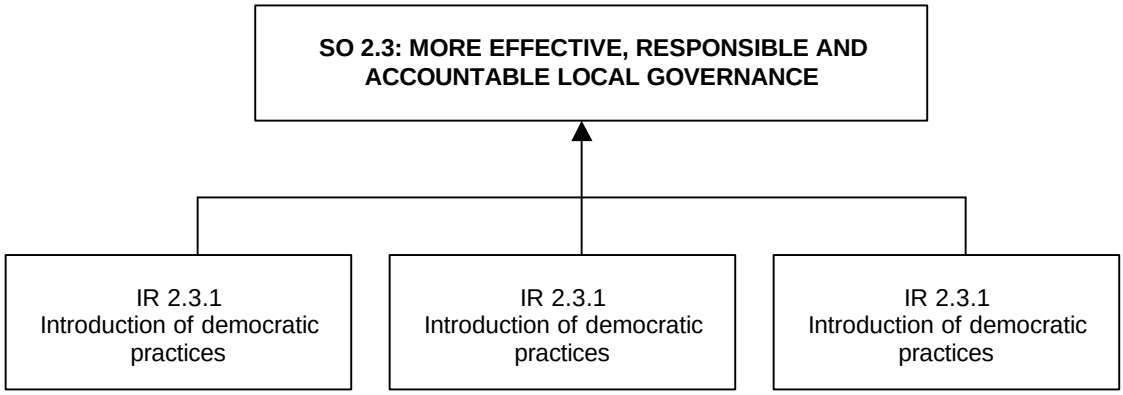
The intention is twofold: to strengthen local governments' ability to provide vital services and to promote citizen participation. Throughout the E&E region, local governments have proven more accessible and amenable to citizen participation than national governments. Corruption is also easier to combat at the local level than at the national level. Increasing transparency and participation in government procurement, budgeting and financial management; and promoting checks and balances within administrations, or between elected councils and administrations, can limit opportunities for corruption.

In several locations such as Atyrau that are the locus of special regional projects, additional assistance will be provided to local governments. USAID has already witnessed in Atyrau the benefits of such a focused approach. Tangible results in improved services, increased citizen involvement in budget decisions, and cost-savings through competitive procurement can be achieved without additional changes in national policy. However, for national governments to devolve full authority, local governments must prove their capability to provide services and manage increased responsibility. Simultaneously, the current system of laws and regulations must be revised to increase the authority of local government.

Three intermediate results are critical to the achievement of this objective:

- Introduction of democratic practices
- Increased local government capacity
- Increased local government authority

[122] Sharon Hekman, The Local Government Initiative in Kazakhstan Assessment Report, Jan 2000



Introduction of democratic practices

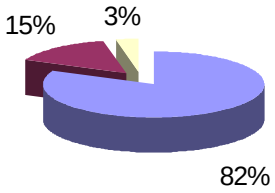
The connection between local governments and their constituents is especially weak in Central Asia. Chief executives are appointed rather than elected. Increasingly, however, citizens are applying pressure on their local officials for greater responsiveness to citizen input. Public budget hearings have been introduced in Pavlodar and Aktau, Kazakhstan and in Naryn, Kyrgyzstan, and transparent procurement procedures have been tested in Pavlodar and Bishkek.

USAID assistance will promote transparency and citizen participation by encouraging local governments to make information public and to conduct operations in a manner, which promotes fairness and integrity. This includes practices such as open procurement processes and public budget hearings, crucial elements in the fight against corruption. Local governments will be encouraged to find new ways of involving the public, building upon increased NGO advocacy skills taught through SO 2.1, *Strengthened Democratic Culture.*

Elected councils will receive help in strengthening their influence and oversight over appointed officials. Various proposals under consideration for strengthening accountability include the adoption of no-confidence votes by councils to remove undesirable appointed executives, appointment of governors and mayors by elected councils rather than by the President, or alternately, the direct election of governors and mayors.

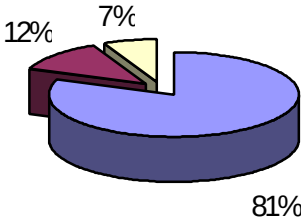
Should city mayors be elected or nominated?

Kyrgyzstan



Elected: 82%
Nominated: 15%
Do not know: 3%

Kazakhstan



Elected: 81%
Nominated: 12%
Do not know: 7%

Source: Research Results. Social and Marketing Research Agency "BRIF", July 1999.

Increased local government capacity

Local government officials have increasingly become responsible for the financial administration of health care, education and public utilities. Administrators trained during the Soviet era lack these skills. They need continuing education to manage their new responsibilities, be comfortable with more democratic approaches to governance, and develop new policies and management systems. Since 1998, USAID has been working with several local governments to develop their capacity to improve the delivery of services.

Non-governmental associations, with local government oversight, can better manage some services. For example, the rapid increase in democratically organized, non-governmental condominiums has relieved local administrations from the responsibility of maintaining multi-dweller buildings, has improved utility service for residents, and has created regional housing associations, active civil society organizations. In Kyrgyzstan, through a network of organizers and regional housing associations and with the active support of municipalities, the number of registered condominiums rose from 3 to 129 in Fiscal Year 1999. Efforts to strengthen local government oversight and condominium association service delivery will continue.

"Participants… asked for more (USAID) seminars in our city."

Kanat Tulevaev, First Deputy Mayor of Semipalatinks city, Kazakhstan

Health care delivery, particularly the maintenance of hospitals, consumes a significant portion of local government budgets. Local governments need to better understand these costs and alternative approaches in order to allocate more skillfully their limited health funds. With assistance through USAID's health and fiscal reform objectives, program budgeting techniques are introduced in selected regions. This will enable these regions to manage their resources with a better information base and greater citizen involvement, thereby improving health care delivery.

USAID will continue and broaden its approach of modeling successful examples in pilot cities and regions. Other cities then benefit from improved management and governance practice demonstrated in pilot sites. In Kazakhstan, for example, a successful budget hearing in Pavlodar inspired a similar budget hearing in Aktau; seeing these successes, the city of Atyrau held a hearing on water rate increases. Other local leaders have requested that their regions be pilot sites. Training curricula will draw on the pilot site experience in order to share best local practices, using local trainers recruited from the Academy of Management in Bishkek and the Civil Service Academies in Pavlodar and Almaty. This approach has been very effective in Kazakhstan, where training with locally adapted modules has taught successful practices for budgeting, public hearings, procurement, and housing association management. Counterparts have asked for further training in capital and program budgeting, utility rate development, housing association management and personnel management. Cost-effective and sustainable technical assistance and training approaches will pair USAID's implementing partners with local trainers and professionals.

A particular USAID emphasis will be to develop the skills of women counterparts and mentor them as future local government leaders. While women predominate in budget and finance offices, there are currently very few council secretaries, deputy mayors or deputy governments and no women oblast governors in either country.

USAID also facilitates informal information sharing, by bringing local government officials and professionals together with the goal of finding joint approaches to common problems. Attempts to build or strengthen formal municipal associations to facilitate communication have not been successful.

Grants from the Eurasia Foundation to train public officials and housing associations complement USAID's other training efforts. In Kazakhstan, the State Department's Public Diplomacy Section complements USAID efforts to build local government capacity through seminars on public administration, study tours and exchanges with local government officials in the United States.

KAZAKHSTANI CITY HOLDS FIRST PUBLIC BUDGET HEARING. Although initially reticent, city government officials of Pavlodar held an open forum to provide citizens with an opportunity to ask questions and comment directly on proposed budget changes. With USAID help, local government officials provided budget information to the public and widely publicized the public budget hearing. In preparation, USAID advisors held a roundtable discussion for local media, NGOs, city officials and others to help them better understand public participation. Over 200 persons, including citizens, city department and agency heads, and NGO advocates, actively participated. This new willingness of local government officials to consider their constituents' views is a good example of the progress being achieved in making local governments more responsive and accountable.

Increased authority for local government

The governments of Kazakhstan and Kyrgyzstan have increased local governments' responsibilities without increasing their funding or authority. There are also overlapping responsibilities between the national, oblast, rayon and city levels of government. There needs to be a clearer definition of the role of each level of government in relation to each other and to the private sector. Local governments' power must be increased and their voice must be heard by the national governments.

The pending draft local government legislation in Kazakhstan does little to clarify responsibilities or provide a framework for effective and responsive local government. The roles of county, city and village leaders must be delineated more clearly before these become elected positions. The potential for conflict will increase, once these officials are no longer appointed, since their superiors will no longer be able to replace officials at will. The appointed officials could, however, stymie the work of elected officials and could possibly succeed in discrediting them.

Local governments' power must be increased and their voice must be heard by the national governments

In Kyrgyzstan, there is already conflict between self-governed cities and the rayons within whose jurisdiction they lie. National officials are aware that they must strengthen the resource base of the self-governing municipalities if they are to be viable. The government followed the advice of USAID advisors and others, and has withdrawn earlier drafts of legislation on municipal assets and taxation submitted to parliament, as the initial drafts failed to clearly delineate authority among the various levels of government.

USAID assistance will help policymakers clarify intergovernmental roles and responsibilities. The fiscal, policymaking, and administrative systems in both countries remain unclear, particularly below the regional level. The frequent result is institutional paralysis. At the same time, local governments must have greater control over their resources. Local governments, particularly in Kazakhstan, are unlikely to receive autonomous revenue-raising authority. Nevertheless, greater budgeting authority and increased reliability of the revenue-sharing system are feasible, and would allow local governments to plan better.

Since change cannot take place without the national governments' support, through senior level dialogue, including the Ambassadors, USAID will promote policy changes that reflect local government concerns, priorities and capacities along with the work at the local level with pilot sites. USAID will also assist regional administrations in Kazakhstan, where regions (oblasts) can modify the roles and responsibilities of rayons and cities.

Critical Assumptions

More capable and responsive local governments

This objective assumes that staff turnover in the national and local administrations will not prevent new governance practices from taking root. The introduction of the Civil Service law in Kazakhstan should prevent this. In order to institute changes that prevent graft and corruption, a sufficient number of far-sighted counterparts at decision-making levels are needed, both in pilot sites and at the national level. This is where USAID expects the greatest resistance. A final assumption is no conflict or breakdown of security in target areas.

Other Donors' Support

Other donors are actively supporting local government reform, complementing USAID efforts and vice versa. EU/TACIS supported the development of the Civil Service law in Kazakhstan and will assist with its implementation. The World Bank and EBRD require that certain conditions be met before loans are provided. These conditions include greater public participation —such as public hearings on utility tariff changes — and more transparent budget and accounting systems. This has meant that those local governments that are authorized to take on debt, such as Almaty, Atyrau, and Aktau in Kazakhstan, are more receptive to USAID policy dialogue and technical assistance. For example, the World Bank recently required that the city of Atyrau hold a hearing on water rate increases. This made city officials more amenable to work with USAID technical advisors and to hold successfully an open public hearing.

Expected Results

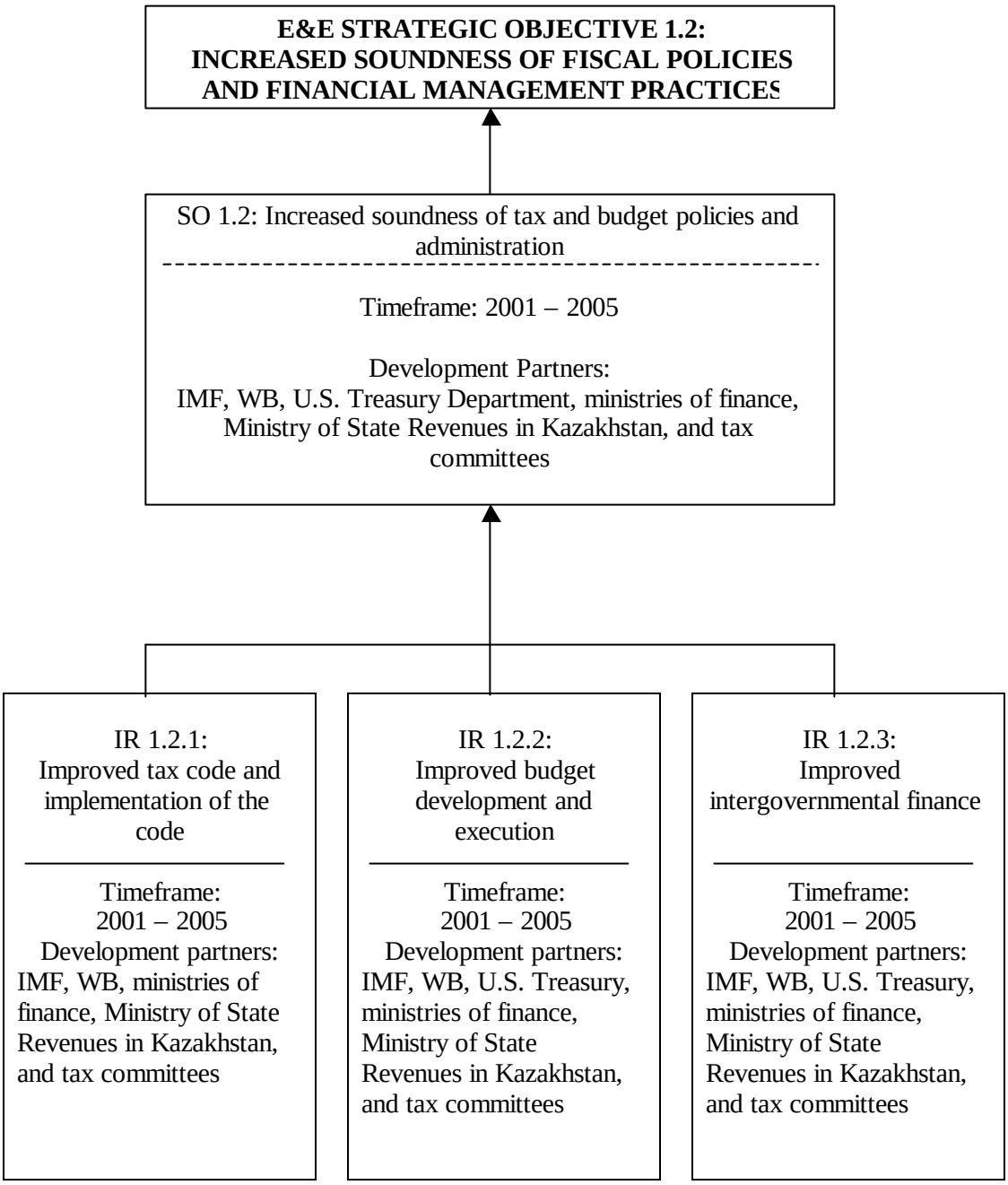
At the end of the strategy period, USAID expects that selected local governments will be more capable and responsive to citizens. Their budgets, strategic plans, procurements, and hiring practices will become more open and transparent. They will use participatory practices, such as public-private local economic development councils, town hall meetings, comment periods, and open council meetings. The elected councils, in the model regions and cities, will regularly present alternate proposals to local government's budgets and social-economic development plans. The local government professionals will be better prepared to perform their jobs, thanks to their successful completion of certificate programs taught by local trainers. Local training institutes will include in their curricula the modules originally developed under donor training programs. There will be a cross-fertilization of ideas as officials from different jurisdictions train together. Sharing of information will also take place via publications by local institutions and NGOs, e-mail networks, and regular meetings of professionals. Furthermore, local government legislation will better clarify the role of local governments in key sectors and allow greater authority in key areas, including budgeting, zoning, and the management of assets and utilities.

Linkages

This Strategic Objective supports the parallel Europe and Eurasia SO 2.3, *More Effective, Responsive and Accountable Local Governance*, and to the USAID agency-wide Objective 2.4, *More Transparent and Accountable Government Institutions.* This Strategic Objective directly contributes to the Mission's objective to *Strengthen Democratic Culture,* (SO 2.1) by involving the public in local government decision-making processes through public hearings, town hall meetings and public-private economic development councils. This objective and the objective *Increased Soundness of Tax and Budget Policies and Administration* (SO 1.2) serve jointly to strengthen budget development and execution at the local level. Work under this objective also contributes to the work achieved under the objective, *Better Access to Quality Primary Care,* (SO 3.2) by helping local officials better analyze the costs of health care.

Annex A: Results Framework

Part I: Schematic Presentation



PART II: NARRATIVE RATIONALE

A. TRANSITION HYPOTHESIS:

A rigorous tax and spending policy, the goal of the Strategic Objective *Increased soundness of tax and budget policies and administration*, will enable Central Asian nations to make the transition from command economies to economies driven by market forces. USAID work over the past five years has helped develop the institutions and mechanisms for devising budgets and collecting taxes. However, these fledgling institutions will require time and human expertise before they will smoothly allocate public resources in a market environment. Kazakhstan and Kyrgyzstan need more technical assistance to ensure long-term economic stability. Improved tax and budget policies and administration would help the governments to raise more revenue, identify priorities for expenditures and better control spending. This objective will only be pursued in Kyrgyzstan and Kazakhstan; both countries have the necessary political commitment to budget reforms and have already undertaken basic reforms in budget and tax policy. These countries have the requisite framework of budget systems laws, tax codes and treasury systems laws.

This strategic objective directly supports *E&E Strategic Objective 1.2: Increased Soundness of Fiscal Policies and Fiscal Management*. Fiscal policy consists of the taxation and spending policies of the government. Fiscal management is the management of public resources that are raised through taxation and spent according to the budget.

B. CRITICAL ASSUMPTIONS:

? The security situation will remain stable;
? Government commitments to reform (local and national level) will be maintained or expanded;
? The effect of external economic crises will be avoided;
? Citizen trust in a market economy will be maintained or strengthened; and
? Other donors will continue to finance key components of fiscal reform (including IMF).

C. CAUSAL LINKAGES

At the end of the strategy period, the strategic objective will be achieved if each government uses modern budget development techniques and tax revenues are between 15 and 20 percent of GDP. Achievement of the objective will be obtained through achievement of three intermediate results: 1) improved tax code and implementation of the code, 2) improved budget development and execution, and 3) improved intergovernmental finance.

Improved tax codes and implementation of the codes will have a positive impact on the government's ability to collect revenues. The tax codes will be improved by simplifying the code and its regulations. A clearer more accessible code will have a positive effect on compliance, because individuals and SMEs are more likely to comply with the law if they understand it. Simplification of the code will also include eliminating special interest exemptions that distort economic behavior. This will serve to broaden the tax base.

An improved implementation of the tax codes will be obtained by reorganization and computerization of the tax inspectorate. Reorganization and computerization will increase the efficiency of the tax inspectorates, enable the inspectorates to implement policies that reduce the likelihood of corruption, and allow the design of processes that will increase compliance . To improve the budget development process, USAID will assist the governments with training budget analysts in program budgeting techniques and assist the governments to improve both the design of the budget document and the budget process. This will result in better-used public resources and will increase the soundness of the governments' budgetary policies.

To improve budget execution, USAID will assist the governments with improving their accounting and spending controls. Better accounting and spending controls will give the governments greater control over the actual spending that takes place. It would help the governments to reduce corruption, and also help them to reduce the level of arrears.

To improve intergovernmental finance, USAID will assist the governments with improving the allocation systems that determine the level of revenues that a local government has to spend on particular programs. As part of this endeavor, USAID will also provide assistance at the local level by training local government budget analysts in program budget techniques. The result will be greater use of modern budgeting techniques.

PART III: PERFORMANCE DATA TABLE: Kazakhstan SO 1.2

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.2	Increased soundness of tax and budget policies and administration	a. Tax revenues as a percent of GDP	**Definition:** Tax revenues as a percent of GDP **Unit:** Percent	**1999**	**13.8**	**14.3**		**14.8**		**15.3**		**15.8**		**16.3**		**16.8**	
		b. Program budgeting benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**1999**													
IR 1.2.1	Improved Tax Code and Implementation of the Code	Tax Code benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**1999**	*												
IR 1.2.2	Improved budget development and execution	Budget development and execution benchmarks achieved	**Definition:** Total value of benchmarks achieved as a percent of total possible value of benchmarks **Unit:** Percent	**1999**	*												
IR 1.2.3	Improved intergovernmental finance	a. Intergovernmental finance benchmarks achieved	**Definition:** Total value of benchmarks achieved as a percent of total possible value of benchmarks **Unit:** Percent	**1999**	*												
		b. Expenditure discretion by local governments	**Definition:** Local government expenditures with budget authority as a percent of total local government expenditures **Unit:** Percent	**1999**	*												

*Baseline and targets to be calculated by May 15, 2000.

PART III: PERFORMANCE DATA TABLE: Kyrgyzstan SO 1.2

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.2	Increased soundness of tax and budget policies and administration	a. Tax revenues as a percent of GDP	**Definition:** Tax revenues as a percent of GDP **Unit:** Percent	**1999**	**13.9**	**14.4**		**14.9**		**15.5**		**15.9**		**16.5**		**16.9**	
		b. Program budgeting benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**1999**	*												
IR 1.2.1	Improved Tax Code and Implementation of the Code	Tax Code benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**1999**	*												
IR 1.2.2	Improved budget development and execution	Budget development and execution benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**1999**	*												
IR 1.2.3	Improved intergovernmental finance	a. Intergovernmental finance benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**1999**	*												
		b. Expenditure discretion by local governments	**Definition:** Local government expenditures with budget authority as a percent of total local government expenditures **Unit:** Percent	**1999**	*												

*Baseline and targets to be calculated by May 15, 2000.

SO 1.2 Increased soundness of tax and budget policies and administration - Kazakhstan and Kyrgyzstan
Performance Monitoring Matrix

Effectively achieving objectives		Budget can be used as a performance measurement tool		Fair horizontal/ vertical equity		Compliance consistent with international standards		Education funding goals met		Decentralization
		Program budgeting meets spending goals		Consistent with international norms in rates, bases and depreciation		Fair consistent application of law		Social safety net funding goals met		Local governments have revenue generating authority
		Program budgeting used in all local governments		Does not discourage foreign investment		Tax compliance consistent with international standards		Capital spending goals met		Local government spending reflects priorities of citizens
Sustainable		Program budgeting process adjusts for programmatic changes		Consistent with need for economic development of SME's		Tax administration consistent with code regulations		Expenditures match targets		Process meets the goals of local governments
		Effective program budget indicators		Process established that prevents bills from being established without quantitative analysis		Certification program financially sustainable		No IFI borrowings required		Process can adapt to increased decentralization
Operationally Functional		Oblast budget development on programmatic basis		Consistent with other laws and regulations		Non-judicial appeals process completed		Annual budget executed		Process provides local government with resources necessary to carry out local spending plans
		Ministries develop budget on programmatic basis		Judicial appeals process reflects intention of the codes		Rules and regulations adequately disseminated to field		Adequate analysis of expenditure plans and budgets		Transfers and subventions adjust for changes in economic conditions
		Budget development forms designed for program budgeting		Amendment review period established		High quality sufficient staff		Medium and long-term expenditure plans		Transfers and subventions transparent
Basic Components		Ministries trained in program budgeting techniques		Implementing regulations consistent with code		Staff adequately trained in basic components		Budget group staffed, trained		Local authorities trained in basic budgeting
		Local government trained in program budgeting techniques		No internal inconsistencies in code		Computerization completed		Budget group has authority Unified treasury system		Important basic functions - education and health assigned to local government
		MinFin Staff trained in program budgeting		Tax Code		Functional organization		Modern budget systems law		Clear expenditure and revenue assignments
	SO 1.2: Program Budgeting		**IR 1.2.1:a. Tax Policy**		**IR 1.2.1:b.Tax Administration**		**IR 1.2.2: Budget**		**IR 1.2.3:a. Intergovernmental Fiscal Finance**	

No Progress Score 0 | Reform Initiated Score 1 | Significant Progress Score 2 | Achieved Score 3

Part I: Schematic Presentation

E&E STRATEGIC OBJECTIVE 1.3:
ACCELERATED GROWTH AND DEVELOPMENT OF PRIVATE ENTERPRISES

SO 1.3: Improved environment for the growth of small and medium sized enterprises

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Timeframe: 2001 - 2005

Development Partners:
EBRD, EU/TACIS, UNDP, the Swiss International Development Agency, KFW and GTZ, WB, ADB, ministries of trade, justice, finance, and education, antimonopoly agencies, courts, business associations, higher education institutions, national banks, financial institutions, President' s Administration in Kyrgyzstan, Council of Justice in Tajikistan, and NSC in Kazakhstan

IR 1.3.1:
Increased opportunities to acquire business information, knowledge, and skills

Timeframe: 2001 – 2005

Development partners:

EBRD, EU/TACIS, UNDP, KFW and GTZ, the Swiss International Development Agency, WB, ADB, ministries of finance and education, antimonopoly agencies, business associations, higher education institutions, President' s Administration in Kyrgyzstan

IR 1.3.2:
More responsive financial institutions, instruments, and markets

Timeframe: 2001 – 2005

Development partners:
EBRD, EU/TACIS, WB, ADB, ministries of finance, national banks, financial institutions, President' s Administration in Kyrgyzstan, and national securities commissions in Kazakhstan and Kyrgyzstan

IR 1.3.3:
Increased implementation of laws and regulations

Timeframe: 2001 – 2005

Development partners:
EBRD, EU/TACIS, OSCE, WB, ADB, ministries of trade, justice, antimonopoly agencies, courts, President' s Administration in Kyrgyzstan, and Council of Justice in Tajikistan

PART II: NARRATIVE RATIONALE

A. TRANSITION HYPOTHESIS.

An improved environment for the growth of small- and medium-sized enterprises (SME) represents the greatest potential for new job creation, economic growth, greater participation, and improved quality of life for the citizens of Central Asia. Further, by creating employment and expanding economic opportunities, such a program can mitigate political and economic crises in some of the key parts of the region such as the Ferghana Valley.

This strategic objective directly supports the E&E Bureau goal (SAA I: Economic Restructuring), namely "To foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed." At a lower level, this SO links directly to the E&E Bureau SO 1.3, Accelerated growth and development of private enterprises.

B. CRITICAL ASSUMPTIONS:

- the security situation will remain stable;
- government commitments to reform will be maintained or expanded;
- the effect of external economic crises will be avoided;
- citizens of Central Asia will at least maintain the existing level of trust in a market economy; and
- other donors will maintain their respective levels of support.

C. CAUSAL LINKAGES:

An improved business environment will greatly stimulate further growth of the SME sector in Central Asia. Three intermediate results will contribute to the achievement of this strategic objective: 1) increased opportunity to acquire business information, knowledge, and skills; 2) more responsive financial institutions, instruments, and markets; and 3) increased implementation of laws and regulations.

USAID will provide citizens of Central Asia with the opportunity to acquire basic business education and skills and to receive direct technical assistance and consulting services. This effort will enhance the ability of Central Asians to understand how companies function and develop in a free market economy, and will enable them to apply the new knowledge and skills. The result will be improved business practices and readily available economic and business information, which will further improve the environment for SME growth.

In addition, more responsive financial institutions, instruments, and markets will provide for the accumulation and distribution of capital needed to finance SMEs, and increase the opportunity of businesses to gain access to credit; thereby, contributing to the improvement of the environment for SME growth.

Finally, to increase implementation of laws and regulations, USAID will provide assistance targeted at reduction of the numerous bureaucratic procedures that stifle SME development. USAID will endeavor to clarify the language of existing laws and regulations, thereby increasing transparency and reducing opportunity for corruption. Removing constraints to businesses will contribute to the improvement of the environment for SME growth.

PART III: PERFORMANCE DATA TABLE: Kazakhstan SO 1.3

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.3	Improved environment for the growth of small and medium sized enterprises	Improved business environment	**Definition:** Index of business environment based on Survey data. **Unit:** Index	**2000**	*												
IR 1.3.1	Increased opportunity to acquire business information, knowledge, and skills	Business knowledge benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	**												
IR 1.3.2	More responsive financial institutions, instruments, and markets	Viable financial institutions in place	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	**												
IR 1.3.3	Increased implementation of laws and regulations	Legal infrastructure for a market economy in place	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	**												

*- Baseline and targets will be calculated by November, 2000, based on a survey that will be designed and implemented by a group of independent experts.

** - Baseline and targets will be calculated by May 15, 2000

PART III: PERFORMANCE DATA TABLE: Kyrgyzstan SO 1.3

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.3	Improved environment for the growth of small and medium sized enterprises	Improved business environment	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	*												
IR 1.3.1	Increased opportunity to acquire business information, knowledge, and skills	Business knowledge benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	**0**												
IR 1.3.3	Increased implementation of laws and regulations	Legal infrastructure for a market economy in place	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	**												

* - an estimate will be available in December 2000

** - an estimate will be available on April 3, 2000

PART III: PERFORMANCE DATA TABLE: Tajikistan SO 1.3

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.3	Improved environment for the growth of small and medium sized enterprises	Improved business environment	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	*												
IR 1.3.1	Increased opportunity to acquire business information, knowledge, and skills	Business knowledge benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	**0**												
IR 1.3.3	Increased implementation of laws and regulations	Legal infrastructure for a market economy in place	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	**												

* - an estimate will be available in December 2000

** - an estimate will be available on April 3, 2000

PART III: PERFORMANCE DATA TABLE: Turkmenistan SO 1.3

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.3	Improved environment for the growth of small and medium sized enterprises	Improved business environment	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	*												
IR 1.3.1	Increased opportunity to acquire business information, knowledge, and skills	Business knowledge benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	**0**												

PART III: PERFORMANCE DATA TABLE: Uzbekistan SO 1.3

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.3	Improved environment for the growth of small and medium sized enterprises	Improved business environment	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	*												
IR 1.3.1	Increased opportunity to acquire business information, knowledge, and skills	Business knowledge benchmarks achieved	**Definition:** Total number of benchmarks achieved as a percent of total possible number of benchmarks **Unit:** Percent	**2000**	**0**												

* - an estimate will be available in December 2000

Performance Monitoring Matrix
Intermediate Result 1.3.1-Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan
Increased opportunity to acquire business information, knowledge, and skills

Effectively achieving objectives	Business training used to improve enterprise operation Course delivered country wide	Business training used to improve enterprise operation Course delivered country wide	Business training used to improve enterprise operation Course delivered country wide	Business training used to improve enterprise operation Course delivered country wide	Business training used to improve enterprise operation Course delivered country wide	Business training used to improve enterprise operation Course delivered country wide	Business training used to improve enterprise operation Course delivered country wide
Sustainable	Trainers improve course content without T/A Course financially viable	Trainers improve course content without T/A Course financially viable	Trainers improve course content without T/A Course financially viable	Trainers improve course content without T/A Course financially viable	Trainers improve course content without T/A Course financially viable	Trainers improve course content without T/A Course financially viable	Trainers improve course content without T/A Course financially viable
Operationally functional	Course attendance meets standards for sufficient class size Courses adapt to economic environment Courses delivered	Course attendance meets standards for sufficient class size Courses adapt to economic environment Courses delivered	Course attendance meets standards for sufficient class size Courses adapt to economic environment Courses delivered	Course attendance meets standards for sufficient class size Courses adapt to economic environment Courses delivered	Course attendance meets standards for sufficient class size Courses adapt to economic environment Courses delivered	Course attendance meets standards for sufficient class size Courses adapt to economic environment Courses delivered	Course attendance meets standards for sufficient class size Courses adapt to economic environment Courses delivered
Training Partners	Trainers trained Local training partner contracted	Trainers trained Local training partner contracted	Trainers trained Local training partner contracted	Trainers trained Local training partner contracted	Trainers trained Local training partner contracted	Trainers trained Local training partner contracted	Trainers trained Local training partner contracted
Training Designed	Materials developed/ purchased Topics selected	Materials developed/ purchased Topics selected	Materials developed/ purchased Topics selected	Materials developed/ purchased Topics selected	Materials developed/ purchased Topics selected	Materials developed/ purchased Topics selected	Materials developed/ purchased Topics selected
	Marketing	Management	Accounting	Finance	Strategy planning	Business plans	Other

No Progress 0 points	Reform Initiated 1 point	Significant Progress 2 points	Achieved 3 points

IR 1.3.2 More responsive financial institutions, instruments and markets - Kazakhstan
Performance Monitoring Matrix

	National Securities Commission	Unified Pension Regulatory Body	Department of Insurance Supervision	Life Insurance Industry	Private Pension Funds	Mortgage Banking Industry	Banking Sector	Bank Supervision	Stock Exchange
Effectively achieving objectives	Leadership	Leadership	Leadership	Capital Accumulation	Pension Funded Annuities	Mortgage-backed debt	Profitable SME lending	Operations accoring to international norms	Introduction of new debt and equity instruments
	Enforcement	Enforcement	Enforcement	Competitive	Competitive	Competitive	Competitive	Enforcement	Actively Trading
	Inspections adequate	Inspections adequate	Inspections adequate	Firms provide service in accordance with best practices	Funds operating in accordance with best practices	Firms provide service in accordance with best practices	Risk managed in accordance with best practices	Inspections adequate	Servicing in accordance with best practices
Sustainable	Technically viable	Technically viable	Technically viable	Technically viable	Technically viable	Technically viable	Safety and soundness	Technically viable	Technically viable
	Financially viable	Financially viable	Financially viable	Financially viable	Financially viable	Financially viable	Financially viable	Financially viable	Financially viable
Operationally Functional	Staff Trained	Staff Trained	Staff Trained	Paying Claims	Staff Trained	Mortgage loans made	Increased loans made	Staff Trained	Debt and equity traded
						Staff trained	Staff Trained		Staff Trained
				Issuing Policies			Adequate capital in the sector		
	Staff in Place	Staff in Place	Staff in Place	Staff Trained	Staff in Place	Staff in Place		Staff in Place	Staff in Place
	Legal and regulatory framework adequate	Legal and regulatory framework adequate	Legal and regulatory framework adequate	Staff in Place	Operational framework adequate	Regulatory framework fosters intermediation	Regulatory framework fosters intermediation	Legal and regulatory framework adequate	Operational framework adequate
Institutions in Place	Empowered	Empowered	Empowered	Established	Empowered	Empowered	Empowered	Empowered	Empowered
	Established	Established	Established	Registered	Established	Established	Established	Established	Established
	Designed	Designed	Designed	Licensed	Designed	Designed	Licensed	Designed	Designed

No Progress Score 0 | Reform Initiated Score 1 | Significant Progress Score 2 | Achieved Score 3

IR 1.3.2 More responsive financial institutions, instruments and markets - Kyrgyzstan Performance Monitoring Matrix

Effectively achieving objectives		Profitable SME lending		Operations according to international norms
		Competitive		Enforcement
		Risk managed in accordance with best practices		Inspections adequate
Sustainable		Safety and soundness		Technically viable
		Financially viable		Financially viable
Operationally Functional		Staff trained		Staff trained
		Adequate capital in the sector		Staff in Place
		Regulatory framework fosters intermediation		Legal and regulatory framework adequate
Institutions in Place		Empowered		Empowered
		Established		Established
		Licensed		Designed
	Banking Sector		**Bank Supervision**	

No Progress Score 0	Reform Initiated Score 1	Significant Progress Score 2	Achieved Score 3

IR 1.3.3 Increased implementation of regulations and laws – Kazakhstan and Tajikistan
Performance Monitoring Matrix

	Bankruptcy	Collateral	Company Law	Competition	Contract	Trade & Investment
Market for Effective System	Supply- state has created an environment for a viable private sector	Supply- state has created an environment for a viable private sector	Supply - state has created an environment for a viable private sector	Supply- state has created an environment for a viable private sector	Supply- state has created an environment for a viable private sector	Supply- state has created an environment for a viable private sector
	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period
	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation
	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms
Supporting Institutions	New types of businesses facilitating use of bankruptcy law	New types of businesses facilitating use of collateral law	Dynamic growth in companies Universities, foundations and think-tanks deal with complexities of law	Businesses facilitating use of competition law	Dynamic growth in companies Universities, foundations and think-tanks deal with complexities of law	Businesses facilitating use of trade & investment laws
	Enforcement agents' effectiveness to execute judgments is adequate	Enforcement agents' effectiveness to execute judgments is adequate	Growing caseload in courts reflects confidence in courts	Enforcement agents' effectiveness to execute judgments is adequate	Growing caseload in courts reflects confidence in courts	Enforcement agents' effectiveness to execute judgments is adequate
	Courts accessible, enforce law and transparent	Courts accessible, enforce law and transparent	NGOs and associations focus on legal and policy issues related to enforcement	Courts accessible, enforce law and transparent	NGOs and associations focus on legal and policy issues related to enforcement	Courts accessible, enforce law and transparent Courts knowledgeable of framework for trade & investment
	Courts adequately staffed with judges and administrative staff	Courts adequately staffed with judges and administrative staff	New types of businesses and services established to facilitate new entrants	Courts adequately staffed with judges and administrative staff	New types of businesses and services established to facilitate new entrants	Courts adequately staffed with judges and administrative staff
Implementing Institutions (II)	II collects and disseminates data on its activities	II collects and disseminates data on its activities	Computerized registration of companies	II collects and disseminates data on its activities	II collects and disseminates data on its activities	II collects and disseminates data on its activities
	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines
	IIs' goals are clear	IIs' goals are clear	IIs' goals are clear	IIs' goals are clear	IIs' goals are clear	IIs' goals are clear
	IIs' basic role and functions defined	IIs' basic role and functions defined	IIs' basic role and functions defined	IIs' basic role and functions defined	IIs' basic role and functions defined	IIs' basic role and functions defined
Legal Framework	Disseminated	Disseminated	Disseminated	Disseminated	Disseminated	Disseminated
	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted
	Adequate law drafted	Adequate law drafted	Adequate law drafted	Adequate law drafted	Adequate law drafted	Adequate law drafted

- no progress Score 0 — reforms initiated Score 1 — significant progress Score 2 — achieved Score 3

*II = Implementing Institute

IR 1.3.3 Increased implementation of regulations and laws – Kyrgyzstan
Performance Monitoring Matrix

	Bankruptcy	Collateral	Company Law	Competition	Contract	Trade & Investment	Land	Regulatory
Market for Effective System	Supply- state has created an environment for a viable private sector	Supply- state has created an environment for a viable private sector	Supply - state has created an environment for a viable private sector	Supply- state has created an environment for a viable private sector	Supply- state has created an environment for a viable private sector	Supply- state has created an environment for a viable private sector		
	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period	Supply- regulations readily available, stake holders afforded notice of draft laws and comment period		
	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation	Demand - business community participated in policy formulation		
	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms	Demand - active lobbying of Government for policy or institutional reforms		
Supporting Institutions	New types of businesses facilitating use of bankruptcy law	New types of businesses facilitating use of collateral law	Dynamic growth in companies Universities, foundations and think-tanks deal with complexities of law	Businesses facilitating use of competition law	Dynamic growth in companies Universities, foundations and think-tanks deal with complexities of law	Businesses facilitating use of trade & investment laws		
	Enforcement agents' effectiveness to execute judgments is adequate	Enforcement agents' effectiveness to execute judgments is adequate	Growing caseload in courts reflects confidence in courts	Enforcement agents' effectiveness to execute judgments is adequate	Growing caseload in courts reflects confidence in courts	Enforcement agents' effectiveness to execute judgments is adequate		
	Courts accessible, enforce law and transparent	Courts accessible, enforce law and transparent	NGOs and associations focus on legal and policy issues related to enforcement	Courts accessible, enforce law and transparent	NGOs and associations focus on legal and policy issues related to enforcement	Courts accessible, enforce law and transparent Courts knowledgeable of framework for trade & investment		
	Courts adequately staffed with judges and administrative staff	Courts adequately staffed with judges and administrative staff	New types of businesses and services established to facilitate new entrants	Courts adequately staffed with judges and administrative staff	New types of businesses and services established to facilitate new entrants	Courts adequately staffed with judges and administrative staff		
Implementing Institutions (II)	II * collects and disseminates data on its activities	II collects and disseminates data on its activities	Computerized registration of companies	II collects and disseminates data on its activities	II collects and disseminates data on its activities	II collects and disseminates data on its activities		
	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines	Staff trained in procedures, guidelines		
	IIs' goals are clear	IIs' goals are clear	IIs' goals are clear	IIs' goals are clear	IIs' goals are clear	IIs' goals are clear		
	IIs' basic role and functions defined	IIs' basic role and functions defined	IIs' basic role and functions defined	IIs' basic role and functions defined	IIs' basic role and functions defined	IIs' basic role and functions defined		
Legal Framework	Disseminated	Disseminated	Disseminated	Disseminated	Disseminated	Disseminated		
	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted		
	Adequate law drafted	Adequate law drafted	Adequate law drafted	Adequate law drafted	Adequate law drafted	Adequate law drafted		

- no progress Score 0 - reforms initiated Score 1 - significant progress Score 2 - achieved Score 3

* II = Implementing Institutions

Part I: Schematic Presentation

E&E PROGRAM OBJECTIVE SO 1.6 :
INCREASED ENVIRONMENTAL MANAGEMENT CAPACITY TO SUPPORT SUSTAINABLE ECONOMIC GROWTH

SO 1.6
Improved management of critical natural resources, including energy

Timeframe: 2001 – 2005
Development Partners: See list below.

IR 1.6.1: Increased management capacity in natural resources sector

Timeframe: 2001-2005
Development Partners: See list below

IR 1.6.2: Improved policy and regulatory framework for natural resources management

Timeframe: 2001-2005
Development Partners: See list below

IR 1.6.3: Sustainable models developed for integrated natural resources management

Timeframe: 2001-2005
Development Partners: See list below

IR 1.6.4: Public commitment established for natural resources management policies

Timeframe: 2001-2005
Development Partners: See list below

Kazakhstan:
Min.of Energy, Industry and Trade,
Min. of Natural Resources and Environmental Protection.
Min. of Agriculture
Agency for Investment
Agency on Natural Monopoly Regulation and Consumer Protection
National Ecological Center
Hydrometerological Agency
Kaz. Electrical Assn.,
Kaz. Petroleum Assn.
Kaz. Electrical Grid
Kaz NIIEnergy
KazNPIEnergoProm

Kyrgyzstan:
Min. of Environment
Min. of Agriculture
State Energy Agency
State Property Fund

Tajiikistan:
Min. of Natural Resources
Min. of Water Management
Min of Agriculture
State Holding Company Barki Tochik
Fuel and Power Complex under the President' s Office.

Uzbekistan:
Min. of Agriculture,
Min. of Energy and Electrification,
Tashkent Inst. of Engineers for Irrigation and Mechanisms of Agriculture,
Committee on Natural Protection,
Uzbekneftegas,
Petroleum Law Working Group,
Boshkommunaigas,
Main Hydgrometeorological Agency for Uzbekistan

Turkmenistan:
Min. of Natural Resources,
Min. of Agriculture,
Competent Body for Oil and Gas under President,
Min. of Oil and Gas Industry,
PEG on Oil and Gas Pipeline Issues,
State Petroleum Companies

Regional:
United Dispatch Center
Under the Interstate Fund to save the Aral Sea, there is:
Exec. Committee – Turkm.
Interstate Coord.
Water Commission-Uzbekistan.
Scientific Information Center – Uzbekistan
Sustainable Devpt. Commission- Uzbek
Basin Water Organz.s of Syr Darya and Amu Darya
Central Asian Economic

PART II: NARRATIVE RATIONALE

A. TRANSITION HYPOTHESIS:

Within the region, there is a slowly developing understanding that past management decisions have been narrow in focus and, while contributing to short-term economic development, have resulted in environmental disasters, e.g., Aral Sea disaster, that have precluded sustained economic development. It is fairly obvious that the policies of the old Soviet Union resulted in an economic model that could not be sustained. Of particular interest to the Mission is an apparent failure of the central planners to appreciate the "cause and effect" relationships generated by many of their policy decisions. Technology within CAR is often sophisticated in many regards and highly appropriate for local conditions. However, with regard to the integrated management of natural resources or even the application of basic environmental mitigation concepts, the available technology is far behind U.S. and European standards. If the economies of CAR are to contribute to long-term, sustainable growth, it will be necessary to increase management capacity to permit reasoned decisions based upon integrated management concepts.

In developing this new strategic objective, the Mission commissioned a series of assessments of ongoing activities under its present program and conducted a number of internal reviews with staff and partners. These assessments and reviews indicated that the three major categories of natural resources in the region – water, energy, and land resources – are all major factors in the development of the region and share common problems. The problems appear to be primarily related to the management of these resources, including the potential for both regional and national conflicts related to allocation and use, deficiencies in education both at the technical implementation and policy generation levels, lack of credible data, and lack of public commitment.

In reviewing these assessments, Mission staff noted that some policy development has been successful, but policy implementation has been disappointing. The privatization anticipated in the previous strategy to be virtually non-stoppable has only occurred in Kazakhstan. The actual utility of that privatization in Kazakhstan has been questioned by some as to its success in contributing to economic growth – cynics might argue that it has only transformed the nature of corruption.

There has been considerable progress towards establishing a policy and regulatory framework for natural resources management, but much remains to be done. Due to the transboundary flow of water within the region, water management is a very complicated and political issue and has potential for creating conflict among the countries. An inequitable allocation of water among the countries could significantly disadvantage the economic position of one or more of them. Oil and gas development within the region has the potential to provide numerous economic opportunities for the citizens of several of the countries. In the past, environmental concerns have largely been neglected in favor of economic growth. USAID has recently promoted a number of policies that support the cost-effective development of oil and gas reserves, while mitigating adverse impacts of such development on the environment. Implementation of these policies will ensure that the citizens of the region enjoy sustained economic benefits from their oil and gas reserves. System losses within the power sector are incredibly high – probably approaching 40%. If the power sector is to become viable, not only must there be tariff reform, but there must be substantial improvements in system efficiencies. Improved efficiencies will lower power costs, thus improving the profit potential of industries and lessening the financial burden of tariff reform on consumers. Kazakhstan, the largest emitter of greenhouse gases in Central Asia, has already established itself as a leader in climate control issues, and recognizes the potential rewards to both its economy and environment if the country can join Annex I of the UNFCCC.

Within the region, there are currently very few practical applications of an integrated approach to the management of natural resources. Demonstrations of the actual application of environmental management policies are needed to test the effectiveness of the policies and to introduce new technologies.

As the countries of the region evolve from a Soviet centralized system to a more market-oriented system, the consumers are coming into conflict with the newly privatized suppliers of services, particularly in the electrical sector. Reform initiatives have contributed to some social hardships. The nascent regulatory agencies typically find themselves in the middle, and unprepared to defend their positions in a convincing manner. If improved management of natural resources is to be sustainable, it will be necessary to develop public confidence in the entities managing these resources and in the policy and regulatory framework governing the management of natural resources.

USAID has made measurable progress towards improving management capacity in the water and energy sectors. Through technical assistance contracts and several partnerships, USAID provided education in natural resources management concepts to regional water managers, national regulatory authority officials, and global climate change specialists. This education included: 1) training in the development and use of an optimal water Syr Darya planning model; 2) presentation of a system to assess, calculate, and recover operation and maintenance costs for hydroelectric facilities; 3) training on several aspects of climate change including provisions of UNFCCC protocols, energy and economic forecasting related to emissions, and energy efficiency issues; and 4) technical support to the Kyrgyz State Energy Agency and the Kazakhstan Anti-Monopoly Commission to improve the capacity of each in the management of tariff issues.

USAID has had results in improving the policy and regulatory framework for natural resources management in the region. USAID assisted in drafting the 1998 Energy and Water Use Agreement – under this umbrella agreement annual water allocations are negotiated. In Kyrgyzstan, an electricity law was developed and passed. Also, a separate Energy Regulatory Authority was established. In Kazakhstan, the government has adopted internationally acceptable regulations for offshore and onshore oil and gas exploration and production. Turkmenistan's government has recently adopted comprehensive regulations for oil and gas industry that will facilitate future international investment. With regard to global climate change issues, the Government of Kazakhstan is developing the economic and energy analysis needed to join the Annex I group of nations as defined by the UNFCCC. USAID also initiated assistance in Kazakhstan to lay the foundation for investments in joint implementation energy and/or industrial projects for reducing emissions.

Nevertheless, USAID has not been involved in the development of models that demonstrate the effectiveness of policies and introduce new technologies. Though USAID has done some work with public regulatory authorities to improve the transparency of government decision-making, it has not been extensively involved in obtaining a public commitment for natural resources management policies.

Regional cooperation related to water and energy resources is important to U.S. strategic and commercial interests. Equitable use of water resources in the region is critical not only to the economic growth of each of the republics, but also to maintaining harmonious relationships among the republics. Of greatest interest to the U.S. is that Central Asia will become a significant energy producer in the near future.

Natural resource institutions were largely gender integrated in the former Soviet Union. Therefore, improving management in these critical institutions will target both men and women in their official capacities.

B. CRITICAL ASSUMPTIONS:

There are two critical assumptions related to the success of this strategic objective.

? Governments, companies and other donors will assist in financing the replication of successful demonstration activities. Certainly within the immediate vicinity of the Aral Sea, there is strong donor interest to fund improvements in the condition of the local population.

? Local service providers can be induced to finance the replication of successful energy efficiency activities based upon the potential cost savings. One international firm involved in the sector is already poised to finance energy efficiency activities based upon its long-term commitment to the region. Whether state-operated entities can be convinced to make similar investments for the future has yet to be determined. In selecting potential demonstration activities, consideration will be given to the potential for replication by others.

C. CAUSAL LINKAGES:

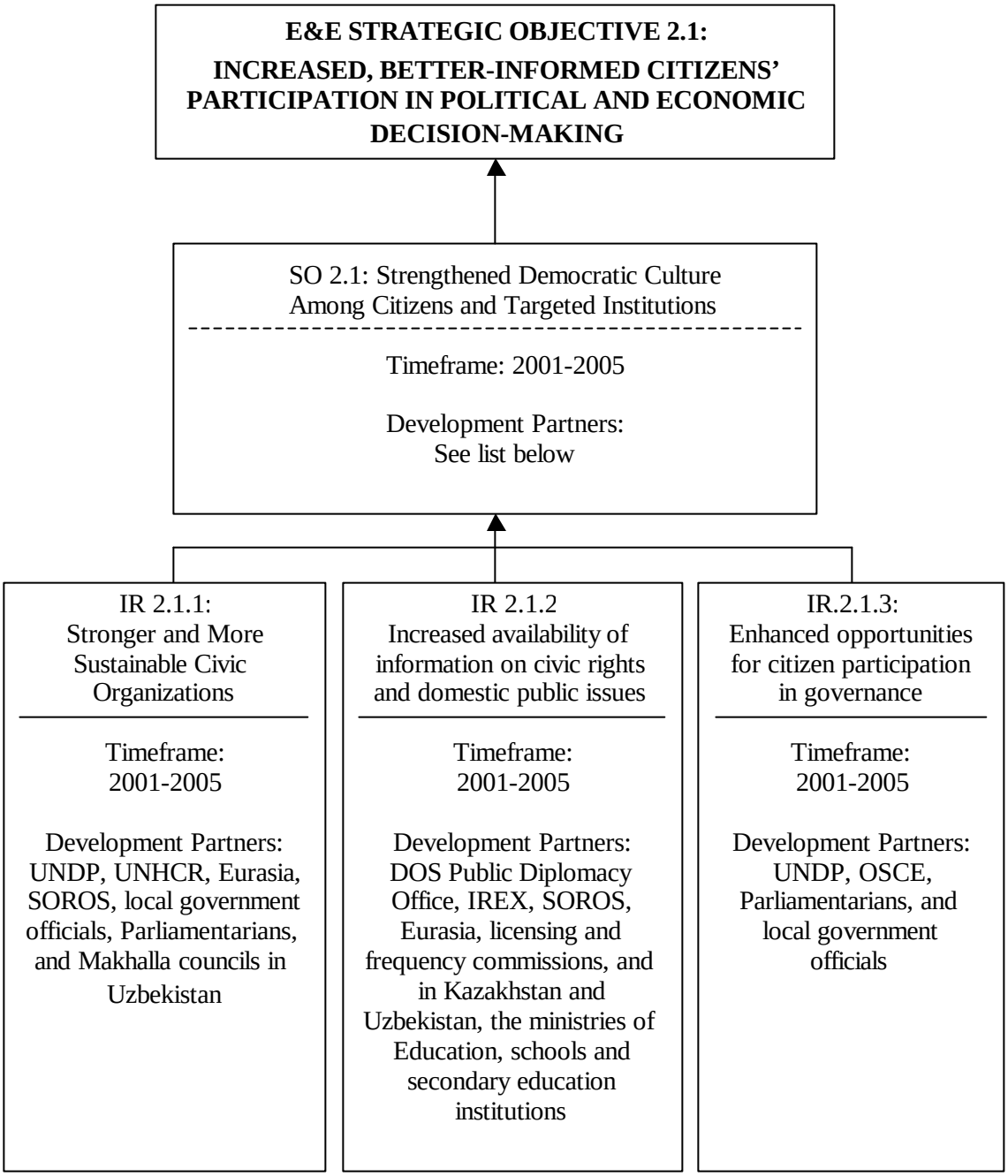
USAID' s limited financial resources cannot be expected to address every important energy or environmental problem across the region. Hence, the careful development of replicable models of integrated natural resource management is central to this strategy. Using localized resource management activities to address multiple, complementary objectives: "ground- truthing" policies and regulations; linking training to real-world applications; building citizen support; and improving the incomes of participating localities is the way to effect change. The fundamental premise of such projects is that they can and will be replicated in the region by local and national governments, other donors, and the private sector. These projects then will be used as examples in training and will be much more acceptable to the policy makers in the region then just by taking US or other country polices and asking the governments to adopt them. Increased knowledge, increased replication, and policy implementation will all lead to **improved management of critical natural resources, including energy**

PART III: PERFORMANCE DATA TABLE: Regional SO1.6

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 1.6	Successful models of integrated resource management adopted and applied	A. USAID/CAR demonstration projects replicated.	**Definition:** Number of USAID/CAR demonstration projects that are replicated throughout CAR **Unit:** Count	**1999**	**0**	**0**		**0**		**4**		**6**		**8**		**10**	
		B. USAID/CAR targeted national policies implemented at the Oblast level.	**Definition:** Number of USAID/CAR targeted national policies implemented at the Oblast level **Unit:** Count	**1999**	**0**	**2**		**4**		**6**		**8**		**10**		**12**	
IR 1.6.1	Increased natural resource management capabilities	A. Number of institutions with personnel trained in integrated natural resource management.	**Definition:** Government institutions that are utilizing courses provided by USAID/CAR in the management of natural resources and/or environmental programs. **Unit:** Count	**1999**	**0**	**0**		**2**		**4**		**8**		**10**		**12**	
		B. Expanded database for water resources established within the Aral Sea Basin	**Definition:** number of sites that are collecting and reporting data on water quality, quantity, and/or flow measurements **Unit:** Count	**1999**	**0**	**0**		**1**		**3**		**5**		**6**		**6**	
		C. Expanded database for forecasting of glacial melt, water allocations, and climate change parameters established within the region.	**Definition:** number of sites collecting atmospheric and glacier data as a result of USAID equipment purchases **Unit:** Count	**1999**	**0**	**0**		**0**		**1**		**2**		**3**		**4**	
		D. Requests for the data collected in USAID/CAR projects by public and private natural resource managers	**Definition:** Number of requests **Unit:** Count	**1999**	**0**	**0**		**2**		**10**		**13**		**15**		**17**	
IR 1.6.2	Improved policy and regulatory framework	Regulations adopted and implemented in the target areas of USAID/CAR assistance	**Definition:** Number of implemented regulations. **Unit:** Count	**1999**	**1**	**1**		**2**		**4**		**6**		**8**		**10**	
IR 1.6.3	Sustainable cost–effective models developed	USAID/CAR demonstrated models that are implemented and are successful by being cost effective and sustainable	**Definition**: Number of models that are developed that are replicated by others. **Unit:** Count	**1999**	**0**	**0**		**0**		**2**		**4**		**8**		**10**	
IR 1.6.4	Public commitment established for natural resource management polices	A. Increase citizen participation during government policy formulation process	**Definition:** Count of government rate decisions and changes of policy that had public input **Unit:** Count	**1999**	**3**	**6**		**10**		**15**		**20**		**25**		**30**	

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 1.6.4	Public commitment established for natural resource management polices	B. Social safety net established for financially disadvantage energy consumers	**Definition:** A point is given for each utility that has a safety net practice. A separate utility is counted for heat, electricity, hot water, and natural gas in a particular locality. **Unit:** Score	**1999**	**0**	**0**		**0**		**4**		**8**		**10**		**12**	
		C. NGOs are increasingly involved in the decision making process of environmental issues	**Definition:** Number of activities that indicate government policy makers are accepting NGOs as a viable source of information and advocacy **Unit:** Count	**1999**	**2**	**4**		**8**		**10**		**12**		**15**		**18**	

Part I: Schematic Presentation



PART II: NARRATIVE RATIONALE

A. TRANSITION HYPOTHESIS:

The Central Asian states diverge from those in Eastern Europe in that, in the latter countries there was an evident consensus and commitment among citizens and governing elites to reform. In Central Asia, there has been no such consensus. Less than a decade ago, the Soviet Republics of Central Asia became all of a sudden and, for the most part, unwillingly independent. Independence did not emerge from a popular movement for change or from a cadre of enlightened reformist politicians. Furthermore, in contrast to the European USSR, the Central Asian Republics were far from the center of political debates during the Soviet period and more often than not had to follow policies decided on in Moscow. In short, Central Asia has had very little experience with modern democratic values and norms. The only indigenous modern democratic movements in the region were small and short-lived—their leaders having been liquidated during the revolution and the Stalinist purges of the 1930s.

This difference in where the existence of the problem stems from warrants an approach to democracy assistance in Central Asia that differs from that employed in Eastern Europe and much of the European NIS. Democracy assistance requires more than facilitating simple political transition that replaces forcibly supplanted authoritarianism with earlier held values. Likewise, this assistance must provide more than tools to progressive reformers committed to change. The long-term establishment of democracy in the region requires first and foremost more fundamental changes. Assistance must make people aware of the possibilities available to them and increase the popular demand for change by fostering political will and commitment for reform among both citizens and governing elites . In other words, the situation does not call for assistance facilitating *political transition*; it calls for assistance *strengthening democratic culture*, the stated strategic objective.

This strategic objective directly contributes to the E&E Bureau goal SAA II "to support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes." It also supports SO 2.3: More effective, responsive and accountable local government and contributes to a stable economic environment (SAA I) by aiming to increase transparency and the availability of information.

B. CRITICAL ASSUMPTIONS:

? Civic organizations will be allowed to operate without significantly increased government interference
? Independent media will be allowed to operate without significantly increased government interference
? In Tajikistan, peace and reconciliation will continue, without serious disruption

C. CAUSAL LINKAGES:

Three intermediate results will contribute to the achievement of a strengthened democratic culture among citizens and targeted institutions. These results are 1) stronger and more sustainable civic organizations; 2) increased availability of information on civic rights and domestic public issues; and 3) enhanced opportunities for citizen participation in governance.

Supporting stronger and more sustainable civic organizations will create local mechanisms that foster citizen empowerment and encouragement to participate in community or issue-oriented decision-making. Both citizens and civic organizations will thrive with increasing access to and availability of information, including alternative information provided by independent media, other civic and international

organizations, and the internet. Citizens and stronger civic organizations possessing objective and manageable information can more effectively interface with local and national government officials and better contribute to decision-making processes. Furthermore, social partnerships (i.e., between communities/NGOs, government, and the private sector), town hall meetings, public hearings and institutionalized receptivity on the part of the government to public input will create opportunities for dialogue and the potential for building trust between citizens and government. These three intermediate results serve to foster an attitudinal change about what constitutes a democratic polity and about how citizens and targeted institutions can together bring about democratic reforms.

PART III: PERFORMANCE DATA TABLE: SO 2.1

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 2.1	**Strengthened Democratic Culture Among Citizens and Targeted Institutions**	Percentage of targeted population exhibiting civic consciousness and activism.	**Definition:** A list of basic information questions will be included in a survey to determine what percentage of targeted population exhibits increased civic consciousness and activism (as defined by % of citizens with civic knowledge and skills, exhibiting democratic values, and participating in political activities). "Targeted population" is defined as youth between 18 and 35 years old. **Unit:** Percentage	*													
IR 2.1.1	**Stronger and More Sustainable Civic Organizations**	NGO Sustainability Index	**Definition:** The democracy roundtable will use the E&E NGO Sustainability Index to assess the sustainability of the NGO sector. **Unit:** The democracy round table will calculate the NGO sustainability index (per E&E model) every six months.	KZ 99	4.8	**4.5**		**4.2**		**3.8**		**3.4**		**3.0**		**2.5**	
				KY 99	4.2	**4.0**		**3.9**		**3.5**		**3.1**		**2.7**		**2.2**	
				UZ 99	5.3	**5.1**		**4.9**		**4.5**		**4.1**		**3.7**		**3.3**	
				TJ 99	6.1	**6.0**		**5.8**		**5.4**		**5.1**		**4.7**		**4.3**	
				TK 99	6.6	**6.4**		**6.2**		**5.9**		**5.6**		**5.3**		**5.0**	
IR 2.1.2	**Increased Availability of Information on Civic Rights and Domestic Public Issues**	A. Media Sustainability Index	**Definition:** To be developed by the E&E Bureau **Unit:**	**													
		B. Increased # of targeted citizens participating in civic education programs	**Definition:** Targeted citizens are defined as students who have received civic education classes and/or participants in civic education training. **Unit:** Percentage of students and participants.	***													

* Baseline data for this indicator will be collected by November 2000.

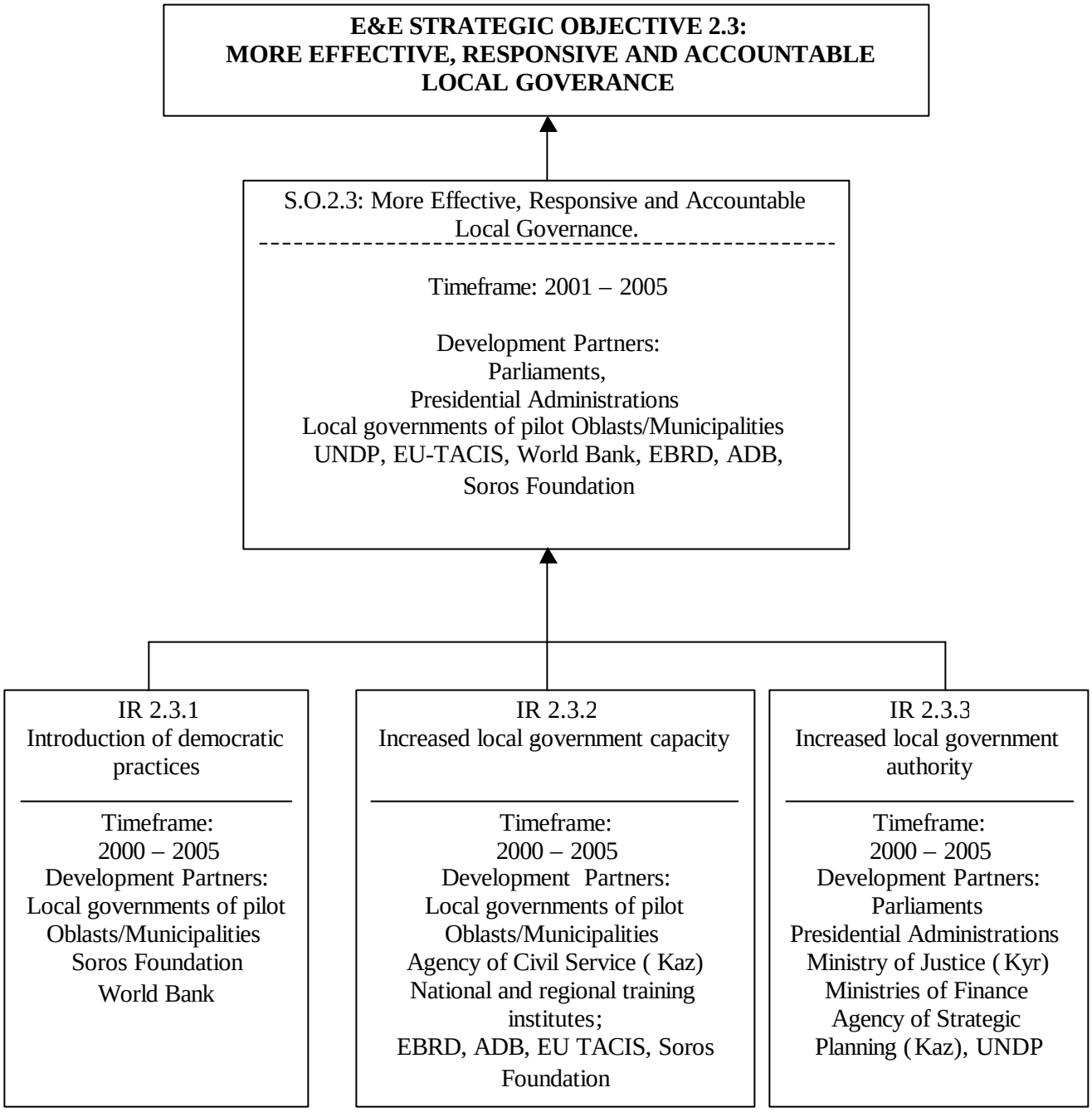
** Baseline data for this indicator will be collected once E&E/DGSR develops the Index.

*** Baseline data for these indicators will be collected in June 2000.

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
IR 2.1.3	Enhanced Opportunities for Citizen Participation in Governance	Scorecard of citizens' access to meetings and records of legislative proceedings	**Definition:** A scorecard will be based upon the following criteria: a) do citizens have access to records of public meetings; b) are citizens able to find out who or what group is responsible for particular areas and decisions; c) are citizens able to obtain voting records of MPs; d) are citizens granted access to meetings of the parliament; e) are citizens granted access to committee meetings; f) are open committee meetings, public hearings, town hall meetings, and other forums for citizens' participation open to independent media; g) are open committee meetings, public hearings, town hall meetings, and other forums for citizens' participation held frequently. Each of these criteria should be scored from 0 to 5, (0 – never, 5 – always). The scores for all elements will be totaled. **Unit:** Index score	***													

* Baseline data for this indicator will be collected by November 2000.
** Baseline data for this indicator will be collected once E&E/DGSR develops the Index.
*** Baseline data for these indicators will be collected in June 2000.

Part I: Schematic Presentation



PART II: NARRATIVE RATIONALE

A. TRANSITION HYPOTHESIS:

Local government is at the crux of many of the current political, economic and social developments. Yet local governments in Kazakhstan and Kyrgyzstan are all too often corrupt and ineffective and hamper progress. National laws are not implemented and local regulations are obstructionist. Achievement of many of the other strategic objectives depend on local governments becoming more effective, responsive, and accountable. The local government program's presence in areas of regional focus allows it to serve as a platform for other assistance efforts, which require cooperation on the part of the local government. The objective is to strengthen local governments as both democratic and service providing institutions. Local governments, especially if selected for their openness to reform, are more accessible and amenable to citizen participation than national governments. Within this Strategic Objective the emphasis is on preventing corruption by promoting transparency and participation in government practices, such as procurement, budgeting and financial management, and by promoting checks and balances within administrations and between the elected councils and administrations.

B. CRITICAL ASSUMPTIONS:

This strategy assumes that:

? The turnover in the national and local administrations will not be so extensive as to prevent new governance practices from taking root.
? The presence of supportive counterparts at decision-making levels in our pilot sites and at the national level who allow changes that prevent graft and corruption.
? The government trend continues towards more accountable forms of local governance--through direct or indirect elections of local executives or greater authorities for elected councils.

C. CAUSAL LINKAGES

Tangible improvements in pilot sites are possible without changing current policies. The improved practices result in greater citizen input and better services, thus contributing directly to the strategic objective. By bringing improved local performance to the attention of national policymakers and demonstrating the potential of local government, receptivity to decentralization is cultivated. Legislative and regulatory changes that strengthen local authorities, the evidence of greater receptivity, in turn allow greater improvement at the local level. Change is accelerated and improved performance is sustained by institutional changes that strengthen the accountability of local administrations to their local constituents.

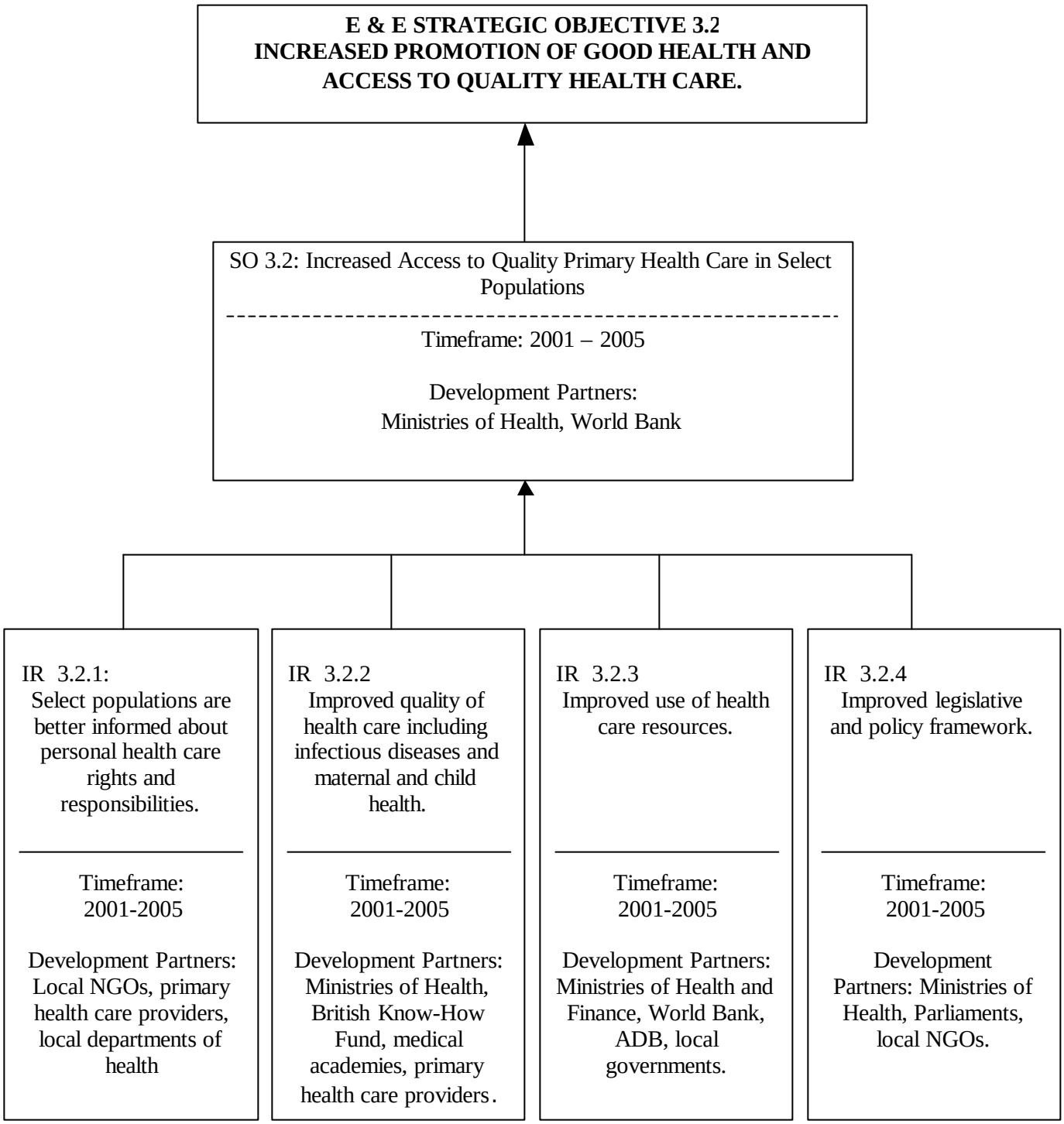
PART III: PERFORMANCE DATA TABLE: Kazakhstan SO 2.3

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 2.3	**More effective, responsive and accountable local governance**	Public confidence in local government increases.	**Definition:** **Unit:** % of public expressing confidence in local government as a public institution. **Source:** ODT/BRIF Public Opinion Poll.	2000		N/A	N/A										
IR 2.3.1	**Introduction of democratic practices**	Increase in use of participatory and transparent governance practices	**Definition: "** Participating practices "includes open hearings, task forces, commissions; "Transparent procedures" include publications, open council meetings, information offices, budget-in-briefs. " Target local governments " are 14 Oblast governments, Astana and Almaty, and 39 cities of Oblast significance (55 local gov't in total). **Unit:** % of target local governments that use more transparent procedures and vehicles for citizen involvement. (Note: This indicator measures dissemination beyond the pilot site. Practices need to be adhered to in the reporting period in order to be included.) **Source:** Contractor Reports, Newspaper Monitoring.	1999	3.6%	8%		14%		22%		30%		40%		50%	
IR 2.3.2	**Increased local government capacity**	Improvement in management practices	**Definition: "** Improved management practices" includes competitive procurement practices, program budgeting, strategic planning, maintenance or disposal of communal property. "Target local governments" are defined in 2.3.1 **Unit:** % of target local governments that adopt techniques such as competitive procurement , program-based budgeting, strategic planning. (This indicator measures dissemination beyond the pilot sites.) **Source:** Contractor reports, USAID monitoring reports.	1999	1.8%	7.2%		20%		30%		40%		50%		60%	
IR 2.3.3	**Increased local government authority**	Increase in functions, with corresponding funding and authority, clearly identified as local government responsibilities	**Definition**: 1) authority to manage services delivered at local level 2) access to revenue base they can influence 3) power to make budget decisions independently 4) leadership accountable to citizens through elected officials 5) control over local property 6) department heads are accountable to the local government and not the central government. **Unit:** Rating of 1-6 based on establishment of necessary criteria for local government function: a half point for "de jure" changes, a half point for "de facto" changes. **Source:** An annual review with scoring done by consensus by USAID, Contractors, and independent experts.	1999	1	2.5		3		3.5		4.0		4.5		5	

PERFORMANCE DATA TABLE: Kyrgyzstan SO 2.3

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO2.3	**More effective, responsive and accountable local governance**	Public confidence in local government increases.	**Definition:** **Unit:** % of public expressing confidence in local government as a public institution. **Source:** ODT/BRIF Public Opinion Poll.	**2000**		N/A	N/A										
IR 2.3.1	**Introduction of democratic practices**	Increase in use of participatory and transparent governance practices	**Definition**: "Participating practices" include open hearings, task forces and commissions; "transparent procedures" include publications, open council meetings, information offices, budget-in-briefs. "Target local governments" are 14 municipalities with a population greater than 20,000. **Unit:** % of target local governments that use more transparent procedures and vehicles for citizen involvement. (Note: This indicator measures dissemination beyond the pilot site. Practices need to be adhered to in the reporting period in order to be included.) **Source:** Contractor Reports, Newspaper Monitoring.	**1999**	7%	28%		49%		84%		100%		100%		100%	
IR 2.3.2	**Increased local government capacity**	Improvement in management practices	**Definition**: "Improved management practices" include competitive procurement practices, program budgeting, strategic planning, maintenance or disposal of communal property. "Target local governments" are defined in 2.3.1 above. **Unit:** % of target municipalities that adopt techniques such as competitive procurement, program-based budgeting and strategic planning. (This indicator measures dissemination beyond the pilot sites.) **Source:** Contractor reports, USAID monitoring reports.	**1999**	3.5%	28%		56%		70%		85%		100%		100%	
IR 2.3.3	**Increased local government authority**	Increase in functions, with corresponding funding and authority, clearly identified as local government responsibilities	**Definition**: 1) authority to manage services delivered at local level 2) access to revenue base they can influence 3) power to make budget decisions independently 4) leadership accountable to citizens through elected officials 5) control over local property 6) department heads are accountable to the local government and not the central government. **Unit:** Rating of 1-6 based on establishment of necessary criteria for local government function: a half point for "de jure" changes, a half point for "de facto" changes. **Source:** An annual review with scoring done by consensus by USAID, Contractors, and other independent experts.	1999	1	2		3		4		5		5.5		6	

Part I: Schematic Presentation



PART II: NARRATIVE RATIONALE

A. TRANSITION HYPOTHESIS

Since the breakup of the Soviet Union, the health care infrastructure and services in Central Asia have suffered as a result of reduced funding and an inability to rationalize in the face of scarcity. The Soviet system relied on specialized facilities with large numbers of staff and prolonged hospitalizations. The Central Asian Republics can no longer afford such a costly system. Currently, clinical, preventive and curative health services are inadequate and poorly managed. Health care is one of the areas where the human costs of the transition have been the most evident. This is reflected in a decreasing average life span, continued high rates of abortion, infant, and maternal mortality, and increased disease in the region, including increased infectious disease.

Continued fiscal and social pressures make change inevitable. With other donors, we are guiding the governments to use scarce economic resources more effectively to ensure healthier populations. A healthy population is crucial to the social and economic development of the new states of Central Asia. Jointly, USAID/CAR and other donors are successfully promoting the importance of primary health care and the need to integrate previously vertical programs into it. At the heart of this program are family doctors. The doctors, previously specialists, are being given the training and basic equipment necessary to provide increasingly more comprehensive health care such as basic lab tests, family planning services and health education. In Kyrgyzstan and some regions of Kazakhstan and Uzbekistan, these physicians work together in primary health care practices that are revolutionary in Central Asia for several reasons. First, doctors choose with whom they practice, as opposed to being assigned. Secondly, clients decide in which practice they will enroll. Since physicians are paid on the basis of the number of persons enrolled in their practices, there are real incentives to provide quality, client-centered care.

A workable primary health care model has been developed in Kyrgyzstan, Kazakhstan and Uzbekistan, but much work remains to produce a sustainable system. In Kazakhstan and Uzbekistan, most pilot programs reach only small segments of the population. The CAR governments do not have the resources to strengthen and complete pilots or replicate them without financial and technical assistance from the donor community.

USAID/CAR designed its new Strategic Objective (3.2): Increased Access to Quality Primary Health Care in Select Populations to address multiple health problems in the five Central Asian Republics (CAR) with a comprehensive, integrated cost-effective approach at the community level. This SO will contribute to the E&E transition goal: Enhance the ability of all persons to enjoy a better quality of life within market economies and democratic societies. More specifically, this SO will directly impact on the E&E SO 3.2: Increased promotion of good health and access to quality health care.

B. CRITICAL ASSUMPTIONS

? That implementation will not be unduly disrupted by frequent changes in Ministries of Health leadership and policy affecting sector development.

? That the respective Ministries of Health (Agency of Health in Kazakhstan), World Bank, and Asian Development Bank will deliver necessary clinical equipment, supplies and facility improvements expected in a timely and effective manner in Kazakhstan, Kyrgyzstan, and Uzbekistan.

? That the security situation will allow implementation to continue in Southern Kyrgyzstan, Eastern Uzbekistan, and Tajikistan.

? That the Government of Turkmenistan relaxes exit visa protocols and NGO/PVO registration to facilitate partnership possibilities.

C. CAUSAL LINKAGES

Achievement of this objective requires work in four different areas simultaneously. First, *the population must be better informed about its personal health care rights and responsibilities*. In Soviet times, the patients were recipients, not participants in their health care. Now citizens are encouraged to take responsibility for their own health. Citizens need information to make decisions about their own behavior and health. In addition to community level health promotion and information campaigns, primary health care providers will disseminate health information and help clients make informed choices about important lifestyle issues of smoking, alcohol use, diet and/or sexual practices. Information about citizens' right to choose their health care provider will in turn reinforce an incentive structure that rewards quality, patient-centered care.

Second, the *quality of primary care health care must improve and services must encompass infectious diseases and maternal and child health care*. Improved clinical practices and quality services are essential to attract the population to primary health care and away from hospitals--information campaigns to encourage target populations to enroll in primary healthcare practices, for instance, will not succeed unless there is a quality product. USAID will support use of evidence-based clinical protocols and establishment of quality assurance systems. Integrated services at the primary health care level are also essential to achieving greater cost-effectiveness within the health sector. USAID will support the provision of a wide range of services at the community and primary health care level, including appropriate counseling and services for immunization, hygiene, healthy lifestyles, modern contraception, HIV/AIDS/STIs, TB, ARI, CDD, and prenatal care. Infectious diseases such as multi-drug resistant TB continue to pose a serious health threat requiring that greater attention be paid to the management of laboratories, surveillance systems and pharmaceutical supplies. In particular, a cadre of laboratory professionals needs to be developed who can accurately diagnose infectious diseases reliably according to WHO protocols and assist with the establishment of dependable health information systems.

If the health financing system is not changed, primary health care providers will always be the last in line for resources. Therefore, *improved use of health care resources for primary health care* must be pursued in tandem with clinical improvements. The emphasis will be on bringing health resources more in line with health needs, promoting the implementation of new service-based payment mechanisms for providers and developing more reliable management information systems for resource decisions. If family physicians do not have the discretionary resources to buy essential drugs, for instance, their ability to provide quality health care is severely limited and patients once more have an incentive to go directly to hospitals. Also, changing the financing structure to a per capita payment to physicians is a key to making an individual's right to choose her own provider meaningful. Sound national and local budget policies and administration are essential to improve access to quality primary health care, as the amount of funding devoted to health care, and within the health care budget to primary health care, is ultimately a political decision. Therefore, USAID will help develop a cadre of informed citizens who can advocate for an increased allocation of health care funds to primary health care.

The legal and regulatory framework stemming from the Soviet health system has been a barrier to the development of integrated primary health care systems. Therefore, *the legislative, regulatory and policy framework for primary health care must be strengthened*. Recent country assessments found that through USAID assistance a legal base for increased access to primary health care had been created in Kyrgyzstan, Kazakhstan, and Uzbekistan. Generally, this new legal framework has not been implemented. The greatest progress has been made in Kyrgyzstan. However, the roles and resources of primary health care practices versus specialists and hospitals still need further definition. It should be possible to institutionalize reforms in Kyrgyzstan in this next strategic period.

PART III: PERFORMANCE DATA TABLE – Kazakhstan SO 3.2

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT (*DATA SOURCE*)	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO3.2	Increased Access to Quality Primary Health Care in Select Populations	Select populations have access to integrated PHC.	Definition: % of national population which is enrolled in a Primary Healthcare Practice with an integrated package of primary health care services: MCH, infectious diseases, STIs and health lifestyles. Unit: % of population enrolled. Source: Agency on Health	1999	5% Satpv Zhez Semi rural	10% Satp Zhez East Kaz Oblast		19% Kara EKaz		23% Kara EKaz Atyr		26% Kara EKaz Atyr Alma oblst (not city)		31% Kara Ekaz Atyr Alma Obl Pavl		39% Kara Ekaz Atyr Alma (all) Pavl	
IR 3.2.1	Select populations are better informed about personal health care rights and responsibilities.	Select populations who know important health-related information.	Definition: Percentage of population in pilot sites who know: how to treat children's diarrheal disease; proper nutrition to prevent anemia; how to prevent pregnancy; how to prevent HIV/ AIDS/STIs; what the harmful effects of tobacco and alcohol are; signs and symptoms of TB. Source: Population-based KAP Survey	2000	Diarrhea Semipala 45% Zhezkez gan 35% Drugs: Semey 25% Zhezkez gan 76%												
IR 3.2.2	Improved quality of health care including infectious diseases and MCH.	a)Percentage of patients in pilot sites satisfied with PHC services. .	Definition: Satisfaction is judged by annual patient surveys, which are administered annually. Unit: Percentage of satisfied patients, averaged by the number of pilot sites in a country. Source: Agency on Health or Primary Health Care Association surveys.	2000	Semipala 44% Zhezkesg an 79%												
		b)Number of PHC providers and ID specialists accredited or retrained	Definition: An eight-week introduction to family medicine training program exists in Kazakhstan. ID specialists are considered retrained after completing XX courses Unit: Number completing training required for accreditation, retraining. Cumulative. Source: Agency on Health or Primary Health Care Association surveys.	2000	1,112	1,800		2,800		3,800		4,800		5,800		6,800	

IR 3.2.3	Improved use of health care resources.	Out–patient primary health care expenditure compared to hospital-based expenditures in pilot areas.	Definition: Percentage of out-patient primary health care expenditure increases in comparison to hospital-based expenditures in pilot areas. Unit: Percent increase in expenditures Source: Agency on Health	2000	X	X + 5%		X + 10%		X + 20%		X + 30%		X + 40%		X + 50%	
IR 3.2.4	Improved legislative, regulatory, and policy framework.	Overall reform environment in relation to the following key reforms at the national level.	Definition: The key reforms are 1) Primary health care practices (PHCP) decree enforced. 2) Health sector NGOs active. 3) PHCP enrollment system in place 4) Provider payment systems and health insurance decrees established 5) Provider management information systems in place 6) Clinical protocols introduced. Unit: A maximum of six points can be given: 1) ½ for decree enforcement in pilot sites; ½ for enforcement in second tier sites. 2) ½ for active health sector NGOs in pilot sites ; ½ for second tier sites. 3) ½ for PHCP enrollment in pilot sites; ½ in second tier sites; 4) ½for the enforcement of decrees, 1/2 for an operating, service-based payment system. 5) ½for information management systems in place in pilot sites ; ½ for second tier sites. 6) ¼ for updated protocols in MCH, ¼ for ID, ¼ for STIs, ¼ for guidelines for healthy lifestyles. Source: Annual Program Review with a panel of USAID staff, Contractors, and independent experts.	2000	TBC												

PART III: PERFORMANCE DATA TABLE – Uzbekistan SO 3.2

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 3.2	Increased access to quality primary health care in select populations	Select populations have access to integrated PHC in pilot oblasts	Definition: % of national population which is enrolled in a Primary Healthcare Practice with an integrated package of primary health care services: MCH, infectious diseases, STIs and health lifestyles. Unit: % of population enrolled. Source: Ministry of Health	2000	0%												
IR 3.2.1	Select populations are better informed about personal health care rights and responsibilities.	Select populations who know important health-related information.	Definition: Percentage of population in pilot sites who know: How to treat children's diarrheal disease; Proper nutrition to prevent anemia; How to prevent pregnancy; How to prevent HIV/AIDS/ STIs; What the harmful effects of tobacco and alcohol are; Signs and symptoms of TB. Source: Population-based KAP Survey	1999	0%												
IR 3.2.2	Improved quality of health care including infectious diseases and MCH.	a)Percentage of patients in pilot sites satisfied with PHC services.	Definition: Satisfaction is judged by annual patient surveys, which are administered annually. Unit: Percentage of satisfied patients, averaged by the number of pilot sites in a country. Source: Ministry of Health or Primary Health Care Association surveys.	1999	0%												
		b)Number of PHC providers and ID specialists accredited or retrained.	Definition: A family medicine accreditation program exists in Uzbekistan. ID specialists are considered retrained after completing XX courses. Unit: Number completing training required for accreditation, retraining. Source: Ministry of Health or Primary Health Care Association surveys.	1999	0	200											

IR 3.2.3	Improved use of health care resources.	Out–patient primary health care expenditure compared to hospital-based expenditures in pilot areas.	Definition: Percentage of outpatient primary health care expenditure increases in comparison to hospital-based expenditures in pilot areas. Unit: Percent increase in expenditures Source: Ministry of Health	2000	20%												
IR 3.2.4	Improved legislative, regulatory, and policy framework.	Overall reform environment in relation to the following key reforms at the national level.	Definition: The key reforms are: 1) Primary health care practices (PHCP) decree enforced. 2) Health sector NGOs active. 3) PHCP enrollment system in place 4) Provider payment systems and health insurance decrees established 5) Provider management information systems in place 6) Clinical protocols introduced. Unit: A maximum of six points can be given: 1)½ for decree enforcement in pilot sites; ½ for enforcement in second tier sites. 2)½ for active health sector NGOs in pilot sites; ½ for second tier sites. 3)½ for PHCP enrollment in pilot sites; ½ in second tier sites; 4)½ for the enforcement of decrees, ½ for an operating, service-based payment system. 5)½ for information management systems in place in pilot sites; ½ for second tier sites. 6)¼ for updated protocols in MCH, 1/4 for ID, 1/4 for STIs, ¼ for guidelines for healthy lifestyles. Source: Annual Program Review with a panel of USAID staff, Contractors, and independent experts.	2000													

PART III: PERFORMANCE DATA TABLE – Kyrgyzstan SO 3.2

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 3.2	Increased access to quality primary health care in select populations	Select populations have access to integrated PHC in pilot oblasts	Definition: % of national population who are enrolled in an integrated package of primary health care services : MCH, infectious diseases, STIs and healthy lifestyles. Unit: percent Source: Mandatory Health Insurance Fund records, Semi-Annual Program Review	1999	40%												
IR 3.2.1	Select populations are better informed about personal health care rights and responsibilities.	Select populations who know important health-related information.	Definition: Percentage of population in pilot sites who know: How to treat children's diarrheal disease; Proper nutrition to prevent anemia; How to prevent pregnancy; How to prevent HIV/AID S/ STIs; What the harmful effects of tobacco and alcohol are; Signs and symptoms of TB. Source: Pop.-based KAP Survey	1999	Diarrhea Issykul 55% Pregnancy Prevention South 30%												
IR 3.2.2	Improved quality of health care including infectious diseases and MCH.	a)Percentage of patients in pilot sites satisfied with PHC services.	Definition: Satisfaction is judged by annual patient surveys, Unit: Percentage of satisfied patients, averaged by the number of pilot sites in a country. Source: Mandatory Health Insurance Fund or Primary Health Care Association surveys.	1999	Issykul 73% Bishkek /Chui 42%												
		b)Number of PHC providers and ID specialists accredited or retrained	Definition: A family medicine accreditation program exists in Kyrgyzstan. ID specialists are considered retrained after completing XX courses. Unit: Number completing training required for accreditation, retraining. Source: Mandatory Health Insurance Fund or Primary Health Care Association surveys.	1999	Issykul 214												

IR 3.2.3	Improved use of health care resources.	Out–patient primary health care expenditure compared to hospital-based expenditures in pilot areas.	Definition: Percentage of outpatient primary health care expenditure increases in comparison to hospital-based expenditures in pilot areas. Unit: Percent increase in expenditures Source: Mandatory Health Insurance Fund, Ministry of Health	1999	TBC												
IR 3.2.4	Improved legislative, regulatory, and policy framework.	Overall reform environment in relation to the following key reforms at the national level.	Definition: The key reforms are: 1) Primary health care practices (PHCP) decree enforced. 2) Health sector NGOs active. 3) PHCP enrollment system in place 4) Provider payment systems and health insurance decrees established 5) Provider management information systems in place 6) Clinical protocols introduced. Unit: A maximum of six points can be given: 1) ½ for decree enforcement in pilot sites ; ½ for enforcement in second tier sites. 2) ½ for active health sector NGOs in pilot sites ; ½ for second tier sites. 3) ½ for PHCP enrollment in pilot sites; ½ in second tier sites; 4) ½ for the enforcement of decrees, ½ for an operating, service-based payment system. 5) ½ for information management systems in place in pilot sites; ½ for second tier sites. 6) ¼ for updated protocols in MCH, ¼ for ID, ¼ for STIs, ¼ for guidelines for healthy lifestyles. Source: Annual Program Review with a panel of USAID staff, Contractors, and independent experts.	1999	TBC												

PART III: PERFORMANCE DATA TABLE – Tajikistan SO 3.2

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO 3.2	Increased access to quality primary health care in select populations	Select populations have access to integrated PHC	Definition: % of national population which receives an integrated package of primary health care services : MCH, infectious diseases, STIs and healthy lifestyles in a PHC facility. Unit: % of population receiving PHC services Source: MOH	2000	TBC												
IR 3.2.1	Select populations are better informed about personal health care rights and responsibilities.	Select populations who know important health-related information.	Definition: Percentage of population in pilot activity who know: How to treat children's diarrheal disease; Proper nutrition to prevent anemia; How to prevent pregnancy; Source: Semi-annual program reviews and implementing partners	2000	TBC												
IR 3.2.2	Improved quality of health care including infectious diseases and MCH.	b)Number of PHC providers and ID specialists accredited or retrained.	Definition: A family medicine accreditation program exists in Tajikistan. Unit: Number of PHC providers and ID specialists completing training required for accreditation, retraining. Source: MOH and Semi-annual Program review.	2000	0	20											

PART III: PERFORMANCE DATA TABLE – Turkmenistan SO 3.2

Level SO/IR No.	RESULT STATEMENT	PERFORMANCE INDICATOR	INDICATOR DEFINITION AND UNIT OF MEASUREMENT	BASELINE DATA		TARGETS AND ACTUAL RESULTS											
						2000		2001		2002		2003		2004		2005	
				Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
SO3.2	Increased Access to Quality Primary Health Care in Select Populations	Select populations have access to integrated PHC.	Definition: % of national population which receives from a Primary Health Care facility an integrated package of primary health care services: MCH, infectious diseases, STIs and health lifestyles from a PHC facility. Unit: % Source: MOHMI/DHS	2000	0												
IR 3.2.1	Select populations are better informed about personal health care rights and responsibilities.	Select populations who know important health-related information.	Definition: Percentage of population in pilot sites who know:how to treat children's diarrheal disease; Proper nutrition to prevent anemia; How to prevent pregnancy; How to prevent HIV/ AIDS/ STIs; Signs and symptoms of TB. Unit: Percent Source: Annual Program Review with a panel of USAID staff, Contractors, and independent experts	2000	TBC												
IR 3.2.2	Improved quality of health care including infectious diseases and MCH.	Number of PHC providers and ID specialists accredited or retrained.	Definition: A family medicine accreditation program exists in Turkmenistan. ID specialists are considered retrained after completing XX courses. Unit: Number completing training required for accreditation, retraining. Source: Agency on Health or Primary Health Care Association surveys. MOH/MI	2000	TBC	100											
IR 3.2.3	Improved planning and use of health care resources.	Healthcare budget development and execution benchmarks achieved.	Definition: Total value of benchmarks achieved as a percent of total possible value of benchmarks. Unit: Percent increase in benchmarks achieved. Source: MOHMI, MOE	2000	TBC												

Annex B: Evaluations and Assessments

The following evaluations and assessments were used to develop the strategy. In 1999 alone the mission commissioned 22 evaluations and assessments, as well as a number of opinion polls and other kinds of customer surveys.

	Kaz	Kyr	Taj	Tur	Uzb	
GAO Audit- Market Transition and Democratic Transition	■	■	■	■	■	December 1998
1.2 Market Transition - Fiscal Reform						
Fiscal Reform Assessment	■	■			■	August 1998
Private Sector Assessment	■					May 1998
1.3 Market Transition – Private Enterprise Growth						
Commercial Law Assessment	■					May 1999
Accounting Assessment	■	■			■	December 1998
Accounting Assessment	■	■			■	August/Sept1998
Privatization Assessment		■	■			May 1998
Lessons Learned Conference on Accounting	■	■			■	April 1998
Accounting Assessment	■	■				April 1998
Accounting Assessment	■	■				May/June 1997
Accounting Assessment	■	■				January 1997
Public Sector Accounting Needs Assessment		■				May 1999
Investment Climate in the Atyrau Oblast	■					January 2000
Investment Climate in the South Kazakhstan	■					October 1999
Economic/Business Education	■	■	■	■	■	February 2000
Legal, regulatory and administrative barriers to SMEs				■	■	August 1999
Current Investment Environment Evaluation	■					February 1999
Economic Assessment in Central Asia	■	■	■	■	■	November 1999
1.4 Market Transition – Financial Sector Reform						
Pension Reform Assessment	■					April 1999
Banking Assessment	■	■			■	March 1999
Capital Markets Assessment	■	■				May 1998
Capital Markets Exploratory Assessment				■		January 1999
Land Privatization				■		November 1998
Mortgage industry	■					October 1999
Insurance industry	■					September 1999
Municipal Debt Assessment	■					August 1999

	Kaz	Kyr	Taj	Tur	Uzb	
1.5 Efficient Energy Sector						
Energy Sector Reform Program Assessment	■	■	■	■	■	February 1999
CAR Energy Assessment	■	■	□	■	■	September 1999
1.6 Environmental management						
Caspian Environmental Partnership Assessment	■	□	□	■	□	November 1998
Energy Efficiency Assessment	■	□	□	□	□	July 1999
Oil and Gas Sector Report	□	□	□	■	□	February 2000
Syr Darya Water Assessment	■	■	■	□	■	February 2000
2.1 Democratic Transition						
Gender Assessment	■	■	□	□	■	July 1999
ISAR Evaluation	■	□	□	□	□	April 1999
Civil Society Assessment, ENI/DG	□	■	□	□	□	February 1999
Electronic Mass Media Assessment,	■	■	□	□	□	January & July 1998
Mass Media Association Building Assessment	■	■	■	□	■	August 1999
Evaluation of Progress in Counterpart Consortium' s Phase II Program BHR/PVC,	■	□	□	□	□	May 1998
Review of Internews. P. Graves, ENI/DG	■	■	■	□	□	January 1998
Participatory Evaluation of Counterpart Consortium Cooperative Agreement	■	■	■	□	□	December 1996
Media Coverage	■	■	■	■	□	January 1999
NGO and Private Sector, Research Report	□	□	□	□	■	November 1999
Civil Sector Development, External Assistance Strategies	■	■	■	□	■	December 1999
2.3 Local Government Reform						
Municipal Financial Management Project Final Evaluation	■	■	□	□	□	December 1996
Local Government Assessment	■	■	□	□	□	October 1999
3.2 Social Transition - Health Care Reform						
Health Program Review	■	■	■	■	■	September – November, 1999
Evaluation of the Health Care Financing and Service Delivery Reform Program,	■	■	□	□	□	April 1997
4.1 Infectious Diseases & Reproductive Health						
Infectious Disease Assessment	■	■	■	■	■	July & October 1999
Regional Assessment of Infectious Disease	■	■	□	□	□	July 1998
Midterm Evaluation of SOMARC' s Projects	■	■	□	□	■	July 1997
Reproductive Health Strategy Assessment	■	■	□	■	■	June 1998
4.2 Training and Exchanges						
Strategic Review of Support Centers Development Plans	■	■	□	□	■	February – March, 1998

Annex C: Selected Country Indicators

Indicator	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Area (square miles), 1996	1,048,762	76,814	55,198	188,368	172,542
Population (millions), 1998	15.7	4.7	6.1	4.7	24.1
- **Rural/Urban** (%)	39/61	60/40	67/33	55/45	58/42
- **Avg. Annual Growth Rate** (%), 1990-1998	-0.6	1	2	3.6	2.3
Gross Domestic Product, 1998					
- **In millions of US dollars**	21,029	1,704	1,990	4,397*	14,194*
- **Per capita**	$1,493	$355	$213	$421	$591
USAID Assistance per Capita					
- FY 1999 (actual)	$2.15	$5.28	$1.73	$1.72	$0.81
Main Export Commodity Groups	Non-ferrous metals (39%), oil (29%)	Gold (27%), cotton fibres (25%)	Cotton (62%), textiles (17%)	Cotton (56%), textiles (18%)	Cotton (82%), non-ferrous metals (7%)
Consumer Price Index (%, annual average), 1998	7.3	12.1	43.2	16.8*	29*
External Debt (% of GDP), 1998	35.1	65.9	101.4	85.8	36.4
Foreign Direct Investment, 1998					
- **Net** (in millions of US dollars)	1,132	52	34	110*	226*
- **Per Capita**	$72	$11	$6	$23*	$9*
Private Sector Share (% of GDP), 1998	55	70	30	25*	45*

Sources: World Development Report 1999/2000; EBRD Transition Report 1999.

* In these countries data supplied by the governments' lack transparency and therefore cannot be independently verified. They should be used with caution.

Annex D: Glossary of Acronyms

ADB – Asian Development Bank
ACTR/ACCELS – American Council of Teachers of Russian/American Council for Collaboration in English and Language Study
ARI - Acute Respiratory Infections
Assn. - Association
CAAEF – Central Asian-American Enterprise Fund
CAEC – Central Asian Economic Community
CAR – Central Asian Republics
CDD – Childhood Diarrheal Diseases
CEC – Central Election Commission
CEE – Central & Eastern Europe
CIDA – Canadian International Development Agency
CIS – Commonwealth of Independent States
COP-5 – Fifth Conference of Parties
DCA – Development Credit Authority
DHS – Demographic and Health Survey
DOS – Department of State
E&E – Bureau for Europe & Eurasia
EBRD – European Bank for Reconstruction and Development
EU/TACIS – European Union/Technical Assistance to Commonwealth of Independent States
FINCA – Foundation for International Community Assistance
FSN – Foreign Service National
FY – Fiscal Year
GAO – General Accounting Office
GDP – Gross Domestic Product
GOK – Government of Kazakhstan/Government of Kyrgyzstan
GOU – Government of Uzbekistan
GTZ – German Agency for Technical Cooperation (Gesellschaft fur Technische Zusammenarbeit)
HIV/AIDS – Human Immunodeficiency Virus/Acquired Immuno Deficiency Syndrome
IBRD – International Bank for Reconstruction and Development (World Bank)
ICWC – Interstate Coordination Water Commission
IFAS - International Fund for Aral Sea
IFES – International Foundation for Election Systems
IMF – International Monetary Fund
IMR – Infant Mortality Rate
IR – Intermediate Result
IREX – International Research & Exchange Board
ISO – Intermediate Support Organizations
IV – International Visitors

JSC – Joint Stock Company
Kaz. – Kazak
KazNIIEnergy – Kazak Energy Research Institute
KazNPIEnergoProm – Kazak Energy Industry Design Institute
KfW – German bank for reconstruction and development (Kreditanstalt fur Wiederaufbau)
KZT – Kazakhstan tenge (local currency)
LGP – Loan Guarantee Program
MCI – Mercy Corps International
MDR – Multi-drug Resistant
Min. - Ministry
MPP – Mission Program Plan
NBRK – National Bank of the Republic of Kazakhstan
NGO – Non-governmental Organization
NIS – Newly Independent States
NSC – National Securities Commission
OSCE – Organization for Security and Cooperation in Europe
PEG – Permanent Export Group
PHCP – Primary Health Care Practices
PVO - Private Volunteer Organization
S/NIS – Department of State' s Office for Newly Independent States
SAA – Strategic Assistance Area
SIDA – Swiss International Development Agency
SME – Small- and Medium Enterprise
SO – Strategic Objective
STI – Sexually Transmitted Infection
TB – Tuberculosis
TV - Television
U. S. - United States
UMCOR – United Methodist Committee on Relief
UN – United Nations
UNDP – United Nations Development Programme
UNHCR – United Nations High Commissioner for Refugees
UNFCCC – United Nations Framework Convention on Climate Change
UNICEF – United Nations Childrens Fund
USAID/CAR – United States Agency for International Development/Central Asian Republics
USDH – United States Direct Hire
USG – Unites States Government
USPSC – United States Personal Service Contractor
USSR – Union of Soviet Socialist Republics
WB – World Bank
WHO – World Health Organization
WHO DOTS – WHO Directly Observed Treatment Short Course
WTO – World Trade Organization

Annex E: Selected Bibliography

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